Aberdeen City Council

Annual audit report to the Members of Aberdeen City Council and the Controller of Audit for the year ended 31 March 2022

23 November 2022

Contents

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 Michael Wilkie, who is the engagement leader for our services to the Council, telephone 141 300 5890, email: michael.wilkie@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. 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 8-13

– Management override of controls fraud risk	Page 8
– Expenditure recognition fraud risk	Page 9
– Revaluation of council dwellings, other land and buildings, surplus assets and investment properties	Page 10
– Retirement benefits – Gross Liabilities	Page 12

Current Year recommendations	Appendix four Number
Control recommendations	1 1
Open prior years control recommendations	
Other control recommendations (general controls)	3

Audit status and opinion

The audit is complete and we issued an unqualified opinion on 23 November 2022 on the truth and fairness of the state of the Council's affairs as at 31 March 2022, and of the surplus for the year then ended.

For 2021-22, amendment to regulations is such that the deadline for approval by the Council of audited financial statements is extended from end September to end November. Audit Scotland set a target audit completion date of end October which we anticipate meeting.

The Council has continued to support the audit in a challenging environment such that at the time of drafting most aspects of the audit are substantially complete. However the continued impact of the pandemic, the sector wide late consideration of accounting and audit of infrastructure assets (September) and late receipt of updated valuations for certain assets means some aspects of our work are not fully complete.

There were no matters identified on which we are required to communicate by exception.

Executive summary

Uncorrected audit misstatements

Page 42

There are three uncorrected audit misstatement summarised in appendix three. Associated with expenditure and accruals, and Pensions as noted on pages 42.

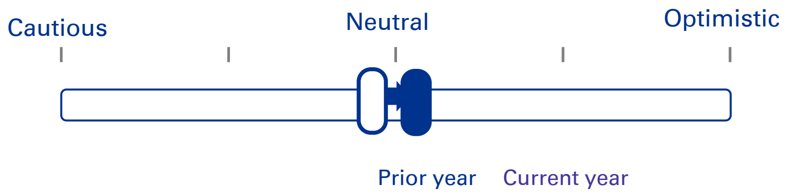
Corrected audit misstatements

Page 39 - 41

In addition six corrected audit adjustments were made in respect of valuations, PPE, assets under construction and the remuneration report. Details of these adjustments are noted on pages 39 – 41.

Accounting judgements related to estimates

Page 16



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.

The very slight move towards a more optimistic position relates to pension liabilities, which are considered balanced overall.

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 annual audit 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 the Council and the Controller of Audit. The scope and nature of our audit are set out in our audit strategy document which was presented to the Audit, Risk and Scrutiny Committee (ARSC) on 22 February 2022.

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. The reports incorporates both aspects of the Code.

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) issued by the Financial Reporting Council and the Code. Appendix seven 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 *Communication with those charged with governance*, 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.

Limitations on work performed

This Report is separate from our audit report in the annual accounts and does not provide an additional opinion on the Council’s annual accounts nor does it add to or extend or alter our duties and responsibilities as auditors in accordance with the Code.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The Council will need to consider whether to give public notice in respect of this report under the Market Abuse Regulation as well as the Disclosure and Transparency Rules. We draw attention to the section, “About this report” on the contents page.

Audit conclusions

Audit opinion

Following approval of the annual accounts by the Audit, Risk and Scrutiny Committee on 27 September 2022 and finalisation of testing, we issued on 23 November 2022 an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2022, and of the surplus for the year then ended. The long form audit opinion, prepared as a requirement of the Council's status as an UK Public Interest Entity, in accordance with ISA 700, is included in the annual accounts. There were no matters identified on which we are required to report by exception.

The audit of the Charites ongoing and we will report later, at this stage there are no issues to report in respect of the Charities Statement of Accounts.

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 2021-22 ("the CIPFA Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the annual accounts have been prepared in accordance with the CIPFA Code and relevant legislation. Pending completion, we expect to confirm that 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 of the Council have been prepared in accordance with the relevant charity accounting legislation.

Annual accounts preparation and audit readiness

The statutory deadlines for approving and publishing the 2021-22 annual accounts are set out in The Local Authority (Scotland) Regulations 2014, however for 2021-22 these have been amended by The Local Authority (Capital Finance And Accounting) (Scotland) (Coronavirus) Amendment Regulations 2022 as follows: a local authority should aim to provide audited annual accounts no later than 30 November 2022 (deferred from 30 September); and requires the approved audited annual accounts to be published no later than 15 December 2022 (deferred from 31 October).

In 2021-22 the Council reviewed its timetable for approval of draft accounts taking account of the local Government elections in May, and also with discussion with KPMG decided to present complete draft accounts to the Risk and Audit Committee on 30 June 2022. The Council provided us a pre-audit set of statements during May 2022 and work began on this date on the significant risk areas. The Council have provided good support to facilitate access to information and complete audit testing.

The Council have requested external valuations for the Energy Centre, and AD Plant, these were received late in the audit, reiterating a point made in prior years around the timeliness of Council property valuations and their consideration.

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

Nine audit misstatements were identified during the audit. We have agreed with management that six have been adjusted and three remain unadjusted.

Written representations

We have received a management representation letter. These representations are those normally requested from management.

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 £9.5 million for the Council's standalone financial statements, and £9.6 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 £6.1 million. For the Group accounts it was £6.2 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 judgements 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:

— Fraud risk from management override of controls;

— Fraud risk over expenditure recognition;

— Retirement benefits – Gross Liabilities*; and

— Valuation of council dwellings, other land and buildings, surplus assets and investment properties*.

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. These are the Key Audit Matters. We report on these areas in our financial statements annual audit opinion.

Whilst not considered to be significant risks, our audit strategy also identified other audit risks in respect of capital expenditure, the accounting treatment of Covid-19 grant income and spend, and the preparation for IFRS16.

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

Significant risks

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Fraud risk from management override of controls 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. This is an assumed risk per ISA 240 *The Auditor's responsibilities related to fraud in the audit of financial statements*. Strong oversight of finances by management, and reporting to those charged with governance, provides additional review of potential material misstatements caused by management override of controls. Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the Council.	In line with our methodology, we have tested the operating effectiveness of controls over journal entries and post closing adjustments. Our audit procedures included: — Evaluated the design, implementation and tested the operating effectiveness of controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate. — Analysis of all journals through the year using data and analytics and focusing our testing on those with a higher risk. — Assessing appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates. — Considering the appropriateness of the accounting for significant transactions that are outside the Council's normal course of business, or are otherwise unusual. — Evaluated the design and implementation of controls in place for the identification of related party relationships and test of the completeness of the related parties identified.	*We did not identify any indicators of management bias or management fraud.* Our evaluation of the design and implementation of journal entries was satisfactory and the results of the testing has provided us sufficient audit evidence that management have not overridden controls. No issues were identified. We have used Data and Analytics to focus and direct our testing of Journals We have not identified any inappropriate changes in assumptions while preparing estimates. We have considered the accounting for significant transactions and concluded that these have been accounted for appropriately and all related party transactions have been appropriately disclosed.

Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Fraud risk over expenditure recognition (risk over income recognition rebutted) Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We consider that there is not a risk of improper recognition of expenditure in respect of payroll costs, financing and investment expenditure, and depreciation. These costs are routine in nature and have limited risk of manipulation. As other operating expenditure is unlikely to be material, we also rebut the assumed risk in respect of this account. We did not rebut the assumed risk in respect of the remaining expenditure accounts (£920 million) within the £1,219 million (in 2021-22) gross expenditure. The risk is for the expenditure in the months following month 9 reporting, including the year end processes and cut off. (The risk is the completeness, accuracy and existence of the expenditure). *As explained in our audit strategy, we have rebutted the presumed risk in respect of improper recognition of income for the reasons set out in that report.*	Our procedures included: — Comparison of the outturn with the in year budget monitoring, considering variances from budgeted reserves utilisation to actual utilisation. — Testing of the design and implementation of controls specific to expenditure cut-off. — Testing of expenditure cut-off including a search for unrecorded liabilities. — Detailed testing of transactions focusing on the areas of greatest risk, including creditors, accruals and provisions to challenge completeness of these balances. — Review and challenge of management in respect of cut-off arrangements and use of any de-minimis levels. — Testing of journal entries in relation to expenditure for evidence of management bias.	*We have concluded that that expenditure is appropriately recognised.* We obtained sufficient, appropriate evidence for variances from budgeted reserves utilisation to actual utilisation. No exceptions were identified in respect of the specific controls testing, and testing of high risk journals. Expenditure cut-off testing provided us with sufficient assurance to confirm that expenditure is complete and accounted for in the correct accounting year. Our testing of accruals and transactions post year end identified one unadjusted audit difference, in which 2021-22 Expenditure and Accruals are understated (see ref 1 page 41). **No indications of management bias were identified.**

Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Valuation of council dwellings, other land and buildings, surplus assets and investment properties The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. There is a significant risk over the valuation assertion due to material estimates included within the valuation. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. In 2021-22 the following category of assets were subject to revaluation and the movements were material: - Swimming pools and sport centres; - Golf courses; - Community and Community Education centres; - Museums and Theatres; - Crematorium; and - Council Offices. Given the quantum of the carrying values and the inherent use of assumptions in their valuation, we considered there to be significant risk of misstatement. In addition to those assets revalued in year, the Council will have to evidence how it satisfies itself that the other assets not revalued in 2021-22 are not materially misstated, especially with the current impact of the Covid19 pandemic and economic impact. The Council also holds investment properties, which as at 31 March 2021 were valued at £192 million. These properties are subject to annual revaluation and similarly we considered there to be a risk of misstatement arising from the use of assumptions in the valuations. This includes significant assets such as Marischal Square development and the hotels and Energy centre at TECA site hotels (excluding the P&J Live).	Our procedures included: **Control design:** — Obtaining an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. — Evaluating the design and implementation of the controls relating to the valuation of the Council dwellings, other land and buildings, surplus assets and Investment Properties. — Critically assessing the approach that the Council has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. — Assessing the risk of the valuation changing materially during the year, or between the date of valuation and the year end. **Assessing valuer's credentials:** — Critically assessing the independence, professional qualifications, competence and experience of the Council valuer. **Assessing methodology choice and benchmarking assumptions:** — Utilising our internal specialist to critically assess the methodology used by the Council's valuer by considering whether the valuations are in accordance with the RICS Valuation Professional Standards 'the Red Book' and relevant accounting standards. — Challenging the key assumptions upon which the valuations were based for a sample of properties, by making a comparison to our own assumption ranges derived from market data. — Meeting with the Council's valuer to understand the assumptions and methodologies used in valuing the assets revalued during 2021-22 and the market evidence used to support the assumptions.	We found the resulting valuation of council dwellings, other land and buildings, surplus assets and investment properties to be acceptable. **Control design:** We evaluated the design and implementation of the management controls relating to the valuation of Council dwellings, other land and buildings, surplus assets and Investment Properties, including having sufficient oversight - we have identified two control weaknesses including one for infrastructure assets (see recommendations pages 43 and 44) We requested management carry out an exercise to specifically consider assets not subject to revaluation in 2021-22. This was considered by the Council and reviewed by us. Management's assessment considered all categories of asset not subject to annual valuation and which were not included in the current cycle. It focussed on categories comprising more than 5% of the overall property value and sampled 25% of assets within each category. We previously, and continued to challenge management to consider whether assets not valued in year remained materially fairly stated. As a result of their exercise management identified that secondary school replacement cost indices had potentially moved materially and therefore carried out an additional valuation. This led to the AM4 adjustment page 40 as the results followed the draft accounts. We have received the valuations for the revalued schools which has led to the uplift of £38m and are comfortable following challenge to management and these have been accurately reflected in the updated accounts. **Assessing valuer's credentials** We concluded that the Council's valuer is appropriately qualified, competent and experienced to prepare the Council's valuations.

Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Valuation of council dwellings, other land and buildings, surplus assets and investment properties Continued… The Covid-19 pandemic has had a significant impact on the operation of P&J Live, hotels and interest in Marischal Square accommodation and may impact on investment and surplus asset valuations generally. P&J Live was classified as an operational asset (valued on the basis of depreciated cost), while the energy centre was classified as an investment property (valued at cost) in 2020-21, we have challenged management to continue to assess whether a market value can be determined. We understand that the AD Plant will be completed in 2021-22 and management will need to document their judgements as to the classification of this asset, the basis of valuation, and the valuation itself. *This represents a Key Audit Matter in the audit opinion.*	Continued… — Challenging management's assessment of why it considers that the land and buildings not revalued in 2021-22 are not materially misstated. We will consider if the assumptions are appropriate and if input data is in accordance with support/benchmarks. **Input assessment** — For a sample of properties we agreed the observable inputs used in the valuations, such as land size and floor space to information held by the Estates Department. For the sample we agreed rental income to the amounts invoiced. **Disclosure assessment** — Critically assessing the adequacy of the Council's disclosures in relation to the judgement in relation to valuing properties.	Continued… **Assessing methodology choice and benchmarking assumptions:** We have continued to challenge the Council on the categorisation of the significant components of the TECA development. During 2021-22 the Council reviewed the components and the continuing use of these assets. The conclusion management came to which we are comfortable with is as follows: P&J Live: specialised operational asset valued at depreciated replacement cost (DRC) no change from 2020-21 The two hotels: investment properties valued at market value no change from 2020-21 We received and considered detailed workings for the Marischal Square and HRA valuations. Following challenge by us on the classification of assets management have reviewed the following assets: - Energy Centre: How the centre works and they have concluded that this is a specialised operational asset valued at depreciated replacement cost. We concur with this assessment. This is a change in classification as in 2020-21 this was included as an investment property valued at cost. - AD Plant: This is a newly completed asset, and has been transferred from assets under construction in 2021-22 and management have concluded that it meets the definition of an operational asset and as such is valued as a specialised operational asset valued at depreciated replacement cost. Both the Energy Centre and the AD Plant were externally professionally valued so that the Council can recognise these assets in line with the CIPFA code and at fair value. We are satisfied with the valuations of these assets as operational assets. Associated development land are again categorised as investment property reflected at market value While a result of management's proactive response to previous and ongoing audit challenge, where adjustments arose between the draft and final financial statements we have included them within the summary of audit adjustments. **Input assessment** For each of the assets sampled, management supported the key inputs to the asset valuation. **Disclosure assessment** We reviewed the additional disclosures in respect of the judgement in relation to valuing properties and noted no issues.

Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Valuation of the Retirement benefits – Gross Liabilities (V) The gross valuation of pension liability (£1.6 billion as at 31 March 2021), represents a material element of the Council's balance sheet. The Council is an admitted body of North East Scotland Pension Fund, which had its last triennial valuation completed as at 31 March 2020. The impact of the triennial valuation will be felt in the contributions paid in 2021/22, however it will help to form the valuation as at 31 March 2022 using the roll forward basis. The calculation of the Local Government Pension Scheme liability requires the use of an actuarial methodology, the result of which is dependent upon a number of assumptions. These include both financial and demographic assumptions, such as the discount rate, inflation rates, mortality rates etc. These assumptions should reflect the profile of the Council's employees, and be based on appropriate data. The basis of the assumptions should also be derived on a consistent basis year to year. The Valuation of Gross Liabilities at 31 March 2022 should now include an assessment of the liability due to the legal rulings for McCloud / GMP and Seargent.	Our audit approach included: **Control design:** — Testing the design and implantation of controls over the provision of membership information to the actuary who uses it, together with the assumptions, to calculate the pension obligation. **Benchmarking assumptions:** — Challenging, with the support of our own actuarial specialists, the key assumptions used by the actuary (the discount rate, inflation rate and mortality/life expectancy) against externally derived data. — 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. **Management Expert:** — Evaluating the competency, objectivity of the scheme actuaries to confirm the qualifications and the basis for their calculations. **Data Testing:** — Agreeing the data provided by the council to the North East Scotland Pension Fund for use within the calculation of the scheme valuation. **Assessing transparency:** — Considering the adequacy of the disclosures in respect of the sensitivity of the liability to these assumptions. — Assessing if the disclosures within the financial statements are in accordance with the Code's requirements. **Test of Details:** — Test of detail of the year end cashflows, membership details, and asset rate of returns.	We are satisfied that the retirement benefit obligation: — is correctly recognised on the balance sheet as at 31 March 2022; — has been accounted for and disclosed correctly in line with IAS19 Retirement benefits; and — assumptions used in calculating this estimate and management's judgements are appropriate, balanced and within a range which we consider to be acceptable. **Control design:** Results of testing of controls in respect of provision of information to the actuary were satisfactory. We identified that for audit purposes the Management review control carried out was not done to sufficient detail and by an officer with the appropriate expertise. This control still enhances the Council's overall control environment. This recommendation was identified in the 20-21 audit, management confirmed they are comfortable with their current arrangements, we continue to recommend it as it relates to a significant risk but understand management's response. **Management Expert** We have evaluated the competency, objectivity of the scheme actuaries and have concluded the management expert is appropriately qualified and competent. **Test of Details:** Results of test of details were satisfactory. We challenged the initial Actuarial report which identified mathematical errors made by the Actuary, a further report was received which included the actual benefits paid which were amended in the Unaudited statements of Accounts. Two unadjusted misstatements on page 42 were identified.

Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Retirement benefits – Gross Liabilities (continued) Continued… 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 on the net pension liability accounted for in the financial statements. *This represents a Key Audit Matter in the audit opinion.*	See previous page	Continued… **Benchmarking assumptions:** Our overall assessment is summarised in appendix nine. Guaranteed minimum pensions ('GMP') equalisation Following a UK High Court judgement on 26 October 2018, gender equalisation of GMP is required to remediate the unequal benefits and retirement ages for men and women from 1990. — The UK Government consultation on GMP ended in December 2018 and extended the interim solution already in place for GMP equalisation from 2016 for the period 2018-2021. — A further ruling in November 2020 was announced in regards to GMP equalisation. However, the actuaries have not accounted for due to inability and/or lack of data. — The Council's actuaries have included the full effect of the interim indexation solution in the calculation of scheme liabilities in the prior year and adjusted in the current year. The movement is not material. On 20 December 2018 the Court of Appeal ruled that transitional arrangements offered to some public sector pension scheme members amounted to unlawful discrimination. This related to new schemes set up in 2015 which typically meant older workers could stay in the existing, more generous schemes, while younger workers had to transfer to the new schemes. — This ruling potentially gives rise to additional liabilities for local government pension schemes. — The Council's actuary has included a liability of £12.0 million in respect of McCloud in 2019-20. This has been carried forward to 31 March 2022. We consider the allowance continues to be appropriate. We are aware of other recent rulings: Goodwin, Brewster and Langford. These each relate to a small proportion of members' benefits payable in certain circumstances. Each of these rulings is expected to have a small change to a small number of members' benefits. We have discussed each with the Fund Actuaries who confirmed no allowance has been made for them on the grounds of materiality. An estimate may be required in the future once more is known but we agree nil allowance at this time given the difficulty in obtaining data to produce a credible estimate and likelihood of immaterial impact. **Assessing transparency:** The disclosures in the annual accounts are in line with the Code's requirements, including relevant sensitivity analysis.

