



# Aberdeen City Council

ISA 260: Audit report to those charged with governance

We present this draft audit highlights memorandum for your consideration. We will update following receipt of adjusted financial statements.

Items highlighted red are still being finalised or concluded at the time of drafting

22 June 2018

**DRAFT**

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## 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](mailto: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](mailto: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.

# Executive summary

## Significant risks

Pages 7-11

- Fraudulent income recognition Page 7
- Management override of controls fraud risk Page 8
- Revaluation of property, plant and equipment Page 9
- Retirement benefits Page 10
- Capital expenditure Page 11

## Key outstanding matters

- Final Council responses to KPMG valuer queries and review of valuation inputs.
- Additional control testing : council tax, housing revenue, commercial income.
- Other testing: Common Good, receipt of legal confirmations, final review of updated annual accounts received on 21 June 2018
- Substantive testing of journals

## Control deficiencies

Appendices five and six

Number

- Significant control deficiencies (IT controls) 2
- Other control deficiencies (IT and general controls) 5
- Prior year control deficiencies - on progress 2

## Uncorrected audit misstatements

Page 31

### Understatement/(overstatement)

	£m	%
Deficit on provision of services	0.6	0.7
Net assets	(0.6)	0.0

### Corrected audit misstatements

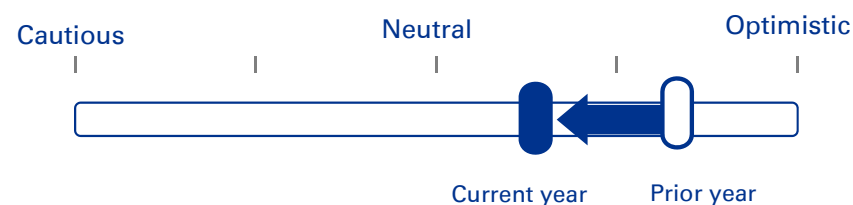
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### Understatement/(overstatement)

	£m	%
Deficit on provision of services	(16.2)	(27.7)
Net assets	16.2	1.2

## Accounting judgements related to estimates

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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.

# Scope and responsibilities

## 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 ISA 260 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 Aberdeen City Council and the Controller of Audit. ‘ISA 260’ refers to International Standard on Auditing (UK and Ireland) 260: *Communication with those charged with governance*.

The scope and nature of our audit were set out in our audit strategy document which was presented to the audit, risk and scrutiny committee (“ARSC”) at the outset of our audit.

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. We will comment on these areas in the Annual Audit Report to be issued in September 2018.

## 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 and Ireland) issued by the Auditing Practices Board and the Code. Appendix nine 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, 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.

# Audit conclusions

## Audit opinion

Following approval of the annual accounts by the ARSC we expect to issue an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2018, and of the deficit for the year then ended. We also expect to issue unqualified opinions on the truth and fairness of the state of the Aberdeen City Council Charitable Trusts' affairs as at 31 March 2018. This conclusion is pending completion of outstanding matters (page three). The proposed 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 provided at appendix ten. There are 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 2017-18 ("the CIPFA Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements 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 Council accelerated its financial reporting and external audit timetable for 2017-18, with complete draft accounts available for audit on 3 May 2018. The statutory deadlines are 30 June 2018 for unaudited accounts and 30 September 2018 for audited accounts. The Council's finance team performed well in its delivery of high quality annual accounts and in its readiness for audit, effectively responding to our queries during the audit. As it is the first year of this accelerated timetable, there are opportunities to develop the process further.

## 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

Thirteen audit misstatements were identified during the audit, of which eleven have been adjusted. There are two unadjusted audit misstatements.

## Written representations

Our representation letter will 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 £8.78 million for the Council's standalone financial statements, and £8.99 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 £5.70 million. For the Group accounts it was £5.84 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 judgments 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;
- Fraudulent revenue recognition;
- Retirement benefits\*;
- Revaluation of property, plant and equipment\*; and
- Capital expenditure\*.

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. We report on these areas in our financial statements annual audit opinion.

We also previously identified an audit focus area in respect of faster accounts close.

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

# Significant risks

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Fraudulent income recognition</b></p> <p>International Standards on Auditing require us to consider if the fraud risk from revenue recognition is significant.</p> <p>We determined only the fraud risk from recognition of 'other income' to be significant and rebutted the assumed risk for the remaining income streams, as set out in the audit strategy document.</p> <p>Other income relates to charges or service income from various streams where we consider there to be judgement in recognition.</p> <p>Within this we consider investment property revenue recognition to represent a significant risk.</p> <p>There was no change to the planned audit work over income streams which did not contain a significant risk.</p>	<p>We performed substantive sampling:</p> <ul style="list-style-type: none"> <li>— Test of detail over a sample of investment property income to confirm whether the revenue is recognised in the correct period (population of £9.1 million subject to statistical sampling procedures).</li> <li>— Test of detail over a sample of 'other income' to consider the period and amount recognised (population of £139.3 million subject to statistical sampling procedures), including vouching to third party supporting documentation where relevant.</li> </ul> <p>Our other audit work over the 'other income' streams included:</p> <ul style="list-style-type: none"> <li>— Analytical reviews of other income at service level compared to prior year.</li> <li>— Cut off testing over relevant income streams to confirm that those sampled items are recognised in the correct financial year.</li> <li>— Review of the presentation of internal recharges in the annual accounts.</li> <li>— <b>Identification and test of design and implementation of relevant controls over invoice authorisation.</b></li> </ul>	<p>We did not identify exceptions from our testing over investment property rental income.</p> <p>Our testing included £2.9 million accrued income in respect of Marischal Square. There are a number of complex legal agreements underpinning the commercial arrangements at Marischal Square, including the operation of a hotel, general property letting, rent and profit sharing. We are satisfied that the income has been correctly accrued.</p> <p>The Council is required, by one agreement, to submit invoices in respect of estimated income due from the base void account within ten days of each quarter end. We note that the invoices have not yet been submitted.</p> <p style="text-align: right;"><b>Recommendation five</b></p> <p>We are satisfied that income is recognised appropriately, in the correct financial year and in line with the CIPFA Code.</p>

## Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Management override of controls fraud risk</b></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. Our audit methodology incorporates the risk of management override as a default significant risk.</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"> <li>— controls testing and substantive procedures, including over journal entries and accounting estimates (such as over provisions and pensions); and</li> <li>— review of significant transactions that are outside the Council's normal course of business, or are otherwise unusual. In 2017-18 this included voluntary severance and accounting for the completion and operation of Marischal Square.</li> </ul>	<p>We did not identify any indicators of management bias or management fraud.</p> <p>We discussed two significant unusual transactions, specifically, accounting for Marischal Square (see opposite and pages nine and eleven) and voluntary severance.</p> <p>Exit packages, related to voluntary severance of £11.3 million, were included in the draft annual accounts. Of the total, £6.7 million was held as a provision as at 31 March 2018 and the balance paid or accrued for payment.</p> <p>We reviewed all packages relating to senior staff and a statistical sample of other severance payments against relevant government guidance and the Council's policies and procedures.</p> <p>Included within the provision was an erroneous strain on fund cost of £3.8 million in respect of one individual. This was removed by way of an audit adjustment (appendix four) and reduced the total cost of exit packages shown in the remuneration report together with the associated provision by an equal amount.</p> <p>Our testing of journal entries was satisfactory and we have obtained sufficient audit evidence as a result of the planned procedures and no further issues were identified.</p>



## Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Revaluation of property, plant and equipment</b></p> <p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. In 2017-18 "other land and buildings" have been subject to revaluation and the movement is material.</p> <p>Given the quantum of the asset carrying values and the inherent use of assumptions in their valuation, we consider there to be a significant risk of misstatement.</p> <p>The Council also holds £85 million of 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><b>Control design:</b></p> <ul style="list-style-type: none"> <li>Assessing the approach that the Council has adopted to consider the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach.</li> <li>Assessing the risk of the valuation changing materially during the year, or between the date of valuation and the year end.</li> </ul> <p><b>Assessing valuer's credentials:</b></p> <ul style="list-style-type: none"> <li>In relation to those assets which have been revalued during the year, assessing the valuer's qualifications, objectivity and independence to carry out such valuations.</li> </ul> <p><b>Assessing methodology choice and benchmarking assumptions:</b></p> <ul style="list-style-type: none"> <li>Utilising our internal specialist to assess the methodology used including testing the underlying data inputs and assessing the assumptions used in comparison to available market information.</li> </ul> <p>Our testing included a sample of 25 property valuations across the range of categories revalued in 2017-18.</p> <p>We also:</p> <ul style="list-style-type: none"> <li>Considered management's impairment review documentation.</li> <li>Considered balances in respect of assets under construction and transferred to property, plant and equipment during the year.</li> <li>Reconciled revaluation movements from the valuer's report to the financial statements, including reserve movements.</li> <li>Tested a sample of valuation inputs, such as land / floor area, to supporting documentation.</li> </ul>	<p>[We found the resulting valuation of property, plant and equipment and investment property to be acceptable and based on an appropriate basis, being depreciated replacement cost for specialised assets and fair value for investment property.]</p> <p>Awaiting final conclusion on this area</p> <p>We identified a number of audit adjustments, summarised in appendix four. These adjustments relate to the accounting for the revaluations. The adjustments are:</p> <ul style="list-style-type: none"> <li>Land, associated with the demolished Bankhead Academy, which had been erroneously recorded as disposed (£5.6 million).</li> <li>Additions associated with the new Stoneywood School, which had been erroneously written down in value, having been attributed to the existing Stoneywood School, subject to revaluation (£7.6 million).</li> <li>Additions to social housing properties at Manor Walk and Smithfield School which had been erroneously written off in full in the year of addition (£4.4 million).</li> <li>The Marischal Square investment property valuation was initially excluded from the annual accounts because of the Council's assessment as an operating lease. The valuation was originally £4.5 million and was revised following audit challenge to £60 million, and recognised in the updated annual accounts. Key assumptions underpinning the valuation include expected rent levels, inflation, time to initial let and voids.</li> </ul> <p><i>Prior year recommendation five</i></p>

## Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Retirement benefits</b></p> <p>The Council is an admitted body of North East Scotland Pension Fund, which had its last triennial valuation completed as at 31 March 2017.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p>	<p>Our audit approach included:</p> <p><b>Control design:</b></p> <ul style="list-style-type: none"> <li>— Testing the design and operating effectiveness of controls over the provision of membership information to the actuary who uses it, together with the assumptions, to calculate the pension obligation.</li> </ul> <p><b>Benchmarking assumptions:</b></p> <ul style="list-style-type: none"> <li>— Challenging, with the support of our own actuarial specialists, the key assumptions applied, being: the discount rate; inflation rate; and mortality/life expectancy against externally derived data.</li> <li>— 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.</li> </ul> <p><b>Assessing transparency:</b></p> <ul style="list-style-type: none"> <li>— Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to these assumptions.</li> <li>— Testing the assets recorded and disclosed, using our actuarial team.</li> <li>— Assessing if the disclosures within the annual accounts are in accordance with the Code's requirements.</li> </ul>	<p>The net liability associated with the North East Pensions Fund in the balance sheet increased from £219 million as at 31 March 2017 to £281 million as at 31 March 2018.</p> <p>Controls in respect of provision of information to the actuary were satisfactory.</p> <p>We are satisfied that the retirement benefit obligation:</p> <ul style="list-style-type: none"> <li>— is correctly recognised on the balance sheet as at 31 March 2018;</li> <li>— has been accounted for and disclosed correctly in line with IAS19 Retirement benefits; and</li> <li>— assumptions used in calculating this estimate and management's judgements are appropriate and within a range which we consider to be acceptable.</li> </ul> <p>We set out further information in respect of the defined benefit obligation on pages 14 and 27.</p> <p>The disclosures in the annual accounts are in line with the Code's requirements, including relevant sensitivity analysis.</p>

## Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Capital expenditure</b></p> <p>The Council has a five year £1 billion capital plan which is focused around the city centre masterplan.</p> <p>The Council is utilising some innovative methods of delivery of capital projects. This includes the use of a 'development strip lease' basis for Marischal Square (completed in 2017-18) and further PPP agreements for the Aberdeen Western Peripheral Route. These can give rise to more complex accounting arrangements.</p> <p>Due to the significance of this capital investment programme and complexity of some of the projects, we considered there to be a significant risk of misstatement. 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.</p> <p>We also considered that large capital projects inherently bring a fraud risk.</p>	<p>Our procedures included:</p> <p><b>Control design:</b></p> <ul style="list-style-type: none"> <li>— Testing the design and operating effectiveness of controls over the capital projects.</li> <li>— Testing the design and operating effectiveness of controls in respect of the review of costs allocated to capital and revenue projects.</li> </ul> <p><b>Control re-performance:</b></p> <ul style="list-style-type: none"> <li>— Comparing the total capital expenditure reported in the financial statements with that reported in reports to those charged with governance.</li> </ul> <p><b>Tests of detail:</b></p> <ul style="list-style-type: none"> <li>— Use of substantive sampling methods to evaluate the appropriateness of capital or revenue accounting classification by reference to supporting documentation.</li> <li>— Assessing a sample of items allocated to revenue expenditure to determine whether they are correctly classified.</li> <li>— Testing capital accruals for completeness.</li> <li>— Review and corroboration of manual journals.</li> </ul>	<p>The treatment of capital expenditure is satisfactory, after the adjustments included below (and appendix four)</p> <p>Management considered <i>IAS 17 Leases</i>, the applicable standard, and determined that the Marischal Square agreement should be treated as an operating lease and investment property in the draft annual accounts.</p> <p>No investment property valuation for Marischal Square was included in the draft annual accounts and the Code requires that operating leases which are deemed to be investment properties, should be accounted for as if they are finance leases.</p> <p>The initial determination was made on the basis that while the arrangement demonstrated most of the indicators of a finance lease, it did not transfer substantially all the risks and rewards to the Council (given the letting agent's involvement and presence of the void account). The initial accounting consideration was relatively high level and did not adequately consider the complex legal and accounting of the development.</p> <p>Following review, it was agreed that Marischal Square, including the hotel arrangement, should be classified as a finance lease and accounted for as an investment property, subject to annual revaluation.</p> <p>We challenged the basis of the original market value provided by the Council's valuer (£4.5 million) which resulted in revision to £60 million. The original valuation had incorporated the lease amounts payable by the Council. The revised valuation includes <b>acceptable assumptions</b> regarding voids, rental income and incentives and profit arising from the hotel.</p> <p><b>Prior year recommendation four</b></p> <p>A harbour expansion project, £1.5 million of which was funded by the Council, was incorrectly included within additions as the Council does not own the asset.</p>

## Other focus areas

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Faster accounts close</b></p> <p>The Council accelerated the timetable for production and audit of the financial statements by three months.</p> <p>Acceleration of the timetable increases the risk of error, notwithstanding the Council's detailed planning for the new timetable.</p> <p>In 2016-17 the Council become the first Scottish local authority to issue a £370 million bond for capital financing, listed on the London Stock Exchange.</p> <p>Consequently, the Council is subject to the continuing obligations set out in the Listing Rules and the Disclosure Rules and Transparency Rules.</p> <p>Members of the public have a right to inspect and object to local authority accounts under the Local Government (Scotland) Act 1973. The Local Authority Accounts (Scotland) Regulations 2014 require the Council to:</p> <ul style="list-style-type: none"> <li>- give public notice of the inspection period by 17 June;</li> <li>- have an inspection period of at least 15 working days; and</li> <li>- commence the inspection period at least 14 days after publication of the notice.</li> </ul> <p>The inspection period extended in to the audit fieldwork period.</p>	<p>Our audit approach included:</p> <ul style="list-style-type: none"> <li>— reviewing and challenging the suitability of the Council's arrangements for faster accounts close;</li> <li>— understanding the revised accounts preparation and audit timetable and revising our approach accordingly;</li> <li>— assessing management's arrangements to comply with the public inspection rules;</li> <li>— conducting a substantive audit of finalised financial statement numbers to the end of quarter three, in February 2018; and</li> <li>— testing the roll forward of balances from 31 December 2017 to 31 March 2018, with specific reference to areas of judgement (pensions valuation/plan and property valuation).</li> </ul> <p>We also:</p> <ul style="list-style-type: none"> <li>— accelerated our audit of Aberdeen City Integration Joint Board;</li> <li>— issued group audit instructions and met with the auditor of Bon Accord Care Limited and Bon Accord Support Services Limited, to align with the accelerated timetable; and</li> <li>— planned to review the valuation of property, plant and equipment in February 2018.</li> </ul>	<p>The draft annual accounts were completed to a high standard and made available for public inspection and audit in line with the accelerated timetable which represents a significant achievement.</p> <p>The majority of actions, planned to ensure achievement of timetable were successful. In order to ensure continued improvement, it is recommended that:</p> <ul style="list-style-type: none"> <li>— Preparation of valuation reports, with detailed supporting calculations are completed in line with the timetable (being expected in early March 2018 and received in April 2018).</li> <li>— Significant unusual transactions are identified as part of the preparation of the draft annual accounts, with supporting commentary on accounting treatment prepared by management and subject to review by the Chief Officer - Finance.</li> </ul> <p><b>Continued...</b></p>

## Other focus areas

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p>Faster accounts close</p> <p>(Continued)</p>		<p><i>...continued</i></p> <ul style="list-style-type: none"> <li>— Having closed the finance ledger to routine transactions on 19 March, management undertook an exercise to require officers to consider all invoices between 19 March and 23 May and consider whether they had been or should be accrued. This was good practice. We consider that a sample approach could be developed for 2018-19 for efficiency, and specific, material invoices subject to detailed review by management through to evidence of appropriate treatment in the general ledger.</li> </ul> <p>Three cut-off adjustments, one being a balance sheet reclassification, were identified by our testing of a £44 million adjustment made to ensure correct recognition year end accruals (appendix four: items six, seven and 13).</p> <p><i>Recommendation six</i></p>

# Qualitative aspects

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 2017-18 financial statements and accounting estimates. We set out our view below:

Subjective areas	2017-18	2016-17	Commentary
Bad debt provisions (excluding Council tax) £5.8 million	4	6	In the prior year draft annual accounts, for debtor balances greater than 120 days overdue but under 10 years overdue, a bad debt provision of 40% was initially recognised. We considered that this was optimistic and an audit adjustment was made. We then recommended management review the bad debt policy. In 2017-18, a sliding scale of provisions ranging from 15% (for debts between 120 days and one year old) to 90% for debts up to five years old has been implemented. Debts over five years old have been substantially written off in the year (together with release of the associated provision) and are otherwise provided at 100%.
Council tax bad debt provisions £35.6 million	2	3	We consider that the methodology for calculating the council tax bad debt provision is overly complex in calculation, but uses a simplistic method in application. We do not consider it leads to a materially cautious estimate but a more sophisticated method would result in a lower provision. There was a £1.1 million increase in the council tax bad debt provision from the prior, and collection rates remained stable. <b>Prior year recommendation five</b>
Other provisions and contingent liabilities £10.3 million	4	4	The Council recognises a number of specific provisions and contingent liabilities, relating to matters such as holiday pay, equal pay and ongoing legal matters. Individually, and in aggregate, these provisions are not considered material, although management tends to take an optimistic approach to calculating these provisions. Legal letters support management's estimates.
Pension assumptions Liability: £351 million	4	3	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, as set out on page 27.
Property, plant and equipment revaluations	3	3	Our findings over the valuation of PPE is discussed on page nine. We did not identify any indications of management bias and consider that the valuations are balanced in the round. Investment property has always been revalued.
RPI assumptions built in to effective interest rate on the bond 3.5% RPI assumption	2	2	Management has chosen an RPI assumption of 3.5% to include within the bond effective interest rate calculation, which is in line with other similar RPI assumptions included in estimates within the financial statements, for example, within the pension assumptions. RPI of 3.5% is broadly in line with publically available forecasts albeit cautious.

