

Aberdeen City Council

ISA 260 Report to those charged with governance -
2023/24 Annual Accounts Audit



 AUDIT SCOTLAND

Prepared for the Members of Aberdeen City Council

June 2024

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Key messages

2023/24 annual accounts

- 1** Subject to the satisfactory conclusion of the outstanding matters listed in our covering letter, we anticipate issuing unqualified audit opinions on the annual accounts of the council, its group and the section 106 charities administered by the council.
- 2** The annual governance statement and remuneration report were consistent with the financial statements and were properly prepared in accordance with the applicable guidance. A corporate approach between chief officers is required to ensure a robust overview of service performance is available for inclusion in the management commentary.
- 3** In response to our recommendations last year, we have observed improvements in the annual governance statement and the working papers provided for audit. There is scope for further improvement and discussions will continue with finance colleagues to streamline respective processes and minimise the pressure on the annual accounts period.

Introduction

1. This report summarises the significant matters arising from the 2023/24 audit of Aberdeen City Council's annual accounts. The scope of the audit was set out in an annual audit plan presented to the Audit, Risk and Scrutiny Committee in May 2024.

Responsibilities and reporting

2. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

3. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

4. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

5. This report contains an agreed action plan at [Appendix 2](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor independence

6. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services. We are not aware of any relationships that could compromise our objectivity and independence.

Audit of 2023/24 annual accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Subject to the satisfactory conclusion of the outstanding matters listed in our covering letter, we anticipate issuing unqualified audit opinions on the annual accounts of the council, its group and the section 106 charities administered by the council.

The annual governance statement and remuneration report were consistent with the financial statements and were properly prepared in accordance with the applicable guidance. A corporate approach between chief officers is required to ensure a robust overview of service performance is available for inclusion in the management commentary.

In response to our recommendations last year, we have observed improvements in the annual governance statement and the working papers provided for audit. There is scope for further improvement and discussions will continue with finance colleagues to streamline respective processes and minimise the pressure on the annual accounts period.

Our audit opinions on the annual accounts are expected to be unmodified

7. The accounts for the council and its group for the year ended 31 March 2024 are due to be approved by the Audit, Risk and Scrutiny Committee on 27 June 2024. Subject to a satisfactory conclusion on the outstanding matters listed in our covering letter, we anticipate issuing an unqualified independent auditor's report. This will confirm that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the applicable guidance

- we have obtained audit assurances over the identified significant risks of material misstatement to the financial statements which were identified in our Annual Audit Plan.

Our audit opinions on Section 106 charities are also expected to be unmodified

8. Due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with charities legislation, a separate independent auditor's report is required for the council's registered charities where members of Aberdeen City Council are sole trustees, irrespective of the size of the charity.

9. Regulation 7 of the charity regulations (as amended in 2010) permits a single set of accounts for connected charities. These include charities that have unity of administration. The definition is therefore met for section 106 charities administered by the same council.

10. For Aberdeen City Council, the seven applicable charities listed below are regarded as connected and have been combined within a single set of accounts:

- Guildry and Mortification Funds
- Bridges of Aberdeen Heritage Trust
- Alexander MacDonald's Bequest
- Aberdeen Art Gallery Trusts
- Lands of Skene
- Lands of Torry
- Education Endowment Investment Trusts.

11. We received the charities accounts in line with the agreed timetable. We noted that two of the seven charities held relatively small balances and would therefore suggest that consideration be given to the appropriate disbursement of the remaining funds from the Bridges of Aberdeen Heritage Trust and the Alexander MacDonald Bequest. This would enable these smaller charities to be wound up, thereby improving the overall housekeeping around the council's charities.

12. Our anticipated independent auditor's report for the charities should confirm that:

- the financial statements give a true and fair view of the charities' financial position and are properly prepared in accordance with charities' legislation
- the trustees' annual report is consistent with the financial statements and prepared in accordance with proper accounting practices.

Overall materiality was assessed as £22.5 million

13. We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatement on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values.

14. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and reviewed on receipt of the unaudited annual accounts. Values for 2023/24 are summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality - This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. For the year ended 31 March 2024, we set our materiality at 2% of gross expenditure.	£22.5 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.	£14.5 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£500,000

Source: Audit Scotland, Annual Audit Plan 2023/24

Our audit work responded to the risks of material misstatement we identified in the annual accounts

15. [Exhibit 2](#) provides a summary of the audit assurances we have obtained over the significant risks of material misstatement. It also sets out our audit assurances in respect of other areas of audit focus where we considered there to be risks of material misstatement to the financial statement.

Exhibit 2**2023/24 Risks of material misstatement to the financial statements**

Risks of material misstatement	Assurances, results and conclusions
<p>1. Significant Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Controls</p> <ul style="list-style-type: none"> Assessing the design and implementation of controls over journal entry processing. <p>Methodology and assumptions</p> <ul style="list-style-type: none"> Assessing any changes to the methods and underlying assumptions used by management to prepare accounting estimates compared to the prior year. <p>Testing</p> <ul style="list-style-type: none"> Making inquiries of relevant officers about inappropriate or unusual activity relating to the processing of journal entries and other adjustments and substantively testing journal entries throughout the year. Evaluating any significant transactions outside the normal course of business. Confirming through substantive testing that income and expenditure transactions around the year-end have been accounted for in the correct financial year. Testing samples of accruals and prepayments. <p>Results: Subject to the satisfactory conclusion of outstanding matters, we are satisfied that there is no material misstatement due to management override of controls.</p>
<p>2. Due to the rolling programme basis of property valuation, there is a risk that the carrying value of assets not revalued in the year do not reflect their current value.</p> <p>Where the differences in value are likely to be significant, this increases the risk of material misstatement in the financial statements</p>	<p>Controls</p> <ul style="list-style-type: none"> Evaluating the approach that the council adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. <p>Management Experts</p> <ul style="list-style-type: none"> Evaluating the competence, capabilities and objectivity of the professional valuers. <p>Methodology and assumptions</p> <ul style="list-style-type: none"> Assessing the methodology used by the valuers by considering whether valuations were conducted in accordance with the RICS Valuation Professional Standards 'the Red Book'. Assessing the reasonableness of valuations conducted by the professional valuers, including the use of any assumptions. <p>Testing</p> <ul style="list-style-type: none"> Substantively testing the reconciliation between the financial ledger and the asset register, including a sample of land and building assets revalued in the year.

Risks of material misstatement	Assurances, results and conclusions
	<p>Disclosures</p> <ul style="list-style-type: none"> Assessing the adequacy of the council's disclosures regarding the assumptions in relation to the valuation of land and buildings. <p>Results: Subject to the satisfactory conclusion of outstanding matters, we are satisfied the current valuation of land and buildings is not materially misstated.</p>
<p>3. There is a risk that the assumptions and methodologies used in determining the pension position are unreasonable and/or any small change in the estimates used could result in material changes in the valuation</p>	<p>Controls</p> <ul style="list-style-type: none"> Assessing management's arrangements for the provision of membership data to the actuary, together with any assumptions to calculate the pension position. <p>Management Expert</p> <ul style="list-style-type: none"> Evaluating the competence, capabilities and objectivity of the actuary. <p>Benchmarking Assumptions</p> <ul style="list-style-type: none"> Through the work of an independent expert, challenging the key assumptions applied. <p>Testing</p> <ul style="list-style-type: none"> Agreeing the data provided by the council to North East Scotland Pension Fund for use within the calculation of the scheme valuation. Obtaining assurances from North East Scotland Pension Fund over the completeness and accuracy of data provided to the actuary. <p>Disclosures</p> <ul style="list-style-type: none"> Considering the adequacy of the disclosures regarding the value of the pension liabilities included in the financial statements and the sensitivity of the value to the assumptions. Assessing whether the disclosures are in accordance with the Code's requirements. <p>Results: Subject to the satisfactory conclusion of outstanding matters, we are satisfied the approach taken to determine the pension position is reasonable.</p>

Source: Audit Scotland

Misstatements of £88.443 million were adjusted in the audited accounts

16. There were a number of adjustments made to the financial statements since they were submitted for audit in May. The main ones relate to changes in the value of non-current assets, a change in the method for estimating the pension position and the elimination of internal charges. Overall, the total adjustments

had the effect of increasing the comprehensive income expenditure account and net assets by £88.443 million.