Other areas of audit focus

<table>
<tr><th>Other area of audit focus</th><th>OUR RESPONSE</th><th>AUDIT CONCLUSION</th></tr>
<tr><td>

Capital expenditure

The Council has a five year £1 billion capital plan which is focused around the city centre masterplan. This includes a budget of £153 million for 2021-22.

The Pandemic has had an impact on the delivery of the planned capital program meaning a delay on some of the capital developments.

Key projects in progress during 2021-22 include the AD Plant construction, and affordable housing build.

Due to the significance of this capital investment programme and complexity of some of the projects, we consider it to be an area of audit focus. 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.

</td><td>

Our procedures included:

Control design:

— Testing the design, implementation and operating effectiveness of controls over the capital projects.

— Testing the design, implementation and operating effectiveness of controls in respect of the review of costs allocated to capital and revenue projects.

Control re-performance:

— Comparing the total capital expenditure reported in the financial statements with that reported in reports to those charged with governance.

Tests of detail:

— Use of substantive sampling methods to evaluate the appropriateness of capital or revenue accounting classification by reference to supporting documentation.

— Assessing a sample of items allocated to revenue expenditure to determine whether they are correctly classified.

— Review and corroborate to supporting audit evidence of manual journals.

</td><td>

Control design and re-performance:

The controls tested were found to be effective.

Tests of Detail:

No exceptions were identified in the tests of detail, with supporting documentation available for each item sampled.

We have concluded that the treatment of capital expenditure is satisfactory.

</td></tr>
</table>

Other areas of audit focus

Other area of audit focus	OUR RESPONSE	AUDIT CONCLUSION
Covid-19 grant accounting As part of the economic support provided by the Scottish government, the Council has provided ongoing support by operating various grant type schemes for industries and people within the Council region. In 2021/22 the Council received additional grant funding of £45.307 million from the Scottish Government in relation to the Covid-19 pandemic. £27.350 million of this funding was treated as agency. The remaining £17.957 million was treated as principal. There are two generally accepted routes to account for these grants, with the Council acting as either the 'agent' or 'principal' with associated income and expenditure to third parties either primarily excluded or included in the Council's balances respectively. There is a risk in respect of the judgement on how to account for different schemes based on their features and nature. We anticipate some consideration to be given by both management and by Audit Scotland and other audit firms collectively. In addition, due to the complexity, development of guidance and relative inexperience of administering the schemes, there is an element of risk of fraud and error in respect of payments made and disclosure.	Our audit approach, included: **Inquiry and understanding:** — Inquiring of Officers how the various grants are processed and controlled through the responsible departments. — Requesting management to provide a summary of schemes, their nature, volume and value of payments. **Tests of detail:** — Challenging the judgement of whether to account for various schemes with the Council as 'agent' or 'principal'. — Assessing a sample of items awarded to determine whether grants or reliefs have been appropriately awarded and recorded in line with guidance issued — Assessing whether any accruals, provisions or prepayments have been appropriately made in respect of guidance and the 2021-22 Code.	Management provided their analysis of £35 million of Covid-19 related grants processed during 2021-22. In each case an assessment was made by the Council of whether it was acting as agent (on behalf of Scottish Government / others) or as principal. The key factors considered included: - Whether the Council decided on the award criteria - Whether the Council bears credit risk / cost - Whether the Council receives an administration fee for processing the grants No exceptions were identified in the tests of detail, with supporting documentation available for each item sampled. *We have concluded that the treatment of Covid-19 related grants is satisfactory.*

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 2021-22 financial statements and accounting estimates. We set out our view below:

Subjective areas	2020-21	2021-22	Commentary
Council tax bad debt provisions *£45.3 million*	3	3	Collection rates have remained relatively stable year-on-year. We concur with the provisioning approach and we note that this is not a material area of judgement.
Pension assumptions Net liability: *£118 million*	3	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. We consider that the discount rate used (2.8%) to be optimistic, the CPI inflation assumption (3.3%) to be balanced, and mortality – future improvements (CMI 2021 projections model, 1.75%/ 1.5% long-term trend rate for males/females) to be cautious. Salary inflation assumptions are in line with Council expectations. We consider that the return on pension assets assumptions to be appropriate. Overall we consider pension assumptions to be balanced. Full details are in appendix nine.
Council dwellings, other land and buildings, surplus assets, and investment property revaluations	4	4	Our findings over the valuation of Council dwellings, other land and buildings, surplus assets, and investment properties are discussed on page nine and ten. We did not identify any indications of management bias.

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. Management considers it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts.

The Council had net assets of £1.43 billion (2020-21 £1.41 billion) as at the balance sheet date. Net assets increased on 2021-22 by £2 million, reflecting the total comprehensive income for the year.

During 2021-22, the Council set a net revenue expenditure budget of £578 million (being £483 million on the General Fund and £95 million on the Housing Revenue Account). The core outturn is a decrease of £1.81 million (being £1.31 million decrease on the General Fund and £0.5 million on the Housing Revenue Account).

Over the past few years there has been managed reduction in the overall cost base and further efficiency savings are incorporated into budgets. In March 2022 the Council approved savings for 2022-23 of £32.2 million, across a wide range of the activities of the Council, in order to achieve a balanced budget. Delivery against the savings is being monitored on a regular basis and the Council has demonstrated the ability to deliver on savings targets in prior years.

In response to the ongoing impact of the pandemic, the Scottish Government confirmed on 9 October 2020 the option to use financial flexibilities to support the Council's financial position. Updates were provided to the City Growth and Resources Committee in the Quarterly Monitoring reports in October and February. These flexibilities have not been used in 2020-21 or 2021-22 but the Council did exercise the deferral of debt flexibility the 2022-23 budget setting process.

The National Care Service consultation and bill may introduce a structural change for the near future which will impact future planning decisions.

Practice Note 10 Audit of Financial Statements of Public Sector bodies explains that, *"The auditor should, in the first instance, review the management's assessment of going concern and the adequacy of disclosures of the basis for preparing the financial statements. In the public sector, entities may have a deficit of income over expenditure or an excess of liabilities over assets. However, the operational existence of a public sector entity will not always cease, or its scale of operations be subject to a forced reduction, as a result of an inability to finance its operations or of net liabilities.*

The reasons for this are: local government entities are statutory bodies that are required to maintain delivery of functions essential to the local communities, are themselves revenue-raising bodies and have the possibility, on application, of recovering losses over a period." It furthers that cessation of an entity may arise e.g. if it is merged / functions are transferred but that only in the case of dissolution without continuation of the operations, would the going concern basis cease clearly to be appropriate.

Audit challenge and review activities included:

- Discussion with finance officers to consider and challenge assumptions, in particular including ALEO support, mitigations (such as government funding), cash flow monitoring, borrowing and planned committee reporting.
- Consideration of controls in respect of management forecasts, budget monitoring and reporting.
- We considered the impact the ongoing impact of the pandemic and challenged the income included in forecasts in respect of hotels, P&J Live and other major projects during our 2021-22 audit and understand these are updated to take account of the ongoing impact of the pandemic in the 2022-23 forecast.
- Enquiring of discussions between the Council and its ALEOs / group entities regarding Council support.
- Liaison with Audit Scotland regarding basis of preparation and audit opinions in 2020-21 during the pandemic and into 2021-22.

Conclusion

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

We have considered the requirements of the Code and Practice Note 10, together with the opinion of Audit Scotland in respect of local government bodies requirement to prepare financial statements on a going concern basis.

In light of the above we conclude that the going concern assumption is appropriate.

Management reporting in financial statements

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Management commentary	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. 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. In Finance Circular 10-2020, Scottish Government varied the required content of the management commentary and clarified that local government bodies can vary their accounts timetable to revised (extended) deadlines. It provides specific expectations around inclusion of details of the impact of Covid-19 in the management commentary.	We are satisfied that the information contained within the management commentary is consistent with the annual accounts. We reviewed the contents of the management commentary against the guidance contained in the local government finance circular 5/2015 and are content with the report.
Our view of Alternative Performance Measure ("APM") presentation	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. 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 CIPFA Code requires an expenditure and financing analysis is presented within the financial statements, providing a reconciliation from the Council's internal management reporting to the statutory position. The key performance measure which users of the accounts consider is the achievement of over or under spends against budget. An appropriate reconciliation from the underspend against budget (including HRA) 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.	We consider the presentation of alternative performance measures in the management commentary to be appropriate in the context of the Council's accounts.

Management reporting in financial statements (continued)

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Remuneration report	The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.	Following adjustments for audit differences. 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. Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.
Annual governance statement	The statement for 2021-22 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. We previously conducted a specific review of the content and structure of the statement and provided feedback to management tin 2020-21 which was reflected.	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.