## Level of prudence



# Going concern

## Going concern

Going concern means the ability of the Council to remain solvent for the twelve month period from the accounts being signed.

The Council had net assets of £1.4 billion (2016-17 £1.5 billion) as at the balance sheet date. Net assets decreased on 2016-17 by £112.9 million, reflecting the total comprehensive expenditure for the year.

During 2017-18, the Council set a net revenue expenditure budget of £543 million (being £446 million on the General Fund and £97 million on the Housing Revenue Account). The core outturn is a surplus of £5 million (being £4.5 million on the General Fund and £0.5 million on the Housing Revenue Account).

Management considers it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts. The Council is in a net asset position, and it considers that the confirmed general revenue grant (which includes non-domestic rates income) of £328.9 million is sufficient to meet debts as they fall due. Financial assets were £154.9 million as at 31 March 2018.

Over the past few years there has been managed reduction in the overall cost base and further efficiency savings are incorporated into budgets. The Strategic Transformation Committee approved savings for 2018-19 of £17 million on 9 February 2018, to be achieved through various means including effective delivery of the Target Operating Model. The 2018-19 budget presented proposals to address the remaining funding gap of £4.8 million to Elected Members from which to balance the budget.

## Conclusion

The Council has a strong net assets position and a significant value of available financial assets. 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

In light of the financial position, the short-term and medium-term forecasts and the confirmation of general revenue grants we are content that the going concern assumption is appropriate.



# Management reporting in financial statements

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
<b>Management commentary</b>	<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>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 enhancement to certain sections which were hyperlinked in the draft document, are content with the proposed report.</p>
<b>Our view of Alternative Performance Measure (“APM”) presentation</b>	<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 changes to the CIPFA Code to include an expenditure and financing analysis, provides a requirement for 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. <b>An appropriate reconciliation from the £5 million underspend against budget 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.</b></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
<b>Remuneration report</b>	<p>The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.</p> <p>We recommended some minor enhancement to the disclosure of senior staff emoluments which included the cost of exit packages arising in 2017-18 and otherwise resulted in a lack of comparability with the previous year.</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>
<b>Annual governance statement</b>	<p>The statement for 2017-18 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 reviewed a draft of the proposed statement in April 2018, and provided the Programme Manager (Governance Review) with detailed comments and recommendations to support its development.</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>

# Financial statements preparation

Management significantly accelerated the timetable for the production (and audit) of the annual accounts for the year ended 31 March 2018. This included bringing forwards the timetable for significant components of the Group, such as the Integration Joint Board and Bon Accord Care.

Draft annual accounts were provided on 3 May 2018, only slightly after the expected date of 30 April 2018. The draft annual accounts were complete and included the management commentary, annual governance statement and remuneration report.

High quality working papers were provided at the start of the audit fieldwork.

Management considered the requirements of the Local Authority Accounts (Scotland) Regulations 2014 in respect of public inspection and made the unaudited accounts available from 14 May to 4 June 2018.

Management made good arrangements in advance of the accelerated timetable for preparation of the annual accounts, with some scope for further improvement (as noted on page 12 and in recommendation six).

A number of audit adjustments were identified by the audit team, mainly in respect of non-routine items such as revaluations. The procedures to ensure accurate cut-off and capture of routine income and expenditure items were robust.

We consider that management has performed creditably in its approach and delivery of a faster accounts closure.

Readiness overview	2017-18	2016-17
Preparation and planning	H	M
Production of accounts	M	L
Oversight and review	M	M
Significant judgements	M	M
Supporting information	H	H

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

# Group financial statements

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 also significant matters discussed with the component auditor. There are no findings to report in relation to other group entities.

ENTITY	WORK PERFORMED	AUDIT CONCLUSION
<b>Charitable Trusts</b>	<p>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.</p> <p>There was one audit adjustment made to the draft accounts which increased the value of investments for the year and reduced the net loss on investments by £13,003.</p> <p>Two investments, with a combined value as at 31 March 2017 of £104,755 were recorded as disposed during 2017-18, with no proceeds receivable. We understand that the Council was unable to obtain confirmation that these investments were still held, with records relating to their transfer to Barclays who have confirmed that the account was closed in 2012.</p> <p>We considered and confirm our independence as auditor and our quality procedures, together with the objectivity of the audit director and audit staff.</p>	<p>We expect to issue an unqualified audit opinion on the charitable trusts.</p> <p>It is recommended that management continue to trace the balances recorded as disposals through discussion with Barclays.</p> <p><b>Recommendation seven</b></p>
<b>Common Good</b>	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.	<b>The Common Good amounts are included within the Group financial statements, for which we expect to issue an unqualified opinion.</b>
<b>IJB</b>	<p>A separate annual audit report is presented to the audit and performance systems committee of the Aberdeen City Integration Joint Board. No significant exceptions were identified during the audit.</p> <p>One audit adjustment arose following consolidation of the IJB accounts in respect of a late accrual. The Council opted not to adjust the Group accounts on grounds of materiality, although given its value (£0.26 million) we include in appendix four (adjustment 12)</p>	We expect to issue an unqualified audit opinion on the IJB.
<b>Bon Accord entities</b>	As set out in our audit strategy document, we provided group audit instructions to the component auditor of Bon Accord Care Limited and Bon Accord Support Services Limited (together the Bon Accord entities). Formal reporting from the component auditor has been provided and no audit adjustments were raised. There were no significant findings that we would be required to report.	Component auditors have stated they will issue an unqualified audit opinion on the Bon Accord entities. There are no matters to report which would impact the group accounts.

# Future developments

### Future accounting and audit developments

CIPFA / LASAAC consulted on amendments to the CIPFA Code for IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers. A separate publication Forthcoming Provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Local Practice on Local Authority Accounting in the United Kingdom 2018-19, has been issued as a companion publication to the CIPFA Code setting out the approach to these two standards.

Other changes to the 2017 CIPFA Code include an amendment to section 3.1 (Narrative Reporting) to introduce key reporting principles for the narrative report, and updates to section 3.4 (Presentation of Financial Statements) to clarify the reporting requirements for accounting policies and going concern reporting.

IFRS 16 Leases 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. It is expected that this standard will be incorporated in to the 2019-20 CIPFA Code.

Management are commencing an exercise to consider the impact.

# Internal audit and internal controls

## 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 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. Recommendations were largely accepted.

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 2018.”

## Internal controls

We summarised our consideration of key internal controls which were subject to audit testing, in our interim update report dated 13 April 2018, which were satisfactory.

Two areas were not complete at that time, in respect of bank reconciliations and general IT controls and a results are summarised below.








Test	Description	Results
<b>Bank reconciliations</b>	<p>Bank reconciliations are prepared weekly or monthly by the income team and reviewed by a more senior officer.</p> <p>We test a sample of 40 bank reconciliations across all bank accounts to verify they had been authorised and completed on a timely basis.</p>	<p>All accounts were reconciled and reviewed in line with our expectations.</p> <p><i>Satisfactory</i></p>
<b>General IT controls</b>	<p>We intended to perform testing over key IT systems on which we will place reliance on as part of our audit. This included ICON, eFinancials and Northgate:</p> <ul style="list-style-type: none"> <li>— programme changes</li> <li>— user access;</li> <li>— leavers; and</li> <li>— system administrators.</li> </ul>	<p>In order to rely on system generated reports (for the purposes of audit testing or the basis of a management review control) and automated controls, we require the general IT controls in respect of the relevant application and operating environment to be effective. Internal audit identified during the year that controls over super-user access should be strengthened, and this weakness results in general IT controls being assessed as not effective.</p> <p>As technology becomes increasingly complex and experience of fraud apparent, the level of controls necessary to enable audit reliance continues to increase.</p> <p>In addition to internal audit’s findings, we identified control improvements which would be required in order for us to place reliance on the relevant applications. This did not impact upon our expected testing approach in 2017-18 as we conducted this review to determine whether we could modify the approach to be more efficient in 2018-19.</p> <p><i>Recommendations one to four</i></p>











# Appendices

# Required communications with the Audit, Risk and Scrutiny Committee

Type	Response
<b>Our draft management representation letter</b>	 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 2018.
<b>Adjusted audit differences</b>	 There were 11 adjusted audit differences with a deficit reduction impact of £16.2 million. See appendix four.
<b>Unadjusted audit differences</b>	 The aggregated profit impact of unadjusted audit differences would be £544,000. 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.
<b>Related parties</b>	 There were no significant matters that arose during the audit in connection with the entity's related parties.
<b>Other matters warranting attention by the Audit, Risk and Scrutiny Committee</b>	 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.
<b>Control deficiencies</b>	 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 on 13 April 2018 (included in this report where relevant)
<b>Actual or suspected fraud, noncompliance with laws or regulations or illegal acts</b>	 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
<b>Significant difficulties</b>	 No significant difficulties were encountered during the audit.
<b>Modifications to auditor's report</b>	 None.
<b>Disagreements with management or scope limitations</b>	 The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
<b>Other information</b>	 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.
<b>Breaches of independence</b>	 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.
<b>Accounting practices</b>	 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.
<b>Significant matters discussed or subject to correspondence with management</b>	 The key audit matters (summarised on pages seven to 13) arising from the audit were discussed, or subject to correspondence, with management.

