

**A report by the Controller of Audit to the Accounts Commission under Section 102(1) of the Local Government (Scotland) Act 1973**

**Aberdeen City Council: Annual Audit 2007/08**

**Introduction**

1. The external auditors have recently completed their 2007/08 audit of Aberdeen City Council and I have received the audited accounts for the year ended 31 March 2008 and their report on the year's audit.
2. The auditors qualified their opinion on the accounts due to a limitation in the scope of their audit.

**Qualified audit opinion**

3. Bank reconciliation is a fundamental accounting control for any organisation and should be carried out timeously and monitored for completeness.
4. Aberdeen City Council was unable to identify the cause of significant unmatched items in its General Bank Account reconciliation. As a result, the auditors could not obtain sufficient appropriate audit evidence to confirm that all bank transactions had been properly recorded in the Council's 2007/08 accounts and they qualified their opinion accordingly.
5. Council officers have reported to elected members that they have experienced difficulties with a new electronic system. This system has now been partly removed and staff have reverted to previous systems. However, as the reconciliation of the bank account was not fully complete at the time of the conclusion of the audit, the auditors were unable to obtain all the information and explanations they needed for the purpose of their audit.
6. The full text of their audit certificate is set out in Appendix A.

**Conclusion**

7. The purpose of my report is to bring the Accounts Commission's attention to the qualification of the Council's annual accounts arising from a limitation in the scope of the audit.
8. I will report to the Accounts Commission on progress on this and other matters arising from the 2007/08 annual audit in my Best Value follow-up report which I intend to submit to the Commission in May 2009.

**CAROLINE GARDNER  
CONTROLLER OF AUDIT  
9 December 2008**

## **APPENDIX A**

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

We certify that we have audited the financial statements of Aberdeen City Council and its group for the year ended 31 March 2008 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash Flow Statement and the Notes to the Core Financial Statements, the Housing Revenue Account and related notes, Council Tax Income Account and related notes, Non Domestic Rate Income Account and related notes, the Group Accounts and the Notes to the Group Accounts, the Pension Fund Accounts and related notes, Trading Operations – Summary of Results, Loans Fund, City Improvement Fund, Common Good and Trust Funds and Endowments. These financial statements have been prepared under the accounting policies set out within them.

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

#### **Respective responsibilities of the City Chamberlain and Auditors**

The City Chamberlain's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2007 - A Statement of Recommended Practice (the 2007 SORP) are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

We report our opinion as to whether the financial statements present fairly the financial position of the Council and its group in accordance with applicable laws and regulations and the 2007 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. We also report if, in our opinion, the Explanatory Foreword is not consistent with the financial statements, if the Council has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the Statement on the System of Internal Financial Control reflects the Council and its group's compliance with the SORP. We report if, in our opinion, it does not comply with the SORP or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risk and controls. Neither are we required to form an opinion on the effectiveness of the Council and its group's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword by the City Chamberlain, the Corporate Governance Statement by the Chief Executive and the Statutory Performance Indicators. We consider the implications for our audit report if we become aware of

any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the City Chamberlain in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.

However, the evidence available to us was limited because the authority has been unable to identify the cause of significant unmatched items forming part of the General Bank Account reconciliation at 31 March 2008. We were unable to obtain sufficient appropriate audit evidence to confirm that all bank transactions have been properly recorded.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Qualified opinion arising from the limitation in audit scope**

Except for the financial effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient appropriate audit evidence concerning the bank reconciliation, in our opinion:

- the financial statements present fairly, in accordance with applicable laws and regulations and the 2007 SORP, the financial position of Aberdeen City Council and its group as at 31 March 2008 and its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

In respect solely of the limitation on our work relating to the bank account, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit and were unable to determine whether proper accounting records had been maintained.

### **Failure to comply with a statutory requirement**

It has not been necessary to qualify our opinion in respect of the following matter.

Local authorities have a duty under Section 10 of the Local Government in Scotland Act 2003 to conduct each of their significant trading operations so that income is not less than expenditure over each three year period. The authority failed to comply with this statutory requirement for the three year period ending 31 March 2008 in respect of the building maintenance significant trading operation.

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

21 October 2008

## **AGENDA ITEM 2 (APPENDIX 4)**

### ACCOUNTS COMMISSION FOR SCOTLAND

#### ABERDEEN CITY COUNCIL

#### ANNUAL AUDIT 2007/08

#### FINDINGS

The Accounts Commission has considered the report by the Controller of Audit under Section 102(1) of the Local Government (Scotland) Act 1973 on the 2007/08 Annual Audit of Aberdeen City Council.

The Commission notes with great concern that the Council's annual accounts have been qualified as the auditors have been unable to obtain sufficient appropriate audit evidence regarding the bank reconciliation. This is a fundamental accounting control and the Council must ensure that all proper accounting procedures are in place as soon as possible. We ask the Controller of Audit to continue to monitor the position and to report in the Best Value follow-up report on the Council due in 2009.