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

ENTITY	WORK PERFORMED	AUDIT CONCLUSION
Charitable Trusts	We assessed materiality based on our knowledge and understanding of the charities' risk profile and annual accounts balances. Materiality was determined at 3% of total revenues. We considered and confirm our independence as auditor and our quality procedures, together with the objectivity of the audit director and audit staff.	Our audit of the charitable trusts is ongoing however at this stage there are no issues to report.
Common Good	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.	The Common Good amounts are included within the Group financial statements, for which we expect to issue an unqualified opinion.
Integration Joint Board ('IJB')	A separate annual audit report is due to be presented to the Audit and Performance Systems committee of the Aberdeen City Integration Joint Board on 11 October 2022. One control deficiency identified around the declaration of interests for one council member. This deficiency does not have an impact on the figures disclosed in the financial statements.	We expect to issue an unqualified audit opinion for the IJB.

New accounting standards

Future accounting and audit developments

IFRS 16

In April 2022, CIPFA/LASAAC agreed to delay the implementation of IFRS 16 *Leases* until the 2024-25 financial year as a result of delays in the publication of audited local authority statement in England. The standard removes the previous classifications of operating and finance leases for lessees (with exemptions for short-term and low value leases) and requires a right-of-use asset to be recognised, with a corresponding lease liability.

The Council is currently assessing the impact of the new standard and plans to adopt the standard for the 2024-2025 financial year.

Infrastructure Assets

Infrastructure assets are one of the few categories of property, plant and equipment assets measured at historical cost rather than at an asset measurement described as 'current value' by the CIPFA/LASAAC Code of Practice for Local Authority Accounting (the Code). On the move to capital accounting in 1994 it was decided that there was limited use for measuring the 'worth' of infrastructure assets in the same way as other assets in the balance sheet. At that time, infrastructure assets were brought on to the balance sheet at undischarged capital amounts (this was net of revenue contributions and capital receipts applied and grants and contributions received before 1 April 1994/1996), and this was described as (depreciated) historical cost.

Concerns were raised by local government auditors that some authorities are not applying component accounting requirements appropriately when there is replacement expenditure. The issue raised by auditors relates to subsequent expenditure on infrastructure assets and specifically on whether local authorities should be assessing if there is any undepreciated cost remaining in the balance sheet for the replaced components that needs to be derecognised when the subsequent expenditure is incurred. This has led to issues relating to the reporting of gross historical cost and accumulated depreciation as elements of depreciated historical cost.

Due to the restricted timeline, an approach to deal with this issue could not be agreed and the Scottish Government has agreed to permit a temporary statutory override to the Code in order to address these issues.

A local authority may choose to only apply one of the two statutory overrides or to apply both statutory overrides.

Infrastructure Assets (continued)

Statutory Override 1: This statutory override permits that, for accounting periods commencing from 1 April 2021 until 31 March 2024, a local authority is not required to report the gross cost and accumulated depreciation for infrastructure assets.

Statutory Override 2: This statutory override requires that, for the periods from 1 April 2010 to 31 March 2024, the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is a nil amount, and no subsequent adjustment shall be made to the carrying amount of the asset with respect to that part. This is required on the basis that parts of infrastructure assets are rarely replaced before the part has been fully consumed and should therefore, in most cases, be fully depreciated at the date of replacement.

The statutory overrides permitted within this guidance are time limited for the periods from 1 April 2010 to 31 March 2024.

The Council has elected to utilise both overrides. The Council, like others, needs to consider the approach to future recording and componentisation of Infrastructure assets in order to comply with the underlying requirements of the Code.

Recommendation one page 42

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.

Significant accounting estimates relate to the present value of defined benefit obligations and valuation of non-current assets. For defined benefit obligations, the estimate is calculated under IAS 19 (as calculated by the Council's actuary, Mercer using agreed financial assumptions). With the assistance of our internal actuarial specialists we found the assumptions and accounting for pensions to be appropriate (page 51). Non-current asset impairment is considered by the Council's valuation team and a 5-year rolling programme of revaluations is in place. We used our internal valuation specialists to assess the assumptions used in these revaluations. We did not identify indications of management bias.

Financial statement disclosures were considered against requirements of the CIPFA Code, relevant legislation and IFRS. No departures from these requirements were identified.

Wider scope introduction

Audit dimensions introduction

The Code sets out four audit dimensions which, alongside Best Value, set a common framework for all the audit work conducted for the Controller of Audit and for the Accounts Commission. The dimensions are: financial management; financial sustainability; governance and transparency; and value for money.

It remains the responsibility of the audited body to ensure that it makes proper arrangements across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these arrangements.

During our work on the audit dimensions we considered work carried out by internal audit and other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code.

All appointed auditors are also required to consider areas of focus identified by Audit Scotland, we include our view on each area as within the relevant wider scope section.

Best Value

The Accounts Commission agreed the overall framework for a new approach to auditing best value in June 2021. Best Value is assessed over the five year audit appointment, as part of the annual audit work. There are seven areas considered over the five years. In addition a best value assurance report ("BVAR") for each council will be considered by the Accounts Commission at least once in the five year period. The Council's Best Value review was substantially conducted in autumn/winter 2020 and reported to the Accounts Commission in June 2021.

Consequently, the significant majority of findings within this section are based on the conclusions drawn in completing that work.

Strategic Audit Priorities

The Accounts Commission agreed five strategic audit priorities:

- the clarity of Council priorities and quality of long-term planning to achieve these;
- how effectively councils are evaluating and implementing options for significant changes in delivering services;
- how effectively councils are ensuring that members and officers have the right knowledge, skills and time to lead and manage delivery of council priorities;
- how effectively councils are involving citizens in decisions about services; and
- the quality of council public performance reporting to help citizens gauge improvements.

We consider the strategic audit priorities when performing the wider scope work over the five year appointment.

Our approach

We performed a range of procedures to inform our work:

- interviews with senior officers, including the Chief Executive;
- discussion with officers throughout the Council;
- review of various committee papers and reports;
- attending committee meetings;
- consideration of Audit Scotland guidance to draw conclusions on good practice; and
- Completion of the BVAR.

We use icons to highlight specific matters of note throughout this report.

Key: Best practice Area of ongoing development

Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

2021-22 financial performance

The Comprehensive Income and Expenditure Statement shows a deficit on the provision of services of £85.5 million for the year to 31 March 2022. The deficit includes various accounting adjustments as required by the CIPFA code, such as in respect of actuarial movements and revaluation of property, plant and equipment. Excluding these adjustments and taking account of reserve movements, the Council reported a surplus of £8.8 million, being £0.5 million in respect of the General Fund, £0.5 million in respect of the Housing Revenue Account and £7.8 million of surplus for other usable reserves.

General Fund

A balanced budget was approved at the start of the year, incorporating a final saving requirement of £30.4 million. This budget was set with the Covid-19 in mind as this had a significant impact on the financial pressures both in terms of increased costs, and loss in income.

The council set up Covid19 budget and risk arrangements to fully understand the additional costs, and loss of income, in a context of uncertain levels of support from the Scottish Government at the start of the year.

Various financial scenarios were set out and decisions were made where possible to reduce non essential spend. The Scottish Government confirmed various income streams later in the year.

The £0.5 million General Fund underspend represents around 0.09% of the net services expenditure, this has been achieved by appropriate financial management during the pandemic.

Financial headlines

Deficit on provision of services

£85.5 million

2020-21: £9.4 million (Surplus)

Surplus on general fund

£0.5 million

2020-21: £36 million (surplus)

Total reserves

£1,435 million

2020-21: £1,413 million

General fund reserve

£72.2 million

2020-21: £71.6 million

Reported underlying surplus at Q4

£1.8 million

Capital financing requirement

£1,456 million

2020-21: £ 1,340 million

(Source: audited annual accounts)

Financial management (continued)

2021-22 financial performance (continued)

Housing Revenue Account ('HRA')

The Council is required by legislation to maintain a separate HRA and to ensure that rents are set to cover the costs of its social housing provision. Rent levels are set in order to achieve a breakeven position based on forecast expenditure.

The HRA has a £44.7 million overspend on the provision of services reported for 2021-22. However this is adjusted for impact of revaluation, depreciation and impairments and capital funding and overall the HRA recorded an overall increase of reserves of £0.5m leaving closing HRA reserves of £15.2 million for use in future years.

Financial reporting

Quarterly financial reporting is provided to the City Growth and Resources Committee ('CGRC'), comprising a full set of financial statements with management commentary and additional notes to explain the financial position. Further detailed analysis of the results are provided in appendices, including in respect of HRA, Common Good Fund and the Capital budget. This is good governance in view of the listed debt, and remains leading practice in a local authority context.

The forecast out outturn for the 2021-22 £1.31 million underspend for general fund budget as per the quarterly financial reporting is set out below, with the full

Forecast outturn (£000)	Q1	Q2	Q3	Q4
(Underspend) / overspend	13.6	12.8	7.4	(1.3)

The increase in the HRA is as a result of the operational surplus achieved in the year. The Statutory and Other Usable Reserves include the Capital Fund, Insurance Funds and Capital Receipts Unapplied Account. Transfers have included capital receipts and contributions from revenue.

Capital budget

During 2020-21 the Council agreed a revised capital budget of £254m the Total spend during the year was £124m with the continued impact of Covid-19 pandemic and additional pressures caused by the shortages of products and raw materials in the Construction Industry impacting the ability of the Council to complete its construction plans. The impact of this shortfall in spend is a lower borrowing requirement and amendments into the 2022-23 capital plans.

Scrutiny and monitoring of the overall capital plan delivery is the responsibility of the Capital Programme Committee.