# Additional report relating to EU Public Interest Entities

Type	Response
<b>Our declaration of independence</b>	 No matters to report. The engagement team has complied with relevant ethical requirements regarding independence.
<b>Key audit partner(s)</b>	 We have identified each key audit partner at page three in our Audit Strategy report dated 9 February 2018.
<b>Independence of external experts engaged by KPMG and non-KPMG auditors</b>	 We have not engaged external experts or engaged non-KPMG auditors for the performance of aspects of our group audit.
<b>Communications with audit committee and management</b>	 We have described the nature, frequency and extent of communication with the ARSC and management at pages 26 and 27 in our Audit Strategy report dated 9 February 2018.
<b>Scope and timing of the audit</b>	 We have described the scope and timing of the audit at pages 26 and 29 in our Audit Strategy report dated 9 February 2018.
<b>Audit methodology</b>	 Our audit methodology is described at page six in this report.
<b>Valuation methods</b>	 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.
<b>Going concern assessment</b>	 There are no significant matters affecting the entity's ability to continue as a going concern.
<b>Requested explanations and documents</b>	 No matters to report. All requested explanations and documents were provided by management.

Type	Response
<b>Materiality</b>	 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 at page six in our Audit Plan and Strategy report dated 9 February 2018.
<b>Non-compliance with laws and regulation or articles of association</b>	 No actual or suspected non-compliance with laws and regulation or articles of association were identified during the audit.
<b>Significant deficiencies in internal control</b>	 There are no significant deficiencies to report in this report or our reports dated 9 February 2018 or 13 April 2018.
<b>Significant difficulties</b>	 No significant difficulties were encountered during the audit.  The significant matters (pages seven to 13) 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.
<b>Non-KPMG component auditors</b>	 We described the work of non-KPMG component auditors at pages, five, 14 and 29 in our Audit Strategy report dated 9 February 2018.
<b>Management's approach to consolidation</b>	 We report on management's approach to consolidation on page 18. It is consistent with the Code. The consolidated financial statements include all material subsidiaries.
<b>Independence – Relationships and audit fees</b>	 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 £201,610 of fees during the period covered by the financial statements 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.



# Auditor independence

## 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 2018 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 2018 can be analysed as follows:	2017-18 continuing (exc VAT) £	2016-17 (exc VAT) £
Audit of the Council's financial statements	193,110	194,431
Audit of subsidiaries (Aberdeen City Council Charitable Trusts)	8,500	8,500
<b>Total audit services</b>	<b>201,610</b>	<b>202,931</b>
Other non-audit services	-	477,920
<b>Total</b>	<b>201,610</b>	<b>680,851</b>

# Auditor independence

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 since the absolute level of fees is not significant to our firm as a whole.

## *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 £219,186 to the Council in the year ended 31 March 2018, 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 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**

# Defined benefit obligations

In respect of employee benefits, each of the assumptions used to value the Council's net pension deficit in the North East Scotland Pension Fund ("NESPF") and Scottish Teachers Superannuation Scheme ("STSS") are within an acceptable range of KPMG's expectations. We are of the view that this therefore represents a reasonable and balance approach, in accordance with the requirements of IAS 19. We set out below the assumptions in respect of defined benefit obligations.

North East Scotland Pension Fund and Scottish Teachers Superannuation Scheme																			
2018 £'000	2017 £'000	KPMG comment																	
310,251	249,767	<p>In line with our established practice and in advance of the audit fieldwork, our actuarial specialists reviewed the approach and methodology of the actuarial assumptions used in the IAS19 pension scheme valuation. Details of key actuarial assumptions are included in the table, along with our commentary.</p> <table> <tr> <th>Assumption</th><th>Aberdeen City Council</th><th>KPMG Central</th><th>Comment</th></tr> <tr> <td>Discount rate (duration dependent)</td><td>2.60%</td><td>2.51%</td><td>The proposed discount rate is higher (lower liabilities) than KPMG's central rate as at 31 March 2018 but lies within a range we would normally consider to be acceptable for IAS19 purposes, albeit at the slightly less prudent end of that range.</td></tr> <tr> <td>CPI Inflation</td><td>2.20% RPI less 1.00%</td><td>2.20% RPI less 1.00%</td><td>KPMG's best estimate view is that the differential between RPI and CPI is 1% and we are seeing most organisations adopt an assumption of around 1% for this differential. The proposed assumption is therefore in line with KPMG central assumption.</td></tr> <tr> <td>Salary growth</td><td>1.4% above CPI inflation</td><td>Typically 0%-2% above CPI inflation</td><td>Assumed salary growth is set equal to CPI+1.4%, in line with the anticipated assumption for the 31 March 2017 valuation of the Fund. The Council set the salary growth assumption at 1.0% p.a. until 2020 to reflect short-term public sector pay restraints. From 2020 onwards, the proposed salary increase assumption has been set in line with 1.4% p.a. above CPI inflation. This can be considered reasonable provided the assumption is in line with management's best estimate view on future remuneration.</td></tr> </table> <p>The overall assumptions applied by management are considered to be reasonably balanced. The actuarial report was prepared as at 28 February 2018 to support the faster accounts close process and therefore there is a small difference in circumstances which underpin the assumptions at that date compared with 31 March 2018 KPMG central assumptions. The closing deficit increased by £61.9 million compared to 2016-17.</p>		Assumption	Aberdeen City Council	KPMG Central	Comment	Discount rate (duration dependent)	2.60%	2.51%	The proposed discount rate is higher (lower liabilities) than KPMG's central rate as at 31 March 2018 but lies within a range we would normally consider to be acceptable for IAS19 purposes, albeit at the slightly less prudent end of that range.	CPI Inflation	2.20% RPI less 1.00%	2.20% RPI less 1.00%	KPMG's best estimate view is that the differential between RPI and CPI is 1% and we are seeing most organisations adopt an assumption of around 1% for this differential. The proposed assumption is therefore in line with KPMG central assumption.	Salary growth	1.4% above CPI inflation	Typically 0%-2% above CPI inflation	Assumed salary growth is set equal to CPI+1.4%, in line with the anticipated assumption for the 31 March 2017 valuation of the Fund. The Council set the salary growth assumption at 1.0% p.a. until 2020 to reflect short-term public sector pay restraints. From 2020 onwards, the proposed salary increase assumption has been set in line with 1.4% p.a. above CPI inflation. This can be considered reasonable provided the assumption is in line with management's best estimate view on future remuneration.
Assumption	Aberdeen City Council	KPMG Central	Comment																
Discount rate (duration dependent)	2.60%	2.51%	The proposed discount rate is higher (lower liabilities) than KPMG's central rate as at 31 March 2018 but lies within a range we would normally consider to be acceptable for IAS19 purposes, albeit at the slightly less prudent end of that range.																
CPI Inflation	2.20% RPI less 1.00%	2.20% RPI less 1.00%	KPMG's best estimate view is that the differential between RPI and CPI is 1% and we are seeing most organisations adopt an assumption of around 1% for this differential. The proposed assumption is therefore in line with KPMG central assumption.																
Salary growth	1.4% above CPI inflation	Typically 0%-2% above CPI inflation	Assumed salary growth is set equal to CPI+1.4%, in line with the anticipated assumption for the 31 March 2017 valuation of the Fund. The Council set the salary growth assumption at 1.0% p.a. until 2020 to reflect short-term public sector pay restraints. From 2020 onwards, the proposed salary increase assumption has been set in line with 1.4% p.a. above CPI inflation. This can be considered reasonable provided the assumption is in line with management's best estimate view on future remuneration.																

# Audit differences - adjusted

The table below lists the adjusted audit differences identified during the course of our 2017-18 audit procedures.

Nature of adjustment	Balance sheet		Income and expenditure account	
	£'000 DR	£'000 CR	£'000 DR	£'000 CR
<b>1. HRA asset adjustment</b>				
PPE cost	4,413			
Revaluation loss				(4,413)
Being additions in 2017-18 to Manor Walk and Smithfield School, written off at 100% instead of 37%. (Page 9)				
<b>2. Stoneywood School additions</b>				
PPE cost	7,641			
Revaluation loss				(7,641)
Being additions to the new Stoneywood School erroneously revalued downward based on the valuation of the existing Stoneywood School. (Page 9)				
<b>3. Bankhead Academy land</b>				
PPE cost	5,583			
Gain / loss on disposal				(5,583)
Being Bankhead Academy land erroneously recorded as a disposal. (Page 9)				
<b>4. Interest classification</b>				
Interest expense			950	
Interest income				(950)
Being the presentation of interest gross in the annual accounts.				
<b>5. Bond interest classification</b>				
Operating expenditure			4,336	
Financing and investment income and expenditure				(4,336)
The 2016-17 bond effective interest rate journal, recognised in the prior year financial statements, was posted to the general ledger in period one of 2017-18. The journal was not posted correctly and consequently this adjustments amends the classification.				

