HENDERSON LOGGIE
Chartered Accountants

Aberdeen City Council

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

2010/11

External Audit Report No: 2011-06

Draft Issued: 22 September 2011

Final Issued: 30 September 2011

Contents

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

We take this opportunity to remind you that:

- this report has been prepared for the sole use of Aberdeen City Council and their Audit and Risk Committee and will be shared with the Accounts Commission and Audit Scotland

- no responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes

1. Introduction and Status of the Audit

Introduction

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

2. ISA 260 requires us to highlight:

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

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

Status of the Audit

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

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

Next Steps

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

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

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2. Matters to be Reported to Those Charged with Governance

Integrity and objectivity, nature and scope of the audit

8. Information on our audit appointment and details of the engagement partner and audit staff, and the nature and scope of the audit, were outlined in our **Risk Assessment, Annual Audit Plan and Fee Proposal for 2010/11** (Annual Plan), Report 2011-01 issued on 31 January 2011 and presented to the Audit and Risk Committee thereafter. Further information is provided in the Code of Audit Practice prepared by Audit Scotland.

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

Accounting policies and practices

10. In our opinion there is one issue that require to be brought to your attention regarding the appropriateness of the Council's accounting policies and practices.

11. We have previously commented on the adequacy of the resources within the finance section to be able to maintain a robust financial system to produce accounts and other information which is both timely and accurate. While an improvement was noted in the quality of the draft accounts received for audit, there remain a number of areas where the adequacy of resources should be considered. While the balance of appropriate staff numbers and relevant skill sets is an issue for management to address, we will discuss these areas with management and comment on the issue in our Report to Members.

Material risks and exposures

12. Our **Financial Statements Audit Plan,** Report 2011-03 issued on 13 May 2011 identified a number of material risks and exposures faced by the Council that we assessed might impact on the Council's financial statements. The following paragraphs summarise these issues along with other issues we identified during the audit and how they have been resolved.

International Financial Reporting Standards

13. From 2010/11, local authority accounts must be prepared in accordance with International Financial Reporting Standards (IFRS). Authorities needed to restate the 2009/10 comparative information onto an IFRS basis, and disclose a restated 1 April 2009 IFRS-based Balance Sheet. We reviewed the opening balance sheet and 2009/10 restatement templates and reported our findings in our **Opening IFRS Balance Sheet Review,** Report 2011-02, issued on 11 May 2011.

14. From our audit of the draft accounts, we are satisfied that the comparative information has been accurately restated and that the 2010/11 financial statements have been prepared in accordance with IFRS.

Pension Costs – change from RPI to CPI

15. In response to the UK government's announcements in July 2010 of the intention to move to using the CPI as the inflation measure for determining the minimum pension increases to be applied to the statutory index-linked features of retirement benefits, the UITF issued an abstract which gives guidance on replacing the RPI with the CPI for retirement benefits. The Council's Actuary has provided all of the disclosure requirements in respect of this, and has resulted in the Pension Scheme liability reducing materially in comparison with previous years.

2. Matters to be Reported to Those Charged with Governance

Material risks and exposures (cont'd)

Separate Pension Funds audit

16. Pension fund financial statements are no longer required to be included in the administering authorities' main accounts. Instead, the statutory guidance requires an authority to disclose summary information within its accounts, including reference to how the pension fund annual report can be accessed or obtained. This has been accurately disclosed in Note 23 of the financial statements.

Severance Schemes

17. The Council has included a provision of £1.566 million in its accounts to cover the anticipated costs associated with the voluntary redundancy/ early retirement scheme. The provision has been made for those staff who applied for the scheme and were successful, prior to 31 March 2011, but will leave the Council during the financial year 2011/12.

Equal Pay and Single Status

18. The Council has included a provision of £8.155 million in its accounts to cover the equal pay claims that have still to be settled across the Council. The provision is based on advice from the Council's HR officers.

