

# Aberdeen City Council

2022/23 Annual Accounts Audit



 AUDIT SCOTLAND

Prepared for the Members of Aberdeen City Council

15 August 2023

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# Contents

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Key messages	3
Introduction	4
Audit of 2022/23 annual accounts	5
Appendix 1. Summary of adjustments in the 2022/23 accounts	14
Appendix 2. Summary of uncorrected misstatements	16
Appendix 3. Action plan 2022/23	17

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# Key messages

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## 2022/23 annual accounts

- 1** Our audit opinions on the annual accounts of the council, its group and the section 106 charities administered by the council are unmodified.
- 2** The annual governance statement and remuneration report were consistent with the financial statements and properly prepared in accordance with the applicable guidance. The management commentary needs to provide a stronger overview of service performance in the year.
- 3** Audit and Finance need to work together to prepare an achievable timeline for the 2023/24 audited accounts including an agreed working paper package for timely delivery with the unaudited accounts.

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# Introduction

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**1.** This report summarises the significant matters arising from the 2022/23 audit of Aberdeen City Council's annual accounts. The scope of the audit was set out in an annual audit plan presented to the Audit, Risk and Scrutiny Committee in May 2023. Our Annual Audit Report covering all aspects of the 2022/23 audit will be published in the autumn.

## Audit appointment from 2022/23

**2.** The 2022/23 financial year was the first of our five-year appointment. The appointment coincides with the new [Code of Audit Practice](#) which was introduced for financial years commencing on or after 1 April 2022.

**3.** We would like to thank the Chief Officer - Finance and his team for their cooperation and assistance during the audit of the accounts.

## Responsibilities and reporting

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

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

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

**7.** This report contains an agreed action plan at [Appendix 3](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

## Auditor independence

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

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# Audit of 2022/23 annual accounts

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

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## Main judgements

Our audit opinions on the annual accounts of the council, its group and the section 106 charities administered by the council are unmodified.

The management commentary, annual governance statement and remuneration report were consistent with the financial statements and properly prepared in accordance with the applicable guidance. The management commentary needs to provide a stronger overview of service performance in the year.

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## Our audit opinions on the annual accounts are unmodified

**9.** The accounts for the council and its group for the year ended 31 March 2023 are due to be approved by the Audit, Risk and Scrutiny Committee on 15 August 2023. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the applicable guidance
- we have obtained audit assurances over the identified significant risks of material misstatement to the financial statements which were identified in our Annual Audit Plan.

## Our audit opinions on Section 106 charities were unmodified

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

**11.** Regulation 7 of the charity regulations (as amended in 2010) permits a single set of accounts for connected charities. These include charities that have

unity of administration. The definition is therefore met for section 106 charities administered by the same council.

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

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

**13.** We received the charities accounts in line with the agreed timetable and after completing our audit, we reported in the independent auditor's report that:

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

### **Overall materiality was assessed as £14.7 million**

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

**15.** The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as audit findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

**16.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and reviewed on receipt of the unaudited annual accounts. 2022/23 values are summarised in [Exhibit 1](#).

## Exhibit 1

### Materiality values

Materiality level	Amount
<b>Overall materiality</b> - This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the council's operations. For the year ended 31 March 2023, we have set our materiality at 1.5% of gross expenditure.	£14.7 million
<b>Performance materiality</b> - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.	£9.6 million
<b>Reporting threshold</b> - We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£250,000

Source: Audit Scotland, Annual Audit Plan 2022/23

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

**17.** We have obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. The Independent Auditor's Report sets out the key audit matters that were of most significance to the audit. These largely include the significant risks of material misstatement to the financial statements and other areas of audit focus we had identified in our Annual Audit Plan. In addition, it covers material elements of the council's group accounts. The Independent Auditor's Report also summarises the further audit procedures we performed to obtain assurances over these matters and the conclusions from the work completed. The key audit matters were:

- Risk of material misstatement due to fraud caused by management override of controls.
- Expenditure may be misstated due to risk of fraud over expenditure recognition.
- Due to the rolling programme basis of property valuation, there is a risk that the carrying value of assets not revalued in the year do not reflect their current value. Where the differences in value are likely to be significant, this increases the risk of material misstatement in the financial statements.
- There is a risk that the assumptions and methodologies used in determining the pension position are unreasonable and/or any small

change in the estimates used could result in material changes in the valuation.