17. In addition, prior year figures were restated to increase pension liabilities and reduce unusable closing reserves by £28.001 million to correct the accounting treatment of unfunded liabilities which has been incorrectly netted against funded pension assets in the previous year.

18. Further information on the main adjustments is set out in [Exhibit 2](#).

19. Other misstatements were identified during the course of our audit and while it is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, the final decision on this lies with those charged with governance, taking into account advice from senior officers and materiality.

20. Management opted not to adjust for the misstatements set out in [Appendix 1](#), as the amounts were not considered material in the context of the accounts. Had the accounts been adjusted, the net impact would have been to reduce net expenditure on the Comprehensive Income and Expenditure Statement by £2.444 million with a corresponding increase in Net Assets.

Significant findings from the audit in accordance with ISA 260

21. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. There were no major issues identified in respect of the qualitative aspects of the annual accounts process.

22. The significant findings are summarised in [Exhibit 2](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 2](#) has been included.

Exhibit 2

Significant findings from the audit of the financial statements

Issue

1. Changes in the valuation of property, plant and equipment (PPE)

The Energy from Waste facility became operational in December 2023. Having been completed, it was transferred from assets under construction to PPE and therefore required to be formally valued. The facility is co-owned by Aberdeen City Council, Aberdeenshire Council and Moray Council with the project share percentages set out in an inter-authority agreement. The valuation included in the accounts incorrectly reflected the value of the entire facility when it should have been restricted to the council's share of 38.09%. This resulted in an overstatement in assets of £110.843 million.

Following the late receipt of final reports from valuers, a further net reduction in assets of £21.950 million was identified for adjustment. This reflected the impairment of the Beach Leisure Centre due to demolition and council houses affected by RAAC, a reduction in the

Issue

value of council car parks due to falling income levels and some additional depreciation. Included in the proposed adjustment, there was also an increase in the value of the 3R's secondary schools and it was noted that the Marischal Square hotel had been omitted from the valuer's initial report.

The value of council houses was overstated by £10.947 million due to the double counting of new housing completed in the year.

Overall, a reduction in PPE of £143.740 million has been identified.

Resolution

PPE will be reduced by £143.740 million and either the Revaluation Reserve or CIES reduced by the compensating entries. Additional charges in respect of downward revaluations require to be made to the CIES where there is no balance related to the relevant asset in the revaluation reserve.

2. Restricting the value of the pension asset

In 2022/23, for the first time, the actuary reported a pension asset rather than a liability. This amounted to £360 million but, in line with the pension accounting standard (IAS 19) and IFRIC 14, no asset was recognised in the council's accounts. This reflected the fact that the present value of the council's future employer contributions exceeded the present value of the future service cost.

Since last year, actuaries and auditors have had longer to consider to what extent an asset should be reflected in council balance sheets and this has led to a change in the approach this year. Previously the calculation focused on the present value of the total contribution. This year it distinguishes between the two elements of the total contribution differently. This reflects that the primary contribution is set to cover the cost of future benefits and the secondary rate is an adjustment to reflect any past service deficit or surplus.

Following the 2023 triennial valuation of North East Scotland Pension Fund, Aberdeen's primary contribution was set at 17.9%, a reduction from the previous rate of 21%. Although a reduction, the new rate still exceeds the estimated future service costs and therefore no asset is recognised in the balance sheet at 31 March 2024.

Resolution

Largely concluded but some points of clarification are being checked with the actuary.