Remuneration Report

19. The Local Authority Accounts (Scotland) Amendment Regulations 2011 require authorities to prepare a remuneration report as part of its annual accounts from 2010/11. The Council has included this report at pages 20 to 29 of the accounts, and we are satisfied that the report has been properly prepared in accordance with the Regulations.

Trust Funds

20. Discussions have been ongoing with the Office of the Scottish Charity Regulator (OSCR) and LASAAC regarding the staged application of the Charities (Scotland) Regulations 2006. These discussions are continuing and until they are concluded it has been recommended that the local authorities continue to make disclosures in respect of trust funds that are consistent with previous years. The Council has made the appropriate disclosure consistent with prior years at pages 147 to 148 of the accounts.

Significant Trading Operations (STOs)

21. The Local Government in Scotland Act 2003 requires an authority to achieve a breakeven position over a rolling 3 year period for each STO. All achieved an operating surplus in 2010/11 and have achieved a cumulative surplus on an aggregate rolling basis over the three year period from 1 April 2008, as required by the legislation. While there have been no changes to the number of STOs in 2010/11, the Council undertook a review in the year and concluded that the catering and cleaning services, which were previously classed as non-significant, were no longer classed as trading operations. This has been disclosed in Note 18 to the accounts.

Whole of Government Accounts

22. We expect to achieve the audit deadline of 30 September for the audit of the Whole of Government Accounts return. The return will need to be updated for the changes to the Council's financial statements before the final audited return is submitted.

Bank Reconciliations

23. As noted in the Annual Governance Statement, our interim testing identified that further work was required in relation to the timely and effective reconciliation of the Council bank accounts. All bank accounts were reconciled at 31 March 2011 for inclusion within the draft financial statements. Council staff have also advised that in the early part of 2011/12 the staffing situation which caused the delay in reconciliations has been addressed, enabling improved response to reconciliation tasks and queries. The action taken will also reduce the risk of undetected misappropriation of cash.

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2. Matters to be Reported to Those Charged with Governance

Material risks and exposures (cont'd)

Creditors Payments

24. As noted in the Annual Governance Statement, our interim testing identified the need to remind Council staff of their roles and responsibilities in relation to the purchase and payment of suppliers. From our year-end audit testing, we have not identified any further issues which need to be reported.

Debtors Income

25. Within our Financial Statements Audit Plan, we noted that Debtors suspense files were not being reviewed on a regular basis, and at the time of our audit, over £1 million was sitting in suspense awaiting re-allocation to individual debtors accounts. This has not been cleared at the year-end, with £1.2 million still held in suspense at 31 March 2011. We are satisfied that this has not resulted in a material misstatement in the financial statements but will be followed up further in our Management Letter.

Actions from 2009/10 Year-end Management Letter

26. We have received an update of the action plan management developed to address the recommendations in our **Year-End Management Letter 2009/10,** Report 2010-06. We shall review the progress identified by management and complete our follow-up report in due course. From our audit work in 2010/11, we have noted progress has been made in a number of areas. However, we have also noted that some of the recommendations have not been fully implemented and we will address these with management as part of our follow-up review.

Housing and Council Tax Benefit

27. Due to the complex nature of Housing and Council Tax Benefit there is a high risk of errors occurring in this area. The 2009/10 subsidy audit highlighted that the Council has a number of recurring types of error and an improvement action plan has been put in place for 2010/11. While the audit work on the 2010/11 subsidy has still to be concluded, the audit work to date appears to show an improvement over 2009/10. We have estimated the likely clawback and are satisfied that the amount provided for in the 2010/11 financial statements is reasonable.

Capital Funds and Other Funds and Reserves

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

2010/11 Code Disclosure

29. A completed CIPFA Disclosure Checklist was received at the time the draft accounts were prepared. This confirmed that the accounts met the Code disclosure requirements in all material respects.