- There is a degree of subjectivity in the indexation assumptions used in the valuation of the bonds, small changes in these assumptions could result in material changes in the valuation.
- The value of Aberdeen Sports Village and Aberdeen Common Good Fund long term assets incorporated into the group are above group materiality. Valuations are based on specialist and management assumptions and small changes in these can result in material changes to valuations.
- The council's share of Aberdeen City Integration Joint Board (IJB) incorporated into the group is above group materiality. There is a risk that a misstatement in the IJB's financial results could materially impact on the group position.

## Misstatements of £378 million were adjusted in the audited accounts

**18.** There were a number of material adjustments made to the financial statements since they were submitted for audit in May. The main one being the restriction of the pension asset value recognised in the accounts which reduced the amount from £364 million to nil. Overall, the total adjustments had the effect of reducing the comprehensive income expenditure account, net assets and reserves by £378 million. (Further analysis of the adjustments to the accounts is set out in [Appendix 1](#)). In addition, prior year figures were restated to increase income and closing reserves by £26 million to correct the accounting treatment of grant income. Further information on the main adjustments is set out in [Exhibit 2](#).

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

**20.** Management opted not to adjust for the misstatements set out in [Appendix 2](#), as the amounts were not considered material in the context of the accounts. Had the accounts been adjusted, the net impact would have been to reduce net expenditure on the Comprehensive Income and Expenditure Statement by £38,000 with a corresponding increase in Net Assets.

## Significant findings from the audit in accordance with ISA 260

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



22. The significant findings are summarised in [Exhibit 2](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 3](#) has been included.

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## Exhibit 2

### Significant findings from the audit of the financial statements

#### Issue

#### 1. Restricting the value of the pension asset

For the first time, the unaudited accounts included a pension asset rather than a liability. This amounted to £360 million and was calculated by the council's actuary.

The pension accounting standard (IAS 19) however limits any pension asset to the lower of the surplus and what is described as an asset ceiling. The asset ceiling is defined as the present value of any economic benefits available in the form of refunds from the pension fund or reductions in future contributions to the fund.

Further guidance on calculating the asset ceiling is provided in IFRIC 14. It refers to the impact of a 'minimum funding requirement' which stipulates a minimum amount of contributions that must be paid over a given period. The existence of a minimum funding requirement limits the ability of a body to reduce future contributions.

Where there is a minimum funding requirement for contributions relating to future service, IFRIC 14 explains that the asset ceiling is the present value of the future service cost less the present value of the minimum funding requirement contributions.

Where actuaries report that the present value of the minimum funding requirement contributions exceeds the future service cost, IFRIC 14 advises that no asset should be recognised.

#### Resolution

This proved to be the case for Aberdeen City Council and so an adjustment has been made to reduce the asset value to nil in the accounts. Most councils will report a similar scenario in their 2022/23 accounts. Similar adjustments were made in the group accounts to reflect the pension assets of Bon Accord Care and Bon Accord Support Care at nil in the group balance sheet.

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#### 2. Unspent capital grants

Included as current liabilities on the Balance Sheet were capital grants receipts in advance of £32 million. This largely related to four grants where funding had been received in advance for capital projects but remained unspent at the year end e.g. Scottish Government funding of approx. £20 million received in respect of the integrated mortuary currently under construction. As there are no conditions attached to the funding which, if unmet, might require the council to repay grant, the amount should be recognised as income in the year of receipt and form part of the council's usable reserves at the year end. The majority of the unspent grants were received in 2021/22 and therefore a prior year adjustment is also required to restate income and reserves.

#### Resolution

Capital grants have been removed from current liabilities and included in usable reserves as unapplied capital grants. Prior year figures have been restated to include additional income of

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**Issue**

£26 million and increase reserves at 31 March 2022 by the same amount. To support the restatement of the prior year figures, additional notes have been included in the accounts to explain the adjustment to the 2021/22 audited figures.

**Appendix 3, Recommendation 1****3. Elimination of internal transactions**

The council did not eliminate internal transactions from income and expenditure. While there is no impact on net expenditure, gross income and gross expenditure were overstated by £113 million.

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

**Resolution**

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

**Appendix 3, Recommendation 1****4. Group accounts - Valuation of Aberdeen Sports Village**

The council is a partner in a joint venture with the University of Aberdeen to operate Aberdeen Sports Village. The council's investment is reflected on its balance sheet and the joint venture is a significant component in the council's group accounts. The material element of the joint venture's balance sheet is the sports village, however no valuation had been undertaken of the property since 2009. We requested that a valuation be undertaken to determine the current position.