## Audit differences – adjusted (continued)

Nature of adjustment	Balance sheet		Income and expenditure account	
	£'000 DR	£'000 CR	£'000 DR	£'000 CR
<b>6. Capital VAT accrual classification</b>				
Other debtors	2,342			
Short term creditors		(2,342)		
Being understatement of creditors associated with the year end adjustment to debtors in respect of post year end payments related to pre year end accruals (linked to faster accounts close). (Page 13).				
<b>7. Prepayment classification</b>				
Short term debtors	1,404			
Short term creditors		(1,404)		
Being reclassification of a prepayment (linked to faster accounts close). (Page 13).				
<b>8. Charitable trusts – valuation of investment</b>				
Investments	13			
Loss on investments				(13)
Being the difference in valuation of two investments between 13 March and 31 March 2018.				
<b>9. Marischal Square classification</b>				
Finance lease creditor		(58,793)		
Investment property	60,040			
Short term debtors	250			
Short term creditors		(1,404)		
Financing and investment income and expenditure			1,636	
Operating expenditure				(1,729)
Revaluation gain / loss				
Being reclassification of Marischal Square arrangement as a finance lease and investment property. (Page 11)				

# Audit differences – adjusted (continued)

Nature of adjustment	Balance sheet		Income and expenditure account	
	£'000 DR	£'000 CR	£'000 DR	£'000 CR
<b>10. Harbour expansion</b>				
PPE cost		(1,500)		
Operating expenditure			1,500	
Being transfer of harbour expansion costs from capital to revenue, as the Council will not own the completed asset. (Page 11)				
<b>11. Voluntary severance</b>				
Provisions	3,816			
Statutory reserves		(3,816)		
Being reduction in provision made in error. (Page 8).				
<b>TOTAL</b>	<b>85,502</b>	<b>(69,259)</b>	<b>8,422</b>	<b>(24,665)</b>

A number of small presentational amendments were also identified and adjusted.

# Audit differences – Unadjusted

The table below lists the unadjusted audit differences identified during the course of our 2017-18 audit procedures. These adjustments are not considered material.

Nature of unadjusted difference	Balance sheet		Income and expenditure account	
	£'000 DR	£'000 CR	£'000 DR	£'000 CR
<b>12. IJB outturn</b>				
Operating expenditure Short term debtors		(257)	257	
Being adjustment to the IJB annual accounts during the audit process, not reflected in the Council's Group accounts.				
<b>13. Accrued expenditure</b>				
Operating expenditure Short term creditors		(287)	287	
Being expenditure post year end, relating to the year ended 31 March 2018 which has not been accrued (linked to faster accounts close). (Page 13).				

# Action plan

The action plan summarised specific recommendations arising from our work, together with related risks and management's responses.

We present the identified findings across four audit dimensions:

- financial sustainability
- financial management
- governance and transparency
- value for money

Priority rating for recommendation		
<b>Grade one</b> (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.	<b>Grade two</b> (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	<b>Grade three</b> (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.



## Appendix five

# Action plan (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions
<b>1. Assignment of highly privileged access and monitoring of access</b>		<b>Grade one</b>
<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, but is not limited to:</p> <ul style="list-style-type: none"> <li>— 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</li> <li>— 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</li> <li>— A shared system administrator account is used for Airs by two members of business staff (not logged).</li> </ul> <p>Risk:</p> <p>Where privileged user access is not robustly controlled the risk is increased that:</p> <ul style="list-style-type: none"> <li>— unauthorised access is gained to process erroneous or fraudulent transactions, make changes to data, and system settings;</li> <li>— unauthorised changes are not detected and appropriate action taken;</li> <li>— IT / operational system downtime is experienced; and</li> <li>— the system does not function as intended by management.</li> </ul>	<p>Management should ensure that:</p> <ul style="list-style-type: none"> <li>— A formal, documented and agreed policy is established that guides the Council's management of highly privileged access.</li> <li>— The sharing of the user accounts is investigated, risk assessed and the root cause is understood.</li> <li>— User accounts are only used by the approved and appropriate persons.</li> <li>— 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.</li> <li>— 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.</li> <li>— The logs are secured and retained in a segregated area that cannot be accessed by the users of the IT systems.</li> </ul>	<p>Agreed.</p> <p>Digital and Technology will lead on the implementation of this action, in conjunction with system owners to ensure consistency across all systems.</p> <p><b>Implementation date:</b> 31 August 2018.</p> <p><b>Responsible officer:</b> Incident &amp; Problem Co-ordinator, in conjunction with System Owners.</p>

## Appendix five

# Action plan (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions
<b>2. Regular user access appropriateness review</b>		<b>Grade one</b>
<p>There is not a 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"> <li>— Management should perform a periodic review of user access assigned to ensure that this is appropriate at the application, database and operating system level.</li> <li>— This should include an assessment of user access across the production, development and test environments to ensure appropriate segregation of duties exist.</li> <li>— Where inappropriate access is identified, this should be investigated and removed in a timely manner.</li> <li>— The review should be formal, documented and retained as evidence for audit purposes.</li> </ul>	<p>Agreed.</p> <p>Digital and Technology will lead on the implementation of this action, in conjunction with system owners to ensure consistency across all systems.</p> <p><b>Implementation date:</b> 31 August 2018.</p> <p><b>Responsible officer:</b> Incident &amp; Problem Co-ordinator, in conjunction with System Owners.</p>

## Appendix five

# Action plan (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions
<b>3. Changes to IT systems</b>		<b>Grade two</b>
<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, this includes 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"> <li>— user access is not reviewed on a periodic basis (as identified by internal audit in the Finance Systems review );</li> <li>— passwords to highly privileged user accounts are shared (finding 1); and</li> <li>— access to the production, test and development IT system environments are not segregated (this finding).</li> </ul>	<p>Management should ensure that:</p> <ul style="list-style-type: none"> <li>— Access to the production, test and development IT system environments are appropriately segregated, and any exception is risk assessed and approved.</li> <li>— 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.</li> </ul>	<p>Agreed.</p> <p>Digital and Technology will lead on the implementation of this action, in conjunction with system owners to ensure consistency across all systems.</p> <p><b>Implementation date:</b> 31 August 2018.</p> <p><b>Responsible officer:</b> Incident &amp; Problem Co-ordinator, in conjunction with System Owners.</p>

## Appendix five

# Action plan (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions
<b>4. Password parameters configuration</b>		<b>Grade two</b>
<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"> <li>— The Infosmart application does not have any password parameters assigned for the system administrator's accounts (the Council specifies these should be enforced).</li> <li>— The Airs application system administrator password has never changed (the Council specify these should be changed).</li> <li>— The Northgate application minimum password length is six characters (the Council specify this should be eight characters).</li> </ul> <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"> <li>— Management should review the password parameters and ensure that they are appropriate at the application, database and operating system level.</li> <li>— 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).</li> </ul>	<p>Agreed.</p> <p>Digital and Technology will lead on the implementation of this action, in conjunction with system owners to ensure consistency across all systems.</p> <p><b>Implementation date:</b> 31 August 2018.</p> <p><b>Responsible officer:</b> Incident &amp; Problem Co-ordinator, in conjunction with System Owners.</p>

## Appendix five

# Action plan (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions
<b>5. Managing complex legal agreements</b>		<b>Grade two</b>
<p>The Council is required, by part of the legal agreements surrounding Marischal Square, to submit invoices in respect of estimated income due from the base void account within 10 days of each quarter end. This requirement had not been billed at the time of testing to support a material income accrual (£2.9 million). We understand that a process for regular claims in respect of the account is being developed.</p> <p>Risk:</p> <p>The Council may breach the terms of its agreements and be unable to collect money it is due, or suffer a loss of interest due to delays in receipt.</p>	<p>It is recommended that a suitably senior officer is assigned responsibility for managing Council, and monitoring third party compliance, with complex legal agreements including:</p> <ul style="list-style-type: none"> <li>- Marischal Square; and</li> <li>- Marriot Hotel.</li> </ul> <p>This should include use of calendar reminders to ensure compliance with key deadlines.</p>	<p>Agreed.</p> <p><b>Implementation date:</b> 31 August 2018.</p> <p><b>Responsible officer:</b> Chief Officer – Finance.</p>
<b>6. Faster accounts close – cut off review</b>		<b>Grade three</b>
<p>Management undertook an exercise to require officers to consider all invoices between 19 March and 23 May and consider whether they had been or should be accrued. While good practice, more efficient methods are possible and the existing approach was not relied upon by us, due to difficulty in confirming completeness of the invoices considered by officers.</p> <p>A sample approach should be developed for 2018-19 and specific, material invoices subject to detailed review by management through to evidence of appropriate treatment in the general ledger.</p> <p>Risk:</p> <p>The Council may be inefficient in the use of resources, delay preparation of the annual accounts and impact adversely on officer capacity around the year end.</p>	<p>It is recommended a sample approach should be developed for 2018-19 and specific, material invoices subject to detailed review by management through to evidence of appropriate treatment in the general ledger.</p>	<p>In line with normal practice, a review and lessons learnt session will be held to consider improvement for future years. This recommendation will be considered through that process.</p> <p><b>Implementation date:</b> 31 August 2018.</p> <p><b>Responsible officer:</b> Finance Operations Manager.</p>
<b>7. Charity investments</b>		<b>Grade three</b>
<p>Two investments, with a combined value as at 31 March 2017 of £104,755 were recorded as disposed during 2017-18, with no proceeds receivable. We understand that the Council was unable to obtain confirmation that these investments were still held, with records relating to their transfer to Barclays who have confirmed that the account was closed in 2012.</p>	<p>It is recommended that management continues to trace the balances recorded as disposals through discussion with Barclays.</p>	<p>Agreed.</p> <p><b>Implementation date:</b> 31 August 2018.</p> <p><b>Responsible officer:</b> Finance Operations Manager.</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 2016-17 final audit and their current status.