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

2. Matters to be Reported to Those Charged with Governance

Audit adjustments

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

32. Three material, six significant and thirteen trivial audit adjustments were identified during the course of our audit and were discussed with the Finance Team. These included three trivial adjustments impacting only on the group financial statements. All of the material and significant proposed audit adjustments were agreed and the financial statements amended, with the exception of one significant adjustment. All of the trivial adjustments were also agreed and the financial statements adjusted for all but five of these. **Tables 1, 2 and 3: Audit adjustments – impact on the financial statements** below highlights a summary of the impact on the financial statements. Appendix II provides further information on each audit adjustment and its impact on the financial statements. Unadjusted misstatements are covered at paragraph 44 below.

33. The Council's Group Accounts were adjusted to include the final audited results of the Grampian Police, Fire and Rescue, and Valuation Joint Boards, AECC Limited, Mountwest 343 Limited, the Common Good and the Trust Funds. Aberdeen Sports Village Ltd's results were included based on management accounts to 31 March 2011.

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

Ref	Description	CIES/ MIRS DR £'000	CIES/ MIRS CR £'000		Balance Sheet DR £'000	Balance Sheet CR £'000
1	CIES	27,690				
	PPE - Council Dwellings					27,690
	MIRS		27,690			
	Capital Adjustment Account				27,690	
	being the discounting of Council Dwelling addition is line with Social Housing valuation policy					
2	PPE - Other Land and Buildings (Additions)					1,275
	PPE - Vehicle, Plant and Equipment (Additions)				1,275	
	PPE - Other Land and Buildings (Revaluations)				1,275	
	CIES - Revaluations		10,754			
	RR - Revaluations			*	9,479	
	MIRS - Revaluations	10,754				
	CAA - Revaluations					10,754
	being re-working of treatment of additions and revaluations on 3Rs Schools					
3	CIES - depreciation	19,571				
	PPE - Council Dwellings					24,716
	Revaluation reserve			*	5,146	
	MIRS		19,571			
	CAA				19,571	
	being re-working of revaluation on Council Dwellings due to a) incorrect beacon split and b) incorrect treatment of in year depn by AIRS. This resulted in depreciation being understated for current year as well as revaluation reserve being overstated					
	TOTAL SINGLE ENTITY ACCOUNTS	**58,015**	**58,015**		**64,435**	**64,435**

* Adjustments also impacts on the CIES through the "surplus or deficit on revaluation of non-current assets"

2. Matters to be Reported to Those Charged with Governance

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

Ref	Description	CIES/ MIRS			Balance Sheet	
		DR £'000	CR £'000		DR £'000	CR £'000
1	Revaluation Reserve				5,719	
	Capital Adjustment Account					5,719
	being difference between Historical Cost Depn and Revalued Cost Depn on Council Dwellings					
2	Revaluation Reserve				5,068	
	Capital Adjustment Account					5,068
	Being incorrect Land & Buildings split adjustment for Rosewell House, Aberdeen Grammar School and St Machar School.					
3	Creditors				630	
	Debtors					630
	being Scottish and Southern Electric Invoices paid in error (refund received in 2011/12, but incorrectly posted against Debtors rather than reducing Creditors balance)					
4	Property, Plant and Equipment (Depreciation Charge)					533
	CIES	533				
	MIRS		533			
	Capital Adjustment Account				533	
	being correction of incorrect depreciation charge on land and buildings					
5	PPE - Surplus Assets				400	
	PPE - Other Land and Buildings					400
	being transfer of Cairnfield Community Centre to Surplus Assets as it is vacant and no longer in use					
	TOTAL SINGLE ENTITY ACCOUNTS	**533**	**533**		**12,350**	**12,350**