A valuation was undertaken and identified a current valuation of £56 million which is an increase of £23 million on the previous value. The council's share is 50% and this has the effect of increasing the council's gains in the CIES and investments on its balance sheet. Similarly the value of property and reserves have increased on the group balance sheet.

Source: Audit Scotland

**Management commentary**

**23.** The Local Authority Accounts (Scotland) Regulations 2014 require the annual accounts to include a management commentary prepared in accordance with statutory guidance. While the guidance allows flexibility in terms of the level of performance information included, there is an expectation that the commentary gives an overview of service performance in the year and the inclusion of relevant indicators should enhance the service 'story'. A number of performance indicators have been added in the revised commentary but in the absence of relevant context, they do not offer much insight into service delivery and achievement.

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## Recommendation 2

The management commentary needs to provide a stronger narrative on service performance during the year and be supported by financial and non-financial performance information.

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### Annual Governance Statement

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

**25.** The council's statement meets the high-level requirements set out in guidance for the content of a governance statement. We also found that it included a detailed listing of assurances to demonstrate how the council continues to meet the CIPFA good governance principles. While this information is a strong evidence base, it is lengthy and does not need to form part of the governance statement, instead the information could be held separately and a link provided from the governance statement.

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

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## Recommendation 3

The governance statement should be streamlined to provide a concise view of the effectiveness of governance in the year with links provided to supporting evidence.

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### Better joint planning required to deliver the audited accounts

**27.** The delivery of the audited accounts is a significant achievement involving the finance and audit teams working together over several months. This has been the first year of our audit appointment and it does take the first year to understand the financial systems in place and the associated processes which operate to produce the annual accounts.

**28.** The audit appointment commenced in January 2023, later than we would normally start planning for an annual audit. This was due to late sign offs across the public sector in the previous year and subsequently, the audit handover process. Therefore, it was not possible for us to commit this year to the council's preferred timetable of 30 June for delivery of the audited accounts.

**29.** We are committed to meeting the council's timetable in future years and we will be working with the finance team in the coming months to set out an achievable joint plan and timeline for the 2023/24 audit. There were a number of gaps in the working paper package provided for audit this year. With regard to some account areas, it took several weeks for us to identify and collate the necessary data to enable the audit to progress. There were also some delays experienced in receiving responses to audit queries raised with the finance team. This resulted in some inefficiencies and duplication of effort.

**30.** With the benefit of year one and the likelihood that we will have an earlier start into the 2023/24 audit, audit planning and controls assurance work should be concluded at an earlier stage which will ease some of the pressure experienced this year. Nonetheless, if the audit is to be concluded by 30 June, the council needs to be better prepared. A more comprehensive working paper package needs to be provided and this needs to be available with the accounts when they are submitted for audit.

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## Recommendation 4

**Audit and Finance need to work together to prepare an achievable timeline for the 2023/24 audited accounts including an agreed comprehensive working paper package for timely delivery with the unaudited accounts.**

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### One objection to the accounts was received by the deadline

**31.** The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations and one objection to the accounts was received by the required deadline.

**32.** Anybody objecting to the accounts is entitled to a hearing with the auditor. Such a hearing was held on 7 July 2023 and the content of the objection was discussed. This centred on the transparency of local government annual accounts more generally and the adequacy of Aberdeen City Council's disclosures around contingent liabilities. Having considered the matter, we concluded that there were no material issues likely to impact on the audit opinion and have responded to the correspondent accordingly.

### Financial systems of internal control operated effectively

**33.** As part of our audit, we identify and assess the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the body has systems for recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**34.** Overall, we concluded that the controls in place were satisfactory. However, we noted that there is no process to remove financial system access

rights for staff leavers. Access is removed when staff have been identified as leavers e.g. an email bounces back or a line manager provides notification but this is on an ad hoc basis rather than routine. These weaknesses are partially, but not wholly, negated by the fact access is automatically disabled after six months. To ensure the security of data, we would suggest this matter is reviewed and a formal process put in place.

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## **Recommendation 5**

To ensure the security of data, this matter should be reviewed and a formal process put in place.

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# Appendix 1. Summary of adjustments in the 2022/23 accounts

The following tables sets out a summary of the amendments made to the comprehensive income and expenditure account (CIES) and the balance sheet by comparing the unaudited accounts received in May 2023 with the audited accounts concluded in August 2023.