Number recommendations raised	Implemented	In progress	Not yet due
6	3	2	1

We have provided a summary of progress against 'in progress' actions below, and their current progress.

Finding(s) and risk(s)	Recommendation	Agreed management actions / audit update 2017-18
<b>1. Development of documentation</b> <i>Audit dimension: financial management</i>		<b>Grade two</b>
<p>There are a number of areas where supporting documentation for management's judgements or complex reconciliations could be enhanced.</p> <p>Without clear documentation of significant judgements, there is a risk of inappropriate accounting treatment particularly where staff change. Furthermore, there is a risk that balances recognised in the financial statements cannot be supported by appropriate evidence.</p> <ul style="list-style-type: none"> <li>Internal revaluations of heritage assets are documented on the TMS system which is accessed by the Curator team. There is limited documentation, narrative or evidence to justify and support the valuations.</li> <li>The impairment review does not fully document the scope of the assessment carried out by management and there is a risk that the full scope of challenge to assess any indicators of impairment is not recorded.</li> <li>There are a number of large capital projects which have complex reconciliations of different types of expenditure to support the value of additions. The audit trail of such reconciliations was limited and required additional time to support such capital additions.</li> </ul>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>sufficient supporting documentation and evidence be uploaded and held on the TMS system to support heritage asset valuations;</li> <li>management strengthens the level of documentation produced in relation to the processes and challenge given to any indicators of impairment on properties within their remit; and</li> <li>all relevant officers should be reminded of the importance of maintaining supporting documentation for capital additions and keeping appropriate records.</li> </ul>	<p><b>Status update 2017-18:</b> Complete.</p> <p><b>Original response:</b></p> <p>Finance will work with services to progress the recommendations made.</p> <p><b>Implementation date:</b> 31 March 2018.</p> <p><b>Responsible officer:</b> Senior Accountant.</p>

# Prior year recommendations (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions / audit update 2017-18
<b>2. Revenue recognition</b> <i>Audit dimension: financial management</i>		<b>Grade two</b>
<p>Our testing identified a number of transactions credited to revenue where earmarked reserves were used for expenditure in the year. This is not in line with the Code's accounting treatment of recognising revenue.</p> <p>There is a risk that revenue is incorrectly inflated and the CIES does not present a transparent representation of transactions.</p>	<p>We recommend that management reviews the approach to recording movements from earmarked reserves. This should not recognised revenue and movements should be appropriately highlighted within the financial statements.</p>	<p><b>Status update 2017-18:</b> Complete.</p> <p><b>Original response:</b></p> <p>Finance will review the approach to recording such movements and will implement a new procedure as part of the 2017-18 accounts preparation process.</p> <p><b>Implementation date:</b> 31 April 2018.</p> <p><b>Responsible officer:</b> Senior Accountant.</p>

# Prior year recommendations (continued)

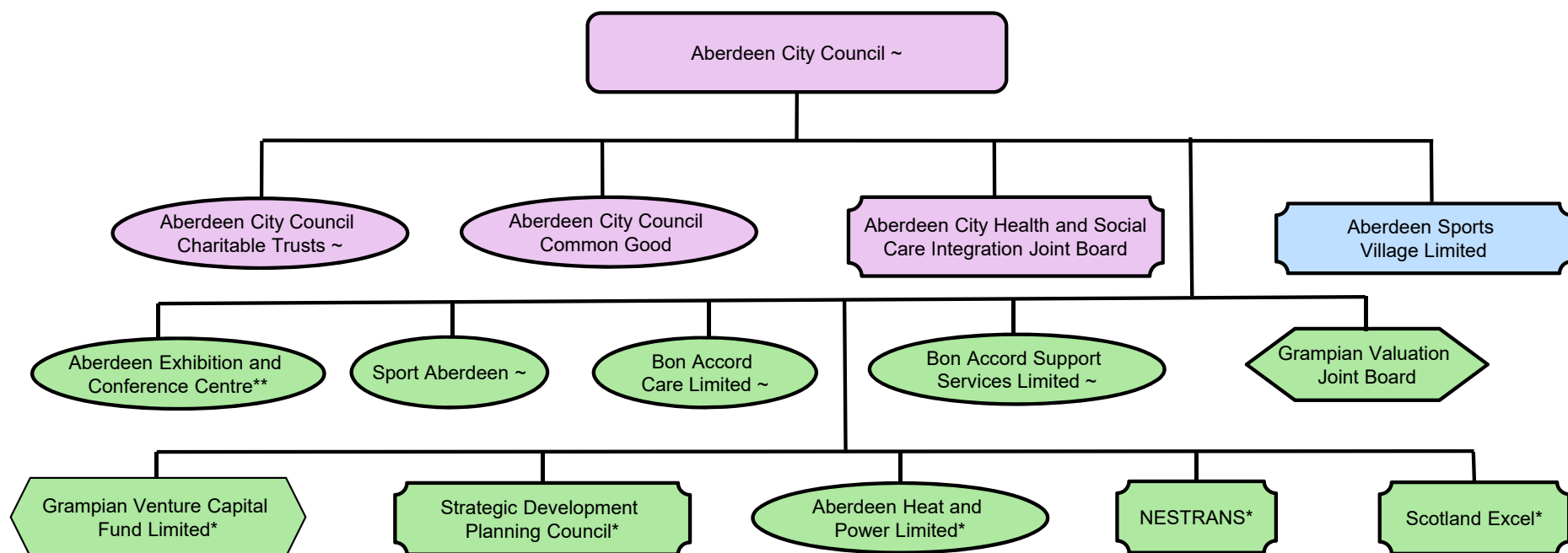
Finding(s) and risk(s)	Recommendation	Agreed management actions
<b>3. Heritage assets valuation</b> <i>Audit dimension: financial management</i>		<b>Grade two</b>
<p>Heritage assets are revalued internally by a team of Curators on an ad hoc basis. Whilst we agree that this is in line with the requirements of the CIPFA Code, there is a risk that high value heritage assets are not being valued to precision where the insurable value is correct.</p>	<p>Management should review the process for valuing heritage assets and consider engaging an external art specialist valuer to value the highest value heritage assets on a rolling basis.</p>	<p><b>Status update 2017-18:</b> Complete.</p> <p><b>2016-17 response:</b></p> <p>Finance will work with the service to progress this recommendation.</p> <p><b>Implementation date:</b> 31 March 2018.</p> <p><b>Responsible officer:</b> Senior Accountant.</p>
<b>4. Complex accounting treatments</b> <i>Audit dimension: financial management</i>		<b>Grade two</b>
<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><b>Status update 2017-18:</b> 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>The technical analysis prepared for Marischal Square was relatively basic in comparison the complexity of the underlying legal agreements and contained inappropriate conclusions as a result.</p> <p>Other one off capital transactions were not subject to sufficiently detailed consideration, resulting in erroneous accounting entries being made in the draft annual accounts (page 9).</p> <p><b>2016-17 response:</b></p> <p>This will be put in place for future complex transactions.</p> <p><b>Implementation date:</b> 31 March 2018.</p> <p><b>Responsible officer:</b> Senior Accountant.</p>



# Prior year recommendations (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions
<b>5. Debtor provisioning</b> <i>Audit dimension: financial management</i>		<b>Grade two</b>
<p>For debtor balances greater than 120 days overdue, but under 10 years overdue, a bad debt provision of 40% is recognised. We consider that this is at the most optimistic end of an acceptable range as it is unlikely that significant debts over a year old will be collected and recommend that management review their debtor provisioning levels. Furthermore we consider the methodology for calculating the council tax bad debt provision is overly complex.</p> <p>There is a risk that debts unlikely to be recovered are not provided for and the Council has to write off significant balances in future years.</p>	<p>We recommend that management reviews:</p> <ul style="list-style-type: none"> <li>its debtor provisioning methodology for council tax to ensure an efficiency of process whilst still providing for an appropriate level of potential bad debt; and</li> <li>the level of bad debt provision for debts that are greater than 120 days old but less than 10 years old to adequately provide for those debts unlikely to be collected.</li> </ul>	<p><b>Status update 2017-18:</b> In progress.</p> <p>Management implemented a revised approach to calculating the provision for general bad debts which is more sophisticated than in previous years.</p> <p>The approach to calculating the provision for council tax bad debts has yet to be revised.</p> <p><b>2016-17 response:</b></p> <p>Finance will review the methodology around debtor provisions to improve process efficiency and ensure the appropriateness of the level of provision.</p> <p><b>Implementation date:</b> 31 March 2018.</p> <p><b>Responsible officer:</b> Senior Accountant.</p>
<b>6. National Fraud Inquiry ("NFI")</b> <i>Audit dimension: governance and transparency</i>		<b>Grade three</b>
<p>After the identification of frauds during the NFI process, the matching system does not allow the Council to monitor recovery. The Council does not have a mechanisms for monitoring the effectiveness of recovery between different services.</p> <p>There is a risk that current practices are ineffective or inefficient without oversight and monitoring.</p>	<p>It is recommended that the Council implements monitoring of the effectiveness of recovery from the NFI reports, to ensure resources are used efficiently.</p>	<p><b>Status update 2017-18:</b> Not yet due.</p> <p><b>2016-17 response:</b></p> <p>The recovery process of losses to frauds in each service is different and is undertaken in accordance with relevant legislation. As such direct comparison of effectiveness in recovery is not possible.</p> <p>It is accepted that we do not gather the total losses to fraud and will, as part of our preparation for the NFI 2019 exercise, identify how this information can be collated and reported on.</p> <p><b>Implementation date:</b> 31 January 2019.</p> <p><b>Responsible officer:</b> Corporate Investigation Manager</p>

# Aberdeen City Council group structure



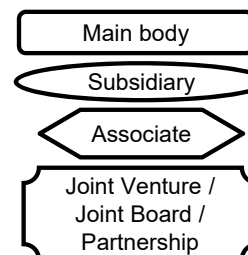
## Key

- Audited by KPMG “core team”
- Audited by KPMG – separate audit team
- Audited by component auditor – group audit instructions to be issued where considered significant components

\* Entities not included in the group comprehensive income and expenditure account

\*\* Aberdeen Exhibition and Conference Centre Limited ceased trading on 1 April 2017, and is classified as “held for sale” within the group financial statements

~ Five group reporting components (as discussed in the long form audit report at appendix ten), of which Sport Aberdeen was not considered to be a significant component.