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

Ref	Description	CIES/ MIRS			Balance Sheet	
		DR £'000	CR £'000		DR £'000	CR £'000
1	Interest Receivable and Similar Income	188				
	Interest Payable and Similar Charges		188			
	being correction of interest receivable to show only external interest receivable (£231k)					
2	Debtors				140	
	Creditors					140
	being negative Debtors to be transferred to Creditors (F11900 and G25900 Codes)					
3	PPE - Other Land and Buildings (revaluations)					140
	PPE - Other Land and Buildings (trf to surplus)					20
	PPE - Other Land and Buildings (depreciation)				3	
	PPE - Surplus (trf from Land & Buildings)				20	
	PPE - Surplus (depreciation)					3
	Revaluation Reserve			*	140	
	being adjustments for Mile-End School Lodge					
4	Revaluation reserve					50
	Capital Adjustment Account				50	
	Being revaluation reserve in financial statements being less than Revaluation Reserve per AIRS					
	TOTAL SINGLE ENTITY ACCOUNTS	**188**	**188**		**354**	**354**

* Adjustments also impacts on the CIES through the "surplus or deficit on revaluation of non-current assets"

2. Matters to be Reported to Those Charged with Governance

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

Ref	Description	CIES/ MIRS DR £'000	CIES/ MIRS CR £'000		Balance Sheet DR £'000	Balance Sheet CR £'000
5	CIES	17				
	Creditors					17
	being audit adjustment made to AECC accounts					
6	Share of Surplus or Deficit on the provision of services by associates and joint ventures	80				
	Share of other comprehensive expenditure and income of associates and joint ventures	24				
	Liabilities in associates and joint ventures					104
	being group share of adjustments made to GJPB audited accounts					
7	Share of Surplus or Deficit on the provision of services by associates and joint ventures	880				
	Share of other comprehensive expenditure and income of associates and joint ventures		845			
	Liabilities in associates and joint ventures					35
	being group share of adjustments made to GFRJB audited accounts					
	TOTAL GROUP ACCOUNTS	***1,001***	***845***		***0***	***156***

34. The net effect of the agreed adjustments on the Comprehensive Income and Expenditure Statement (CIES) for 2010/11 was £51.804 million, decreasing the surplus reported in the draft accounts of £191.170 million to £139.366 million.

35. All of the adjustments to the CIES relate to book entries which are subsequently adjusted further within the Movement in Reserves Statement (MIRS). As a result, there was no impact on the General Fund balance.

36. The audit adjustments impacting on the Council's Balance Sheet decreased the Net Assets by £51.804 million to £1,109.471 million at 31 March 2011.

37. The net effect on the Group CIES was £51.960 million reducing the surplus in the draft accounts of £214.803 million to £162.843 million.

Material uncertainties

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

Fundamental disagreements

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

Modifications to the audit report

40. There are no modifications to our audit report.

2. Matters to be Reported to Those Charged with Governance

Accounting and internal controls

41. No material weaknesses in the accounting and internal control systems were identified during the audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.

42. Although we have seen some improvement, there continue to be a number of errors arising around the fixed assets/ capital accounting transactions. Two of the three material and four of the six significant adjustments have arisen from a combination of system deficiencies and a lack of resources within the finance team to deal with these. This has been commented on previously. Adequate resources should be made available to carry out a detailed review of the AIRS Asset Register system to ensure that the Council can rely on the data extracted from this system for the production of the financial statements.

43. Some opportunities to improve internal control, have been reported during the year in reports to management and the Audit and Risk Committee, including bank reconciliations which have been discussed at paragraph 23. The more significant issues will be highlighted in our Report to Members.

Other relevant matters

44. There are no other matters which we need to draw to your attention.

Uncorrected misstatements

45. There were 7 potential misstatements that have not been adjusted for, which are summarised in Table 4 below. We have concluded that individually and in aggregate these unadjusted misstatements do not have a material effect on the financial statements or on our audit opinion. If these misstatements had been adjusted in the final accounts, the net impact would have been to decrease the General Fund balance by £108,000.