2022-23 budget proposals

The Council sets five budgets on an annual basis: General Fund; HRA; Capital; Common Good; and Pension Fund. Throughout July to November there is an iterative process of budget development, of transformation proposals and reporting through Corporate Management Team ("CMT") and Extended CMT ("ECMT"), concluding in November.

Officer proposals are submitted during that iterative process, for costing or consideration. Alternative proposals are then submitted by members or political groups, for consideration in advance of the meeting.

On 7 March 2022 the Council approved a detailed revenue budget for 2022-23 and a five year high-level budget to 2026-27. The Council also approved a five year capital budget of £623million, in addition to a housing investment program over the same period of £512 million.

This budget and medium term strategy is aligned to the Council Delivery Plan, which in turn aligns the Council's commitments to the vision and priorities of the Local Outcome Improvement Plan.

The delivery of the medium term strategy is dependent on recurring impact of the recommissioning decisions to be taken in 2022-23 saving £30.5m from the recurring budget.

We consider that the budgeting process is robust, and is supported by regular monitoring as noted opposite.

In addition to the recurring savings identified in 2022-23 there will be further savings needed to balance the budget over the medium term which totals £84m by 2026-27.

A new Medium term financial strategy was agreed in August 2022 following the publication of the Scottish Governments' resource spending review.

Financial management (continued)

Accounts and audit process

In 2021-22 the Council revised its accounts timetable, with draft annual accounts issued to the Audit, Risk and Scrutiny Committee (ARSC) on 30 June 2022, and the audit commenced in Early May In order to facilitate approval of the annual accounts by the end of September 2022, the subsidiary and associate entities also delivered to an agreed timetable. The statutory deadline for signed annual accounts was 30 September 2022 however due to Covid-19 the statutory deadline for signed annual accounts has been extended to 30 November as in prior year. The Council does not intend to make use of the extension.

The ARSC meeting at which the unaudited annual accounts were considered was on 30 June 2022, compared to 12 May 2021 for the 2020-21 annual accounts. However with the impact of the 2022 Council elections it was agreed to delay this meeting until 30 June.

The Council and audit team have continued to work to deliver the work to the original deadlines however it continues to be recognised by audit and financial regulators, including Audit Scotland, that additional time may be required and should be taken by entities and auditors in order to ensure the quality of financial statements and audit.

This relates to both the challenge of auditing and working remotely and additional audit considerations which may be required in respect of the potential impact of Covid-19, for example 2021-22 includes assessment of various Covid-19 related grants.

The accounts process for 2021-22 was delayed at the start, due to Covid-19 illness the finance team were slightly behind their planned timetable. The audit required additional external valuations to confirm values ready for the financial statements this timing meant that adjustments made to the financial statements was completed late into the audit, the requests for these valuations could have been made to meet an earlier deadline.

High quality working papers were provided at the start of the audit fieldwork and management responded effectively to our queries.

Financial management (continued)

Accounts and audit process

A key improvement opportunity relates to the robustness of management consideration of complex accounting transactions, specifically related to accounting judgements and estimates.

In 2021-22 we challenged management over the classification of the TECA energy centre and the AD Plant, following this challenge management reassessed these assets and decided that these were classified as Specialised Operational Assets and not as Investment Properties. Following this reassessment the Council commissioned an external valuer to provide the valuation of these properties. Although the treatment of these assets is appropriate this led to late production of updated valuations significantly into the audit period.

We consider that the Council performed well to achieve the 30 September 2022 audit annual accounts timetable. There is a continued high level of oversight and review which has continued throughout 2021-22.

We set out below our qualitative assessment of the readiness for the audit.

Readiness overview	2020-21	2021-22
Preparation and planning	H	M
Production of accounts	H	H
Oversight and review	H	H
Significant judgements	L	M
Supporting information	H	H

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

Internal control

We consider that the Council has a generally robust control environment. We tested the operating effective controls within certain financial processes, where reliance upon them enabled an efficient testing approach. Four control deficiencies were identified (of which two was recommended in prior year) from the testing of:

- HRA stock reconciliation.
- Revaluation review.
- Review of pension assumption rate of return check.
- Infrastructure assets.

Details can be found in Appendix 4

No exceptions were identified from the testing and the controls tested were:

- Budget monitoring.
- Bank reconciliations.
- Procurement: contract awards.
- Capitalisation of expenditure.
- Loans ledger reconciliation.
- Council tax assessor report reconciliation
- Council tax banding rate reconciliation.

We noted in prior years audit that although the Council demonstrates a good level of control through general IT controls, we were unable to place reliance on these controls in the audit. The primary reason for this was a lack of system logging and monitoring in place for IT privileged users. We did not plan to rely on these controls for the 2021-22 audit.

Prior year recommendations continue to be implemented. In addition new recommendations have been raised. The current status and action plan is shown on page 42 onwards.

Financial management (continued)

Audit Scotland Matter of Focus: Fraud and Corruption in Procurement

The Council approved a refreshed Counter Fraud Policy on 24th February 2021 with an implementation date of 1st April 2021 including increased guidance on prevention and refresher training.

The Council has put in place a number of policies and arrangements to create an anti fraud and corruption culture as summarised in the previous year and below. We have not changed our assessment.

- Comprehensive anti fraud policies;
- The scheme of Governance, incorporating the Financial Regulations;
- Code of Conduct for officers and members
- Money Laundering policy; and
- Anti Bribery and Corruption policy

To supplement the policies and arrangements the Council also carry out proactive activities to supplement the understanding and effectiveness of the policies these include:

- Anti fraud and procurement training;
- Register of interests, gifts and hospitality;
- Comprehensive risk management processes including specific risk registers for all significant procurement projects;
- Confidential reporting arrangements e.g. whistle blower, for both staff and members of the public;
- Range of proactive fraud investigation procedures, including Corporate investigations assurance handbook; and
- Annual reporting of fraud prevention activity.

ACC website and People Anytime contains information on Fraud – in addition there are other links that point people to the online reporting tool - fraud referrals can be made online by staff and customers.

Audit Scotland Matter of Focus: Fraud and Corruption in Procurement (cont)

The Council have identified areas in which it can improve in relation to Fraud and Corruption in procurement as part of their continuous improvement culture, these include:

- Oil fraud prevent course updated on the Moodle platform;
- Ensuring that all procurement category managers are fully up to date with current fraud training;
- Increase the interaction between the anti fraud and corruption officers and the procurement managers to share experience and best practice;
- Ensure that the Annual Governance statement fully reflects the Anti fraud and corruption activity in procurement.

Our view – financial management

As summarised in the BVAR:

The council has robust financial management arrangements, including effective monitoring and reporting and medium-term financial planning.

The council has delivered the required savings in years one to four of its ongoing transformation programme, with digital initiatives a main driver of this.

The financial outlook is challenging but the council is well placed to address projected funding gaps through its transformation programme and medium-term financial plan.

We also consider:

The Council has well developed arrangements in respect of fraud and corruption and risk management.

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Audit Scotland's *Local Government in Scotland: Financial Overview 2020-21* report highlighted that the Covid-19 pandemic continued to impact councils and their funding. While there was an underlying increase in government funding over half was due to specific grants. There remains uncertainty over future funding.

Target Operating Model

Since the Target Operating Model was introduced in 2017, which highlighted the need to deliver £125 million of savings by 2022/23, the council has delivered a balanced budget annually with use of £15 million in General Fund reserves (£10 million in 2017/18 and £5 million in 2018/19 for a transformation fund and a balanced position for 2019/20, 2020/21 and 2021/22). This also involved the council reducing its overall cost base and incorporating further efficiency savings into budgets.

Implementation of the effective redesign of services and a move to a commissioning-led approach, including the digital strategy, is key in the delivery of the required savings needed to maintain financial sustainability over the short to medium term. The challenge of continuing to deliver this ambition is increased in the context of the demand pressures and impact on income of Covid-19.

Annual budget presentation

The annual budget was approved by Council on 7 March 2022. The budget report set out the general fund revenue and capital budgets for 2022-23, together with the general fund revenue budget for 2023-27. The revenue budget showed the need to make savings in 2022-23 of £30.9 million. The savings identified within the report were the impact of recommissioning services in 2022-23.

General Fund revenue budget and benefits realisation

The medium term strategy agreed by Council on 7 March 2022 identified a need to make savings, the medium term financial outlook described in the report was consistent with previous years, that a significant level of recurring savings will continue to be needed. The total value of recurring savings in 2022/23 is £11.5 million. However If no additional action were taken by the Council then useable reserves of £84 million would be required to support current services, which is not available or sustainable.

Deficits are forecast for each of the next five years, before further savings plans:

General Fund revenue budget	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000
Net service expenditure	533,432	556,374	573,142	589,662	604,360
Funding	(501,192)	(497,610)	(494,080)	(490,600)	(486,635)
Deficit	**28,151**	**50,383**	**66,214**	**81,563**	**95,406**
2022-23 Recommissioning savings	**(30,922)**	**(11,500)**	**(11,500)**	**(11,500)**	**(11,500)**
Annual Revenue Gap	**(2,771)**	**38,883**	**54,714**	**70,063**	**83,906**

(Source: 7 March 2022 – Council report and management update)

Financial sustainability (continued)

Savings plans to deliver the 2022-23 balanced budget.

The Council is transparent about the level of savings required in 2022-23 and over the medium term. Savings are required from the impact of recommissioning services. There is a plan to deliver these savings and this was approved at the budget setting meeting.