3. Elimination of internal transactions

For budget monitoring purposes, the council's management accounts include a number of internal transactions between services. These include charges between services for building maintenance, fleet hire, staff secondments, use of IT etc. While such charges are important for budget monitoring purposes, they should be excluded from income and expenditure in the annual accounts. The council's statutory accounts are required to convey its consolidated position with external parties only.

This was identified as an audit issue last year and while officers took steps during the year to identify internal transactions, this continued to be an issue in the 2023/24 accounts. The council did not eliminate all internal transactions from income and expenditure. While there is no impact on net expenditure, gross income and gross expenditure were overstated by £55.159 million.

Issue**Resolution**

Gross income and gross expenditure in the Comprehensive Income and Expenditure Statement (CIES) have been reduced to reflect the elimination of internal transactions.

Appendix 2, Recommendation 1

4. Unspent grants

Work is ongoing to confirm the validity of a number of unspent grants carried forward within creditors. The audit trail provided does not always clarify the reason for the accrual or provide sufficient information for us to verify the amount. Our sample included the following unspent amounts carried forward:

- Ukrainian funding – approx. £5m
- Interreg funding – project closed in 2021- £803k
- AWPR related funding re footpaths and cycleway - £725k
- Care Experienced Children funding £605k

Resolution

Government funding provided for Ukrainian support has been difficult to manage due to the complex conditions attached. Officers recognise that a significant amount of the unspent balance is likely to require to be returned to the Government. A reconciliation needs to be undertaken in the interim to confirm the actual figure. With regard to the other amounts listed above, the amounts are not material but there is a need to maintain better audit trails so that evidence is available to support amounts carried forward especially where the relevant funding was received several years previously.

Appendix 2, Recommendation 1

5. Intangible assets

The council has been working in partnership with Microsoft to develop a digital platform which will provide joined up services for citizens. There is no physical asset and future operations will be Cloud based. Relevant expenditure has been included in Property, Plant and Equipment but given there will be no physical asset, these costs should be classified as intangible assets.

Resolution

The amounts involved are not material to the accounts and can therefore be accepted. Steps should however be taken to review recent years' expenditure and reclassify relevant amounts as intangible assets.

Appendix 2, Recommendation 2

Management commentary

23. The Local Authority Accounts (Scotland) Regulations 2014 require the annual accounts to include a management commentary prepared in accordance with statutory guidance. While the guidance allows flexibility in terms of the level of performance information included, there is an expectation that the commentary gives an overview of service performance in the year and the inclusion of relevant indicators should enhance the service 'story'. While an attempt has been made to include some performance indicators, these provide a limited overview of service delivery and achievement.

24. This matter was also raised in respect of the 2022/23 accounts. We understand that steps taken by the finance team to obtain better information were unsuccessful.

25. The council aims to publish its audited annual accounts in advance of the statutory deadline in order to meet its reporting requirements to the London Stock Exchange. The management commentary is a statutory requirement within a council's annual accounts and therefore its preparation merits a corporate approach. Plans should be put in place to agree a timeline for the provision of core indicators by chief officers and their respective services to ensure that robust information is available for inclusion in the 2024/25 accounts submitted for audit.

Recommendation 3

Chief officers need to work together to provide a strong narrative on service performance for inclusion in the council's annual accounts. Plans should be put in place to agree a set of core indicators, both financial and non-financial, which will provide a balanced reflection of the performance of key council services.

Annual Governance Statement

26. The Local Authority Accounts (Scotland) Regulations 2014 require the annual accounts to include an annual governance statement that is consistent with the disclosures made in the financial statements and provide assurance on the operation of the governance arrangements for the financial year.

27. A governance statement is intended to be a meaningful but brief communication regarding the review of governance that has taken place during the year including the role of the governance structures involved (such as the authority; the audit and other committees) . It should be high level, strategic and focus on the effectiveness of governance during the year.