2. Matters to be Reported to Those Charged with Governance

Table 4: Unadjusted errors – impact on the financial statements

Ref	Description	CIES/ MIRS DR £'000	CIES/ MIRS CR £'000	Balance Sheet DR £'000	Balance Sheet CR £'000
1	Creditors (Revenue Support Grant)			505	
	CIES		505		
	Being correction to prior year comparative for earmarked revenue grant monies (note correct in current year so no impact on General Fund)				
2	Creditors			150	
	CIES - Interest Payable and Similar Charges		150		
	being over accrued interest now reversed				
3	CIES	130			
	Debtors				130
	being SITA invoice raised in error - cancelled in 2011/12				
4	CIES	130			
	Provision for HB overpayment				130
	Being adjustment for amounts utilised in HB/CTB provision, processed incorrectly				
5	CIES	76			
	Creditors				76
	being accrual for NYOP charges for 2009/10 (£20,451) and 2010/11 (£55,761) paid in 2011/12				
5	Cash and Cash Equivalent			67	
	CIES		67		
	being income in bank statement not in ledger at 31 March 2011 (total for all bank accounts)				
6	Debtors			23	
	CIES		23		
	being debtors balance for invoices raised for interest on charging orders not cleared during the year end. Will be cleared in 2011/12				
7	Debtors				12
	CIES	12			
	Being late credit note issued post March 2011 to Sports Aberdeen				
	TOTAL UNADJUSTED MISSTATEMENTS	**348**	**745**	**745**	**348**

Appendix I – Independent auditors' Report (proposed)

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

We certify that we have audited the financial statements of Aberdeen City Council and its group for the year ended 31 March 2011 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the authority-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, and the Non-domestic Rate Account, Common Good, Trust Funds and Endowments and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code).

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

Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of Responsibilities set out on page 13, the Head of Finance is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2010/11 Code of the state of the affairs of the group and of the Council as at 31 March 2011 and of the income and expenditure of the group and the Council for the year then ended;

Appendix I – Independent auditors' Report (proposed)

- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In our opinion:

- the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Annual Governance Statement does not comply with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

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

29 September 2011

Appendix II – Audit adjustments

Material Audit Adjustments

Impacting on the Single Entity Financial Statements

1. Council Dwelling Additions - £27.690 million
An adjustment has been processed to discount the additions made to Council Dwellings in line with the valuation policy for Social Housing. While this reduces the value of Council Dwellings on the Balance Sheet, this is reversed through the MIRS and therefore has no impact on the General Fund balance. The Accounting Policy has also been updated to reflect this change.

2. Additions and Revaluations on 3Rs Schools - £10.754 million
Our audit testing identified that the revaluations adjustment had incorrectly compared the split of buildings, externals and machinery & equipment per the valuer against only the buildings rather than the pro-rated component values in the PPP model. This adjustment has no impact on the General Fund balance.

3. Council Dwelling Revaluation and Depreciation - £24.716 million
All Council Dwellings were revalued in 2010/11. However, the revaluation calculation had to be re-worked due to the split over the Beacon categories being incorrect. The current year depreciation was also incorrectly calculated due to a system error. While this adjustment increases the depreciation charge to the CIES by £19.571 million, this is reversed through the MIRS and therefore has no impact on the General Fund balance.

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

Significant Audit Adjustments

Impacting on Single Entity Financial Statements

1. Council Dwellings Historical Cost v Revalued Amount Depreciation - £5.719 million
As a result of material audit adjustment no. 3 above, a further adjustment was required to the Revaluation Reserve for the difference between the depreciation charge based on the Historical Cost and that based on the Revalued Amount. This is a movement between two reserves and therefore has no impact on the General Fund balance.

2. Incorrect Land and Building Split - £5.068 million
In 2009/10 we identified that entries made to the Revaluation Reserve were net figures resulting from impairment in building values and increases in land values, resulting in the Revaluation Reserve being understated by the impaired amounts. An adjustment was made to the 2009/10 audited accounts, based on a sample of properties, on the understanding that this would be fully reviewed in 2010/11. A full review was undertaken by Council staff, however, from our testing we identified three properties for which the adjustments had been incorrectly calculated. Further testing has been carried out and we are satisfied that these are isolated cases. This adjustment is a movement between reserves and therefore has no impact on the General Fund balance.