A Transformation Fund of £4.4 million is held as at 31 March 2022, in addition the Council is holding £7.3 million of reserves planned to be used in 2022-23 to support services.

Progress against the delivery of the savings plan will be reported at the end of quarter one and work to assess and forecast the delivery of change, savings and / or income is in progress to meet the reporting deadlines set by the Council. We note that the Council has identified the individual elements of the £30.9 million and does not have a significant unidentified savings target.

Use of reserves

The Council has built up general fund reserves during 2021-22, with an increase of £0.55m to reserves of £72.2m. The council at this stage is looking to invest some of the earmarked reserves to deliver recurring savings for the future, and to support partner organisations where the Covid19 pandemic has required reserved backed financial guarantee support, should these guarantees be called upon.

.

As at 31 March 2022 the Council had uncommitted general fund reserves of £12 million which equates to 2.1% of Net Cost of Services of £566 million (2.3% as at 31 March 2021). These reserves are to support the delivery of services in the case of unexpected issues, and a reserves strategy is in place.

We consider that this level of reserves is reasonable for a Council of the size of Aberdeen City Council, however the risk for the Council is the non-delivery of savings which would impact on these reserves, particularly associated with the additional impact of Covid-19, and the increasing levels of inflation especially in energy. Also the supply chain volatility risks, reported by management to June 2022 CG&R committee.

General Fund Reserves	31 March 2021 £000	Increase /(Utilisation) £000	31 March 2022 £000
Transformation Fund	2,479	1,954	4,433
Second/Long Term Empty Homes	14,660	(1,550)	13,110
Covid-19 earmarked reserves	33,633	(14,617)	19,016
Uncommitted General Fund Reserve	12,519	(519)	12,000
Support and Guarantees	3,614	2,000	5,614
Budget 22/23 Use of Reserves	0	7,309	7,309
Other Earmarked reserves	4,698	5,972	10,670
Total General Fund Reserves	**71,603**	**549**	**72,152**

Financial sustainability (continued)

Cash and Short Term Investments (Liquidity)

Liquidity	31 March 2021 £000	31 March 2022 £000	Movement £000
Cash and cash equivalents	119,699	102,593	(17,106)
Short term investments	40,277	20,025	(20,252)
Short term borrowing	(232,391)	(223,359)	9,032
Current liquidity	**(72,415)**	**(100,741)**	**(28,326)**

The Treasury Management Strategy states that investment priorities are security of capital and the liquidity of investments. Liquidity is a key measure of the Council's ability to meet its liabilities as they fall due. The Council's current asset/liability ratio is now 0.55:1 (0.69:1 in 2020-21), similar to the level before the bond was issued for capital investment in the City.

Within the BVAR, it was recommended that the Council review its longer-term financial plan which was established when Bond financing was raised.

During 2021-22 the Financial Resilience Framework was developed and is included as part of the MTFS, and highlights areas such as liquidity and provides opportunity to monitor and base decisions on a deeper understanding of the Council's financial position.

Financial management

The Council monitors its financial position on a routine basis and is borrowing in line with its financial plans. We note that the Council's credit rating was rated by Moody's as A1 stable on 28 January 2022, with recognition of the Council's strong financial management detailed within Moody's assessment. The negative outlook is in line with the negative outlook on the UK Sovereign. The report also highlights challenges around the ambitious savings plans and key project risks associated with the development of the TECA complex. We have reflected associated points on the previous page.

Prudential Code

The key objectives of the Prudential Code are to ensure that the Council's capital programme is affordable, prudent and sustainable, and that treasury management decisions are taken in line with good professional practice. Annually the Council has to set out it prudential indicators to provide a framework to work within to ensure that Council does not breach its prudential indicators as borrowing increases to fund capital investment.

Our view – financial sustainability

There is a robust approach to setting the annual, medium term and longer term financial plan. This was updated in August 2022 following further clarification and is supported by the Financial Resilience Framework.

There is an annual review of the treasury management strategy and prudential indicators.

The Council considered a report on the Target Operating Model 2 reiterating and developing the transformation of the council and multi-agency working that will lead to achievement of savings in the future.

The BVAR recommended that the Council ensure its longer-term financial strategy is reviewed.

There remains a residual risk that in the medium to long term, transformation does not deliver the benefits and savings expected, or does not deliver them at the pace required to deliver a balanced budget without impacting services. There is significant uncertainty as a result of the impact of Covid-19, which the Council continues to monitor and assess.

Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial performance.

Council Elections

In May 2022 there was a full Council election, the results led to a change in the administration, with the new administration being a partnership between the Scottish National Party and the Scottish Liberal Democrats

Scrutiny

There is a high degree of scrutiny and challenge exercised by officers and members. This scrutiny is facilitated through the revisions to the committee structure and terms of reference which are regularly reviewed.

Standards of conduct for prevention and detection of fraud and error

The Council has a range of procedures for preventing and detecting fraud and irregularity including: a whistleblowing policy; fraud, bribery and bribery policy; and codes of conduct for members and officers. We assessed these to confirm that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

We consider that the Council has appropriate arrangements for the prevention and detection of bribery and corruption.

Annual Governance Statement

The Annual Governance Statement within the Council's annual accounts sets out the Council's conclusion on the effectiveness of governance and the basis for that conclusion. It describes the sources of assurance to support the Council's compliance with the seven principles of the CIPFA/SOLACE framework *Delivering Good Governance in Local Government.* The Annual Governance Statement includes areas where there is future development in governance and where governance issues have been identified. It concludes that the Council's Code of Governance operates effectively.

We consider that the Annual Governance Statement shows an appropriate and accurate reflection of the Governance arrangements at the Council including developments in response to Covid-19 and planned and ongoing developments at the Council and its ALEOs.

National Fraud Initiative (NFI)

The NFI in Scotland brings together data from local government, health boards and other public sector bodies. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud.

The Council last submitted received matches for investigation during January 2021, to identify potential frauds or errors. The next submission is due to take place in January 2023 to meet the deadline of September 2023.

Risk management

During 2021-22, Assurance Maps were developed to provide Audit, Risk and Scrutiny Committee with an overview of the sources of assurance across the Council.

The Risk Management Policy was adopted along with supporting documents including a Risk Appetite Statement.

The Council also established a group of Risk Champions that support the Corporate Risk Lead, Risk Managers and Owners to embed the Council's risk management processes.

Risk management is embedded throughout the Council in the way it is organised, conducts business and transactions.

Governance and transparency

Local Area Network ('LAN')

KPMG chaired a meeting of the LAN on 9 May 2022, attended by Audit Scotland, Care Inspectorate and Education Scotland which supported risk assessment and information sharing. It did not give rise to any amendment to the audit strategy.

Internal audit

The Internal Audit plan for 2021-22 was agreed by the Audit, Risk and Scrutiny Committee on 24 February 2021 and amended as agreed by the Audit, Risk and Scrutiny Committee on 12 May 2021, and the Audit, Risk and Scrutiny Committee of 2 December 2021. This reflected the advent of COVID and the impact this had on the ability to complete the Plan. Only 6 audits contained in the 2021-22 plan were completed by the end of the year along with 13 relating to 2020/21 A further 11 from the 2021-22 plan were in progress along with 2 relating to 2020/21. 5 audits in the 2021-22 plan were deferred to future years.

The volume of work completed during 2021/22 is greater than previous year, catching up on the 2020-21 programme impacted by Covid19 supported by the increased capacity of the Internal Audit team.

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 2022."

Open internal audit recommendations are monitored by officers and the remediation actions reviewed by Internal Audit prior to closure. The outstanding actions which were overdue was 17 as at 31 March 2022 this is a decrease during 2022 compared to 37 as at 31 March 2021 and comparable to 39 as at 31 March 2020.

Transparency

Transparency continues to be an important aspect of good governance and is expected by stakeholders. The Council makes committee meeting agendas and minutes available online and reports are publicly available in advance of meetings.

Full Council meetings are also webcast. We consider that the Council conducts its business transparently.

Our view – governance and transparency

The Council has continued to enhance its governance framework and has been awarded the CIPFA Governance Mark of Excellence. It exhibits strong and effective governance and has engaged with stakeholders to conduct self assessment and identify improvement opportunities.

In 2021-22 it has continued development of risk management arrangements, self assessment of governance, committee effectiveness and review of policies.

Revisions made to governance in respect of operating during Covid-19 were subject to scrutiny and challenged by members, reported transparently and reassessed by officers.

Members robustly challenge and scrutinise management with a clear focus on the communities and citizens they represent, in respect of governance, process and matters presented for decision.

We consider that the Council operates in an appropriately transparent manner.

Best Value and Value for Money

Value for money is concerned with using resources effectively and continually improving services

To consider how effectively the Council demonstrates Best Value in its delivery of services we consider the audit findings across the four audit dimensions. This section includes our conclusions relating to the audit dimension of Value for Money which contribute the delivery of Best Value.