## Appendix eight

# Audit Quality AQR report – All firms

The Audit Quality Review (AQR) team of the Financial Reporting Council ('FRC') undertakes independent inspections of certain UK audit firms. The AQR published reports on the findings of its 2017-18 inspection of KPMG and the other large firms (which largely covered years ending between 30 June 2016 and 30 April 2017) on 18 June 2018.

The full reports are available on the FRC's website at the following link:

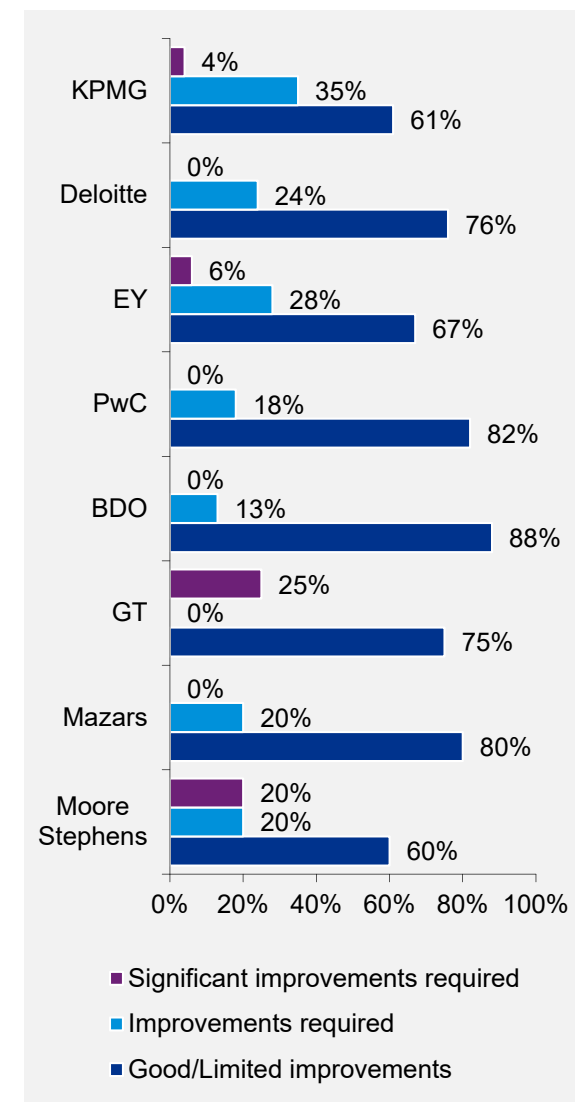
<https://www.frc.org.uk/getattachment/c2c92d13-4a5a-4711-9ec5-9d69c60da278/KPMG-LLP-Public-Report-2017-18.pdf>

We are very disappointed with our 2017-18 report and our overall trend in results. We recognise the fundamental importance of quality in restoring trust in audit and acknowledge the role of the AQR in this process. We cannot and will not be satisfied with these results and, as a firm, we are already implementing actions (developed following extensive root cause analysis) to put this right as explained on page 44. The AQR generally reports by exception and has identified the following areas for our attention.

- Ensure that the extent and rigour of challenge of management in areas of judgement fully demonstrate professional scepticism. (This was raised across most firms)
- Strengthen the involvement of the group audit team in component audits. (Raised at three Big-4 firms)
- Improve the consistency and quality of audit work over pension scheme assets and liabilities (Raised at half of the firms)
- Enhance the audit of management review controls, in particular for entities with long-term contracts

We also consider feedback from audit committees and management and the feedback we receive routinely comments on the strong challenge we demonstrate. However, we recognise that more work is clearly needed to allow us to demonstrate this in the context of an independent file review

It was pleasing to note that KPMG was the only firm that did not receive adverse comment on its firm-wide ethics and independence processes.



## Appendix eight

# Audit Quality Our response

### Our root cause analysis has demonstrated that we needed to:

- accelerate the deployment of standardised and structured audit programme to allow team to demonstrate the quality and consistency of their work;
- provide greater support to teams in understanding the requirements of complex and emerging issues;
- continue to increase the use of technology; and
- provide greater challenge to and oversight of engagement teams from central Subject Matter Experts.

#### Standardisation

- Mandated approaches
- Template work papers
- Case study examples



#### Increased use of technology

- Mandated use of existing market leading tools
- Increased deployment support
- Technology as an enabler for 'smart' work programmes
- Technology to release time for focus on risk and judgements



#### Greater support to teams

- Tailored in-flight review team
- Experienced partner risk panel challenge process
- Expanded Audit Centre of Excellence ('ACE') to coach teams in complex or emerging areas



#### Increased central monitoring

- Mandated planning deadlines to accelerate audit execution
- Enhanced project management
- Increased consultation requirements
- Greater involvement from ACE on emerging or complex issues



## Appendix eight

# Audit Quality Our response (continued)

At the level of individual topics our response includes:

### Challenge of management

- Focussed quality transformation topics, e.g. impairments, business combinations
- Significant risk summaries introduced to evidence basis for conclusions
- Coaching and training
- Risk panels and other monitoring
- 2<sup>nd</sup> line of defence in-flight review support to more teams



### Audit work over pension scheme assets and liabilities

- Quality transformation work programmes for assets and liabilities
- Updated templates for reporting from internal actuaries
- Central team for asset testing work being established



### Group audit team involvement

- Templates for structure and consistency
- Quality transformation deliverables around group audit conduct including instructions
- Coaching and training
- 2<sup>nd</sup> line of defence in-flight review support to more teams



### Audit of management review controls

- Quality transformation work programmes for Management Review Controls delivered and long term contracts
- Awareness of findings: coaching and training
- 2<sup>nd</sup> line of defence in-flight review support to more teams



# Appointed auditor's responsibilities

AREA	APPOINTED AUDITOR'S RESPONSIBILITIES	HOW WE HAVE MET OUR RESPONSIBILITIES
<b>Statutory duties</b>	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix three outlines our approach to independence.
<b>Financial statements and related reports</b>	<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 have provided.</p> <p>Pages 16 and 17 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>
<b>Financial statements and related reports</b>	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.
<b>Corporate governance</b>	Participate in arrangements to cooperate and coordinate with other scrutiny bodies.	We will conclude on these in our annual audit report in September 2018.
<b>Wider audit dimensions</b>	<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"> <li>- Effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;</li> <li>- Suitability and effectiveness of corporate governance arrangements;</li> <li>- Financial position and arrangements for securing financial sustainability;</li> <li>- Effectiveness of arrangements to achieve best value; and</li> <li>- Suitability of arrangements for preparing and publishing statutory performance information</li> </ul>	We set out our conclusions on wider scope and best value in our annual audit report which will be issued in September 2018.

# Independent audit report

## **Independent auditor's report to the members of Aberdeen City Council and the Accounts Commission**

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 120 of the Code of Audit Practice approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

## **Report on the audit of the financial statements**

### **Opinion on financial statements**

We certify that we have audited the financial statements in the annual accounts of Aberdeen City Council and its group for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the council-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, and any other disclosures presented as financial statements and notes to the financial statements, including a summary of significant accounting policies. 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 2017/18 (the 2017/18 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 of the state of the affairs of the council and its group as at 31 March 2018 and of the income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

### **Basis for opinion**

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 31 May 2016. The

# Independent audit report (continued)

period of total uninterrupted appointment including previous renewals and reappointments of the firm is two years. We are independent of the council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by the Ethical Standard were not provided to the council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the Audit Risk and Scrutiny Committee.

## Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those 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. We summarise below the key audit matters, in decreasing order of significance, in arriving at our opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

All of these key audit matters relate to the Group and parent Council.