3. Scottish and Southern Electric Invoices - £0.630 million
From our sample testing of Creditors payments, we identified two invoices paid to Scottish and Southern Electric in error. From further investigation it was identified that Council staff had also identified this and recovered the overpayment. However as the income was received in 2011/12, it was manually posted into 2010/11 for the financial statements. This income has been incorrectly posted against Debtors rather than reducing the Creditors balance therefore an adjustment was required to re-allocate.

Appendix II – Audit adjustments

4. **Depreciation charge on Land and Buildings - £0.533 million**
From our sample testing we identified that the AIRS system had incorrectly calculated the depreciation charge on Land and Buildings for the year, as it was not recognising addition made in 2008/09 or 2009/10. This was as a result of a system error which has subsequently been rectified by the software supplier. While the adjustment increases the depreciation charge to the CIES by £0.533 million, this is reversed through the MIRS and therefore has no impact on the General Fund balance.

5. **Cairnfield Community Centre transfer to Surplus Assets - £0.400 million**
From a review of minutes of the Finance and Resources Committee, we identified this property was declared surplus during 2010/11, therefore an adjustment was required to re-allocate this to "Surplus Assets" category within Property, Plant and Equipment on the Balance Sheet.

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

Trivial Audit Adjustments

Impacting on Single Entity Financial Statements

1. **Interest Receivable Payable - £188,000**
This adjustment was required to correct the interest receivable figure within the CIES, which should represent the interest received by the Council from external bodies rather than the interest received by Services from the Loans Fund.

2. **Negative Debtors - £140,000**
This adjustment is a combination of four individual credit balances held within Debtors. As they represent liabilities of the Council, they should be transferred to Creditors.

3. **Mile-end School Lodge - £140,000**
This adjustment was required to correct an error made on the entries for revaluation and transfer to Surplus Assets.

4. **Revaluation Reserve - £50,000**
This adjustment was required to ensure that the financial statements reconciled to the value held within AIRS.

Impacting on Group Financial Statements

5, 6 & 7 Audit Adjustments to AECC (£17,000), GJPB (£81,000) and GFRJB (£34,000)
To ensure that the group accounts reflect the audited position for all subsidiaries and associates, the above trivial adjustments arising from the audits of the individual group entities, have been processed in the group financial statements.

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

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

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

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

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

Material misstatement and adjustments

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

Significant misstatements and adjustments

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

Trivial errors and adjustments

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

Appendix IV – Respective Responsibilities

Respective Responsibilities of Members, Officers and Auditors

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

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

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

The Council and the Head of Finance's responsibilities for the Financial Statements are set out on page 13 of the Financial Statements. Our responsibility is to form an independent opinion, based on our audit, on the abstract of accounts and to report that opinion to you.

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

Appendix V – Acronyms

AECC	Aberdeen Exhibition and Conference Centre
AIRS	Asset Register System (Terrarius – Assets)
CAA	Capital Adjustment Account
CIES	Comprehensive Income and Expenditure Statement
CIPFA	Chartered Institute of Public Finance and Accounting
CPI	Consumer Price Index
GFRJB	Grampian Fire and Rescue Joint Board
GJPB	Grampian Joint Police Board
HB/ CTB	Housing Benefit/ Council Tax Benefit
HR	Human Resources
IFRS	International Financial Reporting Standards
ISA	International Standard on Auditing
LASAAC	Local Authority (Scotland) Accounts Advisory Committee
MIRS	Movement in Reserves Statement
NYOP	NYOP Education (Aberdeen) Limited
OSCR	Office of the Scottish Charity Regulator
PPE	Property, Plant and Equipment
PPP	Public Private Partnership
RPI	Retail Price Index
RR	Revaluation Reserve
STO	Significant Trading Operation
UITF	Urgent Issues Task Force