We are required to assess and provide conclusions in the Annual Audit Report in respect of four wider scope dimensions: financial sustainability; financial management; governance and transparency; and value for money. We set out an overview of our approach in the audit strategy. Given the delivery of the Council's BVAR in 2020-21, we repeat and summarise here its key messages:

- Aberdeen City Council has demonstrated significant improvements in key areas since its 2015 Best Value report. A major transformation programme has led to an effective organisational structure and improved governance and reporting arrangements. The council has delivered challenging savings targets, and ambitious capital projects, while delivering services within budget. Its financial management arrangements are well developed alongside governance requirements associated with its bond holding.
- The council has ambitious plans for the city, which are clearly aligned to Community Planning Aberdeen's (the CPP) Local Outcomes Improvement Plan and its vision for the area.
- Performance is reported against the CPP's Aberdeen Outcomes Framework. The CPP and council have made mixed progress in improving outcomes. The council's performance is improving in some key services, and it has taken steps to address performance issues in services such as education and housing. But the pace of improvement has been slower than that of some other councils and needs to increase.
- During this period of change, the council's Corporate Management Team has shown clear leadership in driving the improvements, successfully changing the organisational culture and working closely with officers to embed change.
- Councillors and officers work well together. The administration set out a clear vision and this continues to be central to how it participates in, and leads, activities. It is committed to and supports the ongoing transformation programme.
- There is broad political support among councillors for the vision and supporting priorities, giving the council a long-term strategic direction. There are recognised tensions between the administration and opposition, but the political balance of the council, and delegation to officers, has limited the impact of this on council business. Nevertheless, greater cross-party working would benefit the council and residents.
- The council works well with its partners and communities. Residents and stakeholders are regularly consulted on priorities and specific services. There are also examples of community engagement and community empowerment across the council and CPP.
- The council has structured processes for using self-assessment, performance information, benchmarking and feedback to identify improvement projects. In some instances, recent projects are focused on longer-term outcomes and have yet to result in improved performance.
- The council has developed its performance management arrangements and public performance reporting, making greater use of real-time data, but how overall progress against priorities is reported could be simplified to further aid public understanding and scrutiny.
- Over the last five years, the council has successfully delivered savings and has met its £125 million five-year target. This has largely been managed through digital transformation and staff reductions. But it has also had to rely on non-recurring savings and has used reserves to fund transformation projects. Looking forward, the council has committed to £131 million of savings over the next six years as part of its ongoing transformation.
- The council has reacted well to challenges from the Covid-19 pandemic since March 2020. Governance arrangements were restructured quickly, and service delivery was adapted and facilitated by good working relationships with partners and the use of digital technologies.

In addition, in respect of value for money, there remains a robust performance management system with targets and trend analysis. The use of options appraisal, scrutiny, challenge and, as recommended in the BVAR, lessons learned reporting, supports achievement of value for money.

Appendices

Required communications with the Audit, Risk and Scrutiny Committee

Type	Response
Our draft management representation letter	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 2022.
Adjusted audit differences	There were six adjusted audit differences. See appendix three.
Unadjusted audit differences	There are three unadjusted differences: related to expenditure cut-off and pensions. 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.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit, Risk and Scrutiny Committee	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.
Control deficiencies	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.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	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.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	None.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	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.
Breaches of independence	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.
Accounting practices	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.
Significant matters discussed or subject to correspond-ence with management	The key audit matters (summarised on pages 8 to 13) arising from the audit were discussed, or subject to correspondence, with management.

Additional report relating to EU Public Interest Entities

Type	Response
Our declaration of independence	No matters to report. The engagement team has complied with relevant ethical requirements regarding independence.
Key audit partner(s)	We have identified each key audit partner at page 3 in our Audit Strategy report dated 22 February 2022.
Independence of external experts engaged by KPMG and non-KPMG auditors	We have not engaged external experts or engaged non-KPMG auditors for the performance of aspects of our group audit.
Communications with audit committee and management	We have described the nature, frequency and extent of communication with the ARSC and management in our Audit Strategy report dated 22 February 2022.
Scope and timing of the audit	We have described the scope and timing of the audit in our Audit Strategy report dated 22 February 2022.
Audit methodology	Our audit methodology is described at page 5 and 6 in this report.
Valuation methods	On page 10 to 11 (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.
Going concern assessment	There are no significant matters affecting the entity's ability to continue as a going concern.
Requested explanations and documents	No matters to report. All requested explanations and documents were provided by management.

Type	Response
Materiality	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 in our Audit Strategy report dated 22 February 2022.
Non-compliance with laws and regulation or articles of association	No actual or suspected non-compliance with laws and regulation or articles of association were identified during the audit.
Significant deficiencies in internal control	There are no significant deficiencies to report in this report or our report dated 22 February 2022.
Significant difficulties	No significant difficulties were encountered during the audit. The significant matters (pages 7 to 21) 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.
Non-KPMG component auditors	We did not rely on the work of any non-KPMG component auditors in 2021-22.
Management's approach to consolidation	We report on management's approach to consolidation on page 20. It is consistent with the Code. The consolidated financial statements include all material subsidiaries.
Independence – Relationships and audit fees	No relationships have been identified between the firm, and the entity that, in our professional judgement, may reasonably be thought to bear on independence. We received £273,730 of fees during the period covered by the annual accounts 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 2022 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 2022 can be analysed as follows:	2021-22 continuing (inc VAT) £	2020-21 (inc VAT) £
Audit of the Council’s financial statements	263,730	264,230
Audit of subsidiaries (Aberdeen City Council Charitable Trusts)	10,000	9,000
Total audit services	**273,730**	**273,230**
Non-audit services	-	-
Total	**273,730**	**273,230**

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.

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.

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 paid £177,690 to Council in the year ended 31 March 2022, 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 or Urgent Business 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

Audit differences - adjusted

The table below lists the adjusted presentational audit adjustments made to the Statements of Accounts between the final version and the unaudited statements of accounts and remuneration report approved on 30 June 2022.

Adj	Nature of adjustment
1	**Exit Banding Categorisation:** A small number of changes were made to the detail in the banding disclosures.
2	**Remuneration report:** A number of small presentational adjustments were made to the remuneration report following the audit procedures..

Appendix three

Audit differences - adjusted (continued)

The following table is a list of the adjustments that have been made to the unaudited draft Statements of Accounts approved in June 2022, the Council will in their report discuss these adjustments explaining how these were identified.

Adj	Nature of adjustment (ACC Only)	Balance sheet		Income and expenditure account	
		£'000 DR	£'000 CR	£'000 DR	£'000 CR
1	Assets under construction		1,684		
	Operational assets (Other land and Buildings)	1,684			
	Classification error in Property, Plant and Equipment The Duthie Park ELC project was completed and the ownership of the asset was transferred to Aberdeen City Council in January 2022. However, it was still incorrectly held in assets under construction as at 31st March 2022.				
2	Investment properties		62,862		
	Operational assets (Other land and buildings)	62,862			
	Reclassification of asset type of the Energy Centre and AD Plant at TECA In line with the audit recommendation and challenge, management continued to assess the categorisation, basis of valuation and value of TECA components as they complete and/or come into use. As a result, the Energy Centre was reclassified from Investment Property to Operational Assets. On completion in year the AD plant was classified as operational. Both were subject to valuation on a DRC basis.				
3	Impairment			21,056	
	Property, Plant and Equipment		21,056		
	Valuation change for the Energy Centre and AD Plant at TECA Following the reclassification of the Energy Centre and AD Plant from investment properties to operational asset, the council is required to post an adjustment for impairment for the decrease in valuation from the value at cost to value at DRC.				
4	Property, Plant and Equipment	28,819			
	Revaluation Reserve		37,327		
	Impairment / CIES			8,508	
	Valuation of schools In line with the audit recommendation and challenge, management identified the need for an updated valuation for the schools as the DRC cost of the assets not being valued differed significantly to the value from the desktop valuation. Following the valuation, the council is required to post an adjustment for the increase/decrease in the valuation of the schools.				

Audit differences - adjusted (continued)

Adj	Nature of adjustment (Group only)	Balance sheet £'000 DR	Balance sheet £'000 CR	Income and expenditure account £'000 DR	Income and expenditure account £'000 CR
5	Dr CIES (Impairment)			4,233	
	Cr Investment Properties		4,233		
	Following review of Investment Properties between Nov 21 and Mar 22 the valuation of Investment properties were impaired.				
6	Dr Revaluation Reserve	1,391			
	Dr CIES (Impairment)			1,431	
	Cr Investment Properties		2,822		
	Being a review of the valuation of Cowdry Hall leading to an impairment of the value of the Investment Property				

Audit differences -unadjusted

The table below lists the unadjusted audit differences identified during the course of our 2021-22 audit procedures. These adjustments are not considered material individually or in total. A number of items relate to reclassification between non tangible asset categories in particular which we do not consider material.

The net I&E income is DR £1,158k.

	Unadjusted Misstatements (Income and Expenditure impact)	Balance sheet		Income and expenditure account	
Adj	Nature of adjustment	£'000 DR	£'000 CR	£'000 DR	£'000 CR
1 – Parent and Group	Accruals (31.3.2022)		1,158		
	Expenditure (2021-22)			1,158	
	Understatement of expenditure: *Cut off testing identified expenditure paid in 2022-23 which should have been accrued into 2021-22 which had not been accrued at 31 March 2022, thus understating 2021-22 expenditure and accruals*				
2 - Parent and Group	*Pension Assets*		1,562		
	Pension Liabilities	1,562			
	Overstatement of the Defined Benefit Gross Liabilities and Gross Assets *due to under estimation of benefits paid v actual benefits paid leading to an overstatement of the Pension Liabilities and Pension Assets.*				
3 – Group only	*Group Pension Assets*		614		
	Group Pension Liabilities	614			
	Overstatement over Group Pension Liabilities and Group Pension Assets due to the underestimate of the benefits paid to pensioners at Bon Accord Care Limited in Actuary report.				