	The risk	Our response
<b>Revaluation of property, plant and equipment</b> (£612 million; 2016-	<b>Subjective valuation:</b> The Code requires that where assets are subject to revaluation, their year end carrying value should	<b>Our procedures included:</b> <b>Control design:</b> — Assessing the approach that



# Independent audit report (continued)

<p>17: £284 million)</p> <p><i>Refer to pages 57 to 58 (critical judgements in applying accounting policies, assumptions made about the future and other major sources of estimation uncertainty), pages 52 to 55 (accounting policy) and pages 90 and 96 to 99 (financial disclosures)</i></p> <p><i>Risk of material misstatement vs 2017 ◀▶</i></p>	<p>reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. In 2017-18 “other land and buildings” and investment property have be subject to revaluation.</p> <p>There is significant judgment involved in determining the appropriate basis of valuation for each asset according to the degree of specialisation, as well as over the assumptions made in arriving at the valuation, such as the condition of the asset.</p> <p>Given the quantum of the asset carrying values and the inherent use of assumptions in their valuation, we consider there to be a significant risk of misstatement.</p> <p>The Council also holds £209 million of 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>the Council has adopted to consider the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach.</p> <ul style="list-style-type: none"> <li>— Assessing the risk of the valuation changing materially during the year, or between the date of valuation and the year end.</li> </ul> <p><b>Assessing valuer’s credentials:</b></p> <ul style="list-style-type: none"> <li>— In relation to those assets which have been revalued during the year, assessing the valuer’s qualifications, objectivity and independence to carry out such valuations.</li> </ul> <p><b>Assessing methodology choice and benchmarking assumptions:</b></p> <ul style="list-style-type: none"> <li>— Utilising our internal specialist to challenge the methodology used including testing the underlying data inputs and assessing the assumptions used in comparison to available market information.</li> </ul> <p><b>Our sector expertise:</b></p> <ul style="list-style-type: none"> <li>— We critically assessed, in the light of our knowledge of the Group’s assets and changes in market conditions, the assumptions used compared to our own expectations</li> </ul> <p><b>Our results</b></p> <p>We found the resulting valuation of property, plant and equipment and investment property to be acceptable</p>
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## Independent audit report (continued)

		(2016-17 result: acceptable)
<p><b>Retirement benefit obligation</b></p> <p>(£1,545 million; 2016-17: £1,434 million)</p> <p><i>Refer to pages 57 to 58 (critical judgements in applying accounting policies, assumptions made about the future and other major sources of estimation uncertainty), pages 42 to 44 (accounting policy) and pages 78 to 85 (financial disclosures)</i></p> <p><i>Risk of material misstatement vs 2017 ◀▶</i></p>	<p><b>Subjective valuation</b></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 net pension liability.</p> <p>Employees of the Council participate in a local government defined benefit pension scheme; North East Scotland pension fund.</p>	<p><b>Our audit approach included:</b></p> <p><b>Control design:</b></p> <ul style="list-style-type: none"> <li>— Testing the design and operating effectiveness of controls over the provision of membership information to the actuary who uses it, together with the assumptions, to calculate the pension obligation.</li> </ul> <p><b>Benchmarking assumptions:</b></p> <ul style="list-style-type: none"> <li>— Challenging, with the support of our own actuarial specialists, the key assumptions applied, being: the discount rate; inflation rate; and mortality/life expectancy against externally derived data.</li> <li>— 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.</li> </ul> <p><b>Assessing transparency:</b></p> <ul style="list-style-type: none"> <li>— Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to these assumptions.</li> </ul> <p><b>Our results:</b></p> <p>We found the valuation of the retirement benefit obligation to be acceptable (2016-17 result: acceptable).</p>
<b>Capital expenditure</b>	<b>Accounting application</b>	<b>Our procedures included:</b>

# Independent audit report (continued)

<p>(£218 million; 2016-17: £222 million)</p> <p><i>Refer to pages 57 to 58 (critical judgements in applying accounting policies, assumptions made about the future and other major sources of estimation uncertainty), pages 52 and 98 (accounting policy) and pages 96 to 97 (financial disclosures)</i></p> <p><i>Risk of material misstatement vs 2017 ◀▶</i></p>	<p>The Council has a five year £1 billion capital plan which is focused around the city centre masterplan.</p> <p>The Council is utilising some innovative methods of delivery of capital projects.</p> <p>Due to the significance of this capital investment programme and complexity of some of the projects, we consider there to be a significant risk of misstatement 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.</p>	<p><b>Control design:</b></p> <ul style="list-style-type: none"> <li>— Testing the design and operating effectiveness of controls over the capital projects.</li> <li>— Testing the design and operating effectiveness of controls in respect of the review of costs allocated to capital and revenue projects.</li> </ul> <p><b>Control re-performance:</b></p> <ul style="list-style-type: none"> <li>— Comparing the total capital expenditure reported in the financial statements with that reported in reports to those charged with governance.</li> </ul> <p><b>Tests of detail:</b></p> <ul style="list-style-type: none"> <li>— Use of substantive sampling methods to corroborate the amount and evaluate the appropriateness of capital or revenue accounting classification by reference to supporting documentation.</li> <li>— Assessing a sample of items allocated to revenue expenditure to determine whether they are correctly classified.</li> <li>— Review and corroboration of manual journals.</li> </ul> <p><b>Our results:</b></p> <p>We found the Group's treatment of capital expenditure to be acceptable (2016-17 result: acceptable).</p>
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**Our application of materiality and an overview of the scope of our audit**

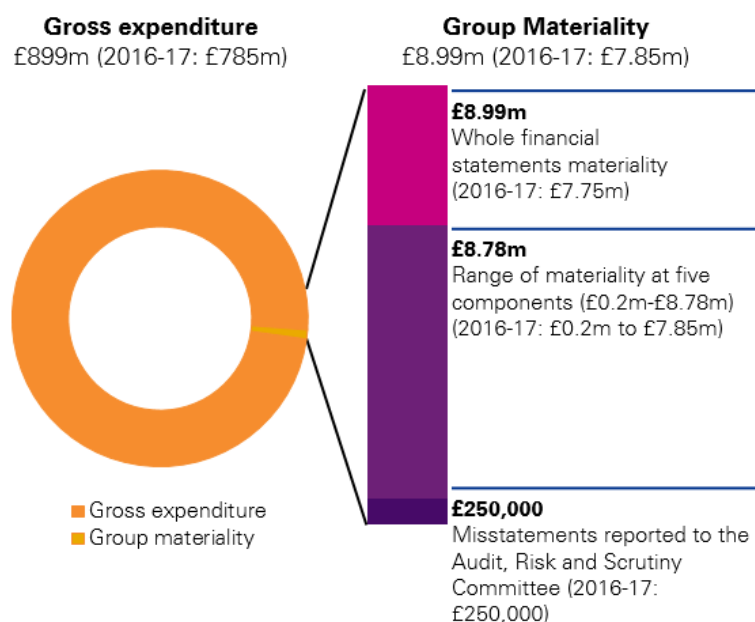
## Appendix ten

# Independent audit report (continued)

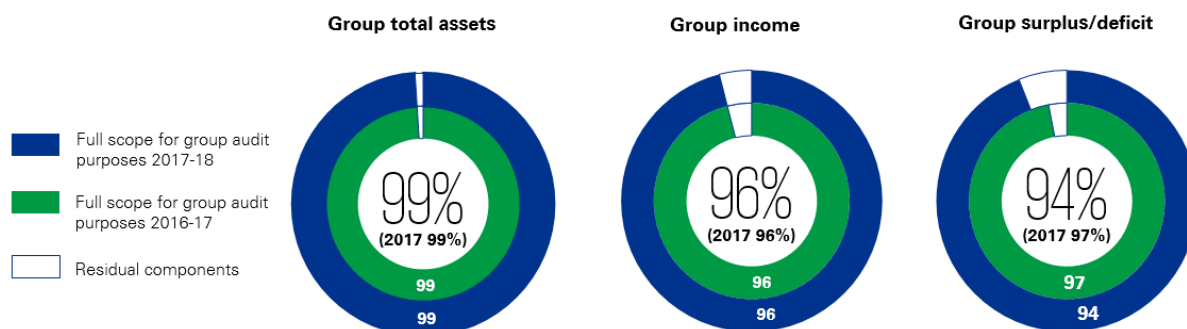
Materiality for the Group financial statements as a whole was set at £8.99 million (2016-17: £7.85 million), determined with reference to a benchmark of gross expenditure, normalised by averaging over the last five years due to fluctuations in property valuations (of which it represents approximately 1%). We consider gross expenditure to be more stable than a surplus- or deficit-related benchmark.

Materiality for the parent Council's financial statements as a whole was set at £8.78 million (2016-17: £7.75 million), determined with reference to a benchmark of gross expenditure, normalised by averaging over the last five years due to fluctuations in property valuations (of which it represents approximately 1%).

We agreed to report to the Audit, Risk and Scrutiny Committee any corrected and uncorrected identified misstatements exceeding £250,000 (2016-17: £250,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.



Of the group's five (2016-17: five) reporting components, we subjected four (2016-17: four) to full scope audits for group purposes. The components within the scope of our work accounted for the percentages illustrated below.



# Independent audit report (continued)

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities which ranged from £7.50 million to £8.78 million, having regard to the mix of size and risk profile of the Group across the components. The work on two of the five components (2016-17: two of the five components) was performed by component auditors and the rest, including the audit of the Council, was performed by the Group team.

The Group team held discussions with these component auditors. During these discussions, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

### **Responsibilities of the Director of Resources and Audit, Risk and Scrutiny Committee for the financial statements**

As explained more fully in the Statement of Responsibilities, the Director of Resources is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Resources is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Audit, Risk and Scrutiny Committee is responsible for overseeing the financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

*Irregularities – ability to detect*

## Appendix ten

# Independent audit report (continued)

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations and certain aspects of local government legislation recognising the statutory nature of the group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of management and inspection of regulatory and legal correspondence.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

### **Other information in the annual accounts**

The Director of Resources is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Report on other requirements**

### **Opinions on matters prescribed by the Accounts Commission**

In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

## Appendix ten

# Independent audit report (continued)

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

### **Matters on which we are required to report by exception**

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Andrew Shaw, for and on behalf of KPMG LLP

Saltire Court

20 Castle Terrace

Edinburgh

EH1 2EG



The contacts at KPMG in connection with this report are:

Andy Shaw

*Director*

Tel: 0131 527 6673

[andrew.shaw@kpmg.co.uk](mailto:andrew.shaw@kpmg.co.uk)

Michael Wilkie

*Senior Manager*

Tel: 0141 300 5890

[michael.wilkie@kpmg.co.uk](mailto:michael.wilkie@kpmg.co.uk)



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