28. In our opinion, there has been significant improvement in the preparation of this year's statement. In the previous year, we felt there was scope to streamline the statement. It now provides that higher level overview which enables the reader to have a clearer understanding of the governance framework and the council's assessment of how effectively these arrangements have operated during the year.

Improvements in working paper package supporting the accounts

29. On conclusion of the audit of the 2022/23 accounts, we reported that a more comprehensive working paper package needed to be available when the accounts were submitted for audit.

30. We met with finance during the year to discuss the key issues and provided a working paper checklist. As a result, we can confirm that we have observed improvement in many of the highlighted areas. As stated in Exhibit 2, there continue to be areas where the audit trail is difficult to confirm and we are recommending that finance give consideration to further improvement. For example:

- The identification and elimination of internal balances
- Where unspent grants are carried forward, a reconciliation between the grant awarded and the amount carried forward.

31. We also continue to experience some difficulties confirming the audit trail between the financial ledger and the accounts.

Appendix 2, Recommendation 1

32. In addition, some account areas are time consuming because of the level of verification work required to support our audit opinion. With only seven weeks between the date the accounts were submitted for audit and the date the committee is due to approve the accounts, this is substantially less than the time available to other local government auditors. We obtained some working papers from officers in advance of the accounts this year which was helpful and we will have further discussions to determine if anything else can be brought forward to minimise the pressure on the May/June period.

Financial systems of internal control operated effectively

33. As part of our audit, we identify and assess the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the body has systems for recording and processing transactions which provide a sound basis for the preparation of the financial statements. In 2023/24, we assessed the controls operating within the general ledger and payroll systems and with regard to other systems, we have largely taken assurance from the audit work we undertook in the previous year. Overall, we concluded that the controls in place were satisfactory.

Appendix 1. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual accounts that are individually greater than our reporting threshold of £500,000.

The table below summarises uncorrected misstatements identified during our audit testing and have not been corrected by management. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#) and do not have a material impact on the financial statements.

Account areas	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000	Cr £000	Dr £000	Cr £000
Late invoices not accrued	1,388			(1,388)
Scottish Government Grant received re March 2024, posted 2024/25		(1,602)	1,602	
Early years funding payments double counted in accounts payable system		(2,230)	2,230	
Increase in value of 3Rs school following revised valuation.			750	(750)
Total	1,388	3,832	4,582	2,138
Net impact		2,444	2,444	

Appendix 2. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1.Working paper package</p> <p>Further improvement is required in the following areas:</p> <ul style="list-style-type: none"> • The elimination of internal transactions • Evidencing reasons and amounts for unspent grants carried forward • Audit trail between the financial ledger and the annual accounts. 	<p>Year end arrangements should be revised to ensure there is improvement in these areas in future years.</p>	<p>Agreed.</p> <p>Responsible Officer: Finance Operations Manager</p> <p>Completion date: 31 March 2025</p>
<p>2.Intangible assets</p> <p>The council is developing a digital platform in partnership with Microsoft which will provide joined up services for citizens. There is no physical asset and future operations will be Cloud based. Related expenditure is currently in property, plant and equipment but should be reclassified as intangible assets.</p>	<p>Steps should be taken to review recent years' expenditure and reclassify relevant amounts as intangible assets.</p>	<p>Agreed.</p> <p>Responsible Officer: Finance Operations Manager</p> <p>Completion date: 31 March 2025</p>
<p>3.Management Commentary</p> <p>The management commentary submitted for audit had limited service</p>	<p>Chief officers need to work together to provide a strong narrative on service performance for inclusion in the council's annual accounts. Plans should be put in place to agree a set of</p>	<p>Agreed.</p> <p>Responsible Officer: Finance Operations Manager</p> <p>Completion date: 31 March 2025</p>

Issue/risk	Recommendation	Agreed management action/timing
financial and non-financial performance information.	core indicators, both financial and non-financial, which will provide a balanced reflection of the performance of key council services.	

Aberdeen City Council

ISA 260 Report - 2023/24 Annual Accounts Report

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