Account areas	Unaudited accounts	Audited accounts	Amendments
	£m	£m	£m
<b>CIES</b>			
Children and Families	247	267	20
Resources	98	140	42
Customer	32	37	5
Commissioning	41	43	2
Integration Joint Board	121	122	1
Corporate	39	17	(22)
HRA	73	6	(67)
<b>Cost of services</b>	<b>652</b>	<b>633</b>	<b>(19)</b>
Other expenditure	49	97	48
Taxation and non-specific grant income	(613)	(610)	(3)
<b>(Surplus)/Deficit on provision of services</b>	<b>87</b>	<b>119</b>	<b>32</b>
Other comprehensive (income) and expenditure	(531)	(159)	(372)
<b>Total comprehensive (income) and expenditure</b>	<b>(444)</b>	<b>(40)</b>	<b>(404)</b>

Account areas	Unaudited accounts	Audited accounts	Amendments
	£m	£m	£m
<b>Balance Sheet</b>			
Long term assets (excluding pension asset)	3,039	3,009	(30)
Pension asset	364	0	(364)
Current assets	239	241	2
Current liabilities	517	486	(31)
Long term liabilities	1,245	1,263	18
<b>Net assets</b>	<b>1,880</b>	<b>1,501</b>	<b>(379)</b>
Usable reserves	114	156	42
Unusable reserves	1,766	1,345	(421)

# Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual accounts that are individually greater than our reporting threshold of £250,000.

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

Account areas	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000	Cr £000	Dr £000	Cr £000
Grants in advance – incorrect accounting treatment, should be recognised as income.		1,019	1,019	
Property, Plant and Equipment – Kincorth Swimming Pool was demolished but still appears on the asset register. An impairment adjustment is required.	531			531
Debtors – Grant income was accrued on the basis of expenditure incurred to be reimbursed. An amount was incorrectly accrued on the basis of a purchase order, goods were not received by 31 March 2023.	450			450
<b>Total</b>	<b>981</b>	<b>1,019</b>	<b>1,019</b>	<b>981</b>
<b>Net impact</b>	<b>38</b>			<b>38</b>
<b>Group</b>				
Assets held for sale – removal of dormant company			361	361



# Appendix 3. Action plan 2022/23

## 2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Year end procedures</b></p> <p>Capital grants were incorrectly accounted for and internal transactions had not been identified and eliminated. These were material misstatements and have been amended in the audited accounts</p>	<p>Year end procedures should be updated to ensure these matters are addressed correctly in future years.</p>	<p><b>Agreed</b></p> <p><b>Responsible Officer:</b> <b>Finance Operations Manager</b></p> <p><b>Completion Date: 31 March 2024</b></p>
<p><b>2. Management Commentary</b></p> <p>The management commentary initially submitted for audit had limited service financial and non-financial performance information. Some additional information has been included in the audited accounts but more context is required.</p>	<p>The management commentary needs to provide a stronger narrative on service performance during the year and be supported by financial and non-financial performance information.</p>	<p><b>Opportunities to provide more information will be explored with council colleagues.</b></p> <p><b>Responsible Officer:</b> <b>Finance Operations Manager</b></p> <p><b>Completion Date: 31 March 2024</b></p>
<p><b>3. Annual Governance Statement</b></p> <p>The governance statement provides a lot of detail on supporting evidence which does not need to form part of the statement.</p>	<p>The governance statement should be streamlined to provide a concise view of the effectiveness of governance in the year with links provided to supporting evidence.</p>	<p><b>Agreed</b></p> <p><b>Responsible Officer:</b> <b>Interim Chief Officer - Governance</b></p> <p><b>Completion Date: 31 March 2024</b></p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>4.Working paper package</b></p> <p>There were gaps in the working paper package provided for audit and delays in progressing some audit queries.</p>	<p>Audit and Finance need to work together to prepare an achievable timeline for the 2023/24 audited accounts including an agreed working paper package for timely delivery with the unaudited accounts.</p>	<p><b>Agreed</b></p> <p><b>Responsible Officer: Finance Operations Manager</b></p> <p><b>Completion Date: 31 March 2024</b></p>
<p><b>5.System access rights</b></p> <p>There is no process in place to remove financial system access rights for staff leavers.</p>	<p>To ensure the security of data, this matter should be reviewed and a formal process put in place.</p>	<p><b>Agreed</b></p> <p><b>Responsible Officer: Senior Accountant (systems)</b></p> <p><b>Completion Date: 31 March 2024</b></p>

# Aberdeen City Council

## 2022/23 Annual Accounts Report

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[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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