2021-22 recommendations

Finding(s) and risk(s)	Recommendation	Agreed management actions / audit update 2021-22
1. Infrastructure Assets *Audit dimensions: financial management*		Grade one
In August 2022, Audit Scotland issued updated guidance in regards to the accounting of Infrastructure assets. It stated that infrastructure Assets are held at depreciated cost, and what has been happening is that additional spend on roads has simply been added to the existing Cost less Depreciation, and the various Councils have not been able to provide / demonstrate that where assets are “replacing” (i.e. a new road surface) that the NBV of the initial road surface was removed / disposed off. As part of the guidance, councils which did not meet this requirement utilised two statutory overrides. Statutory Override 1: For accounting periods commencing from 1 April 2021 until 31 March 2024 a local authority is not required to report the gross cost and accumulated depreciation for infrastructure assets. Statutory Override 2: For accounting periods commencing from 1 April 2010 until 31 March 2024 the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is required to be a nil amount, and no subsequent adjustment shall be made to the carrying amount of the asset with respect to that part. Aberdeen City Council had to use both statutory overrides to ensure compliance with the updated guidance. KPMG considers the use of the overrides to constitute to a control weakness.	We recommend that should Management wish to meet this requirement they will need to carry out a retrospective review of the methodology used to account for the infrastructure assets and update the methodology accordingly to ensure compliance with the guidance. This weakness did not impact upon our planned audit approach.	**Management Response:** The Council will review the arrangements in place when subsequent guidance is produced, by Audit Scotland and or CIPFA LASAAC, and update these arrangements in line with the guidance.
2. HRA stock reconciliation not reviewed *Audit dimensions: financial management*		Grade three
Although the reconciliation has been accurately prepared, there is no audit trail to ensure that the reconciliation has been performed in a timely manner or whether it has been prepared or reviewed by an appropriate person. As we are unable to assess these elements, we have raised a control deficiency.	We recommend that should Management wish to meet this requirement they will need to carry out a include sign off on the reconciliation sheet to evidence appropriate and timely review of the HRA stock reconciliation.	**Management Response:** Agreed: A control will be added to the reconciliation process.

Appendix four

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 2020-21, 2019-20, 2018-19, 2017-18 and 2016-17 audits and their current status.

Year	Number of recommendations	Fully Implemented	In progress at September 2022
2020-21	3	1	2
2018-19	4	4	0
2016-17	1	0	1

Finding(s) and risk(s)	Recommendation	Agreed management actions / audit update
1. Revaluation review not sufficiently precise *Audit dimensions: financial management – Accounts preparation*		**Grade two**
Although an Accountant reviews the valuations provided by the Council's valuer and district valuer and challenges any obvious error or significant changes using a set threshold, we consider that they do not have sufficient information/expertise to challenge the indices, market valuations, size of land / buildings, assumptions on cashflows etc. We therefore consider that while it enhances the control environment, it is not carried out with sufficient expertise or precision to be relied upon or considered effective to support the audit process.	Auditing standards require Auditors to identify a management control where there is a significant audit risk. In the case of Revaluation Review Risk we have not been able to identify a management control which is carried out to an acceptable level of expertise. We recommend that should Management wish to meet this requirement they will need to carry out a predictive review of the methodology and assumptions that are being proposed to calculate revaluation each year. This would likely require the use of an additional professional valuer, perhaps on a sample basis. We do not commonly find this occurs across our client base. This weakness did not impact upon our planned audit approach.	Based on the current controls in place management are content with the current arrangements. **We continue to make this recommendation** as it relates to a significant risk but understand management's response.

Prior year recommendations (2020-21)

2. Depreciation of assets where additions are grouped *Audit dimensions: financial management*		**Grade three**
When completing the depreciation SAP for Aberdeen City Council, the depreciation for one of the disaggregated portions was above our acceptable difference. Investigation identified that this was caused by one asset, ICT Installation, fully depreciating in the year. When enquired with management this was because the asset had reached the end of its useful life in their system but the asset had been added to over a number of years, therefore the depreciation was being calculated incorrectly based on only the initial capitalisation date. We confirmed this did not apply to other assets.	For assets included in the register where the additions are grouped together but do not form the same physical asset, a new asset should be created in AIRS for each years' addition.	Implemented
3. Management Review of Pension Assumptions *Audit dimensions: financial management – Accounts preparation*		**Grade two**
Testing of the Management review of Pension assumptions identified that while the control environment has strengthened, it does not meet the high bar required to enable KPMG to rely upon it. Auditing standards require auditors to identify a management control where there is a significant risk. In the case of the defined benefit pension liability significant risk, we have not been able to identify a management control which is carried out to an acceptable level of expertise as required by the auditing standards. Due to the specialist nature of pension assumptions, we consider that the officer carrying out the review does not have the necessary specific expertise to fully review and challenge the assumptions and estimates that the Actuary suggested for the Defined Benefit Obligations.	We recommend that should management wish to meet this requirement, that they will need to carry out a predictive review of the methodology and assumptions that are being proposed to calculate the net liability of the defined benefit pension scheme held by the Council. This would require the services of an additional independent actuary. This control point does not impact upon our planned audit approach and is a common audit finding across our portfolio.	Based on the current controls in place management are content with the current arrangements. **We continue to make this recommendation** as it relates to a significant risk but understand management's response.

Prior year recommendations (continued) 2018-19

Finding(s) and risk(s)	Recommendation	Agreed management actions / update 2019-20
1. Regular user access appropriateness review *Audit dimensions: governance and transparency*		Grade one
There is no 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). 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. Risk: 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.	— Management should perform a periodic review of user access assigned to ensure that this is appropriate at the application, database and operating system level. — This should include an assessment of user access across the production, development and test environments to ensure appropriate segregation of duties exist. — Where inappropriate access is identified, this should be investigated and removed in a timely manner. — The review should be formal, documented and retained as evidence for audit purposes.	**Original response:** Agreed. Digital and Technology will lead on the implementation of this action, in conjunction with system owners to ensure consistency across all systems. **Implementation date:** 31 August 2018 **Responsible officer:** Incident & Problem Co-ordinator, in conjunction with System Owners. **Status update 2018-19:** In progress. Whilst an email was circulated to all system owners within the Council advising them to remove any users who no longer required access to the system, this did not constitute a formal, documented and evidenced review suitable for audit purposes. We further note that this review appeared to be a one-off exercise, as opposed to periodic business-as-usual activity (e.g. quarterly user recertification). We note that the review did not consider the level of user access across environments to ensure appropriate segregation of duties between these environments. As the review was not formal in nature, there was no evidence of inappropriate access being further investigated and removed in a timely manner. **Status update 2019-20:** An ICT Access Control policy has been established. It includes appropriate principles regarding starters, leavers and amendments to user access. While it further reduces risk, it is not clear how access will be reviewed as recommended opposite. **Status update 2020-21:** User access will be reviewed on a regular basis by the relevant Service. Information from HR will be used to identify staff leavers, and Line Managers will be asked to assess and identify appropriate access for each employee. Finalisation of outstanding actions is to be escalated and overseen by the Risk Board to ensure completion during 2021/22. **Status update 2021-22** Management consider this now complete.

Prior year recommendations (continued) 2018-19

<table>
<tr><th>Finding(s) and risk(s)</th><th>Recommendation</th><th>Agreed management actions / update 2019-20</th></tr>
<tr><td colspan="2">2. Assignment of highly privileged access and monitoring of access
Audit dimensions: governance and transparency</td><td>Grade one</td></tr>
<tr><td>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.

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:
— 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
— 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
— A shared system administrator account is used for Airs by two members of business staff (not logged).
— Risk: - Where privileged user access is not robustly controlled the risk is increased that:
— unauthorised access is gained to process erroneous or fraudulent transactions, make changes to data, and system settings;
— unauthorised changes are not detected and appropriate action taken;
— IT / operational system downtime is experienced; and
— the system does not function as intended by management.</td><td>Management should ensure that:
— A formal, documented and agreed policy is established that guides the Council’s management of highly privileged access.
— The sharing of the user accounts is investigated, risk assessed and the root cause is understood.
— User accounts are only used by the approved and appropriate persons.
— 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.
— 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.
— The logs are secured and retained in a segregated area that cannot be accessed by the users of the IT systems.</td><td>Original response: Agreed. Digital and Technology will lead on the implementation of this action, in conjunction with system owners to ensure consistency across all systems.

Implementation date: 31 August 2018

Responsible officer: Incident & Problem Co-ordinator, in conjunction with System Owners

Status update 2018-19: In progress.

Whilst a formal policy has been established to manage the Council’s use of highly privileged access (as part of the overarching ICT Access Control Policy), there is scope for improvement in the day-to-day management of how these accounts are used.

We note that there is currently no requirement to raise an incident or change ticket for each use of a privileged account, and we were not provided with any evidence of root cause analysis or restriction of privileged account sharing for AIRS.

We note that audit logging is enabled for Orbis Northgate, eFinancials and Infosmart and the logs are securely stored in a segregated area , but regular reviews of these logs are not currently carried out.

Status update 2019-20: An ICT Access Control policy has been established. It includes appropriate principles and sets expectations of users and system owners in respect of highly privileged access and logging. While it further reduces risk, it is not clear how access will be reviewed as recommended opposite.

Status update 2020-21: Finalisation of outstanding actions is to be escalated and overseen by the Risk Board to ensure completion during 2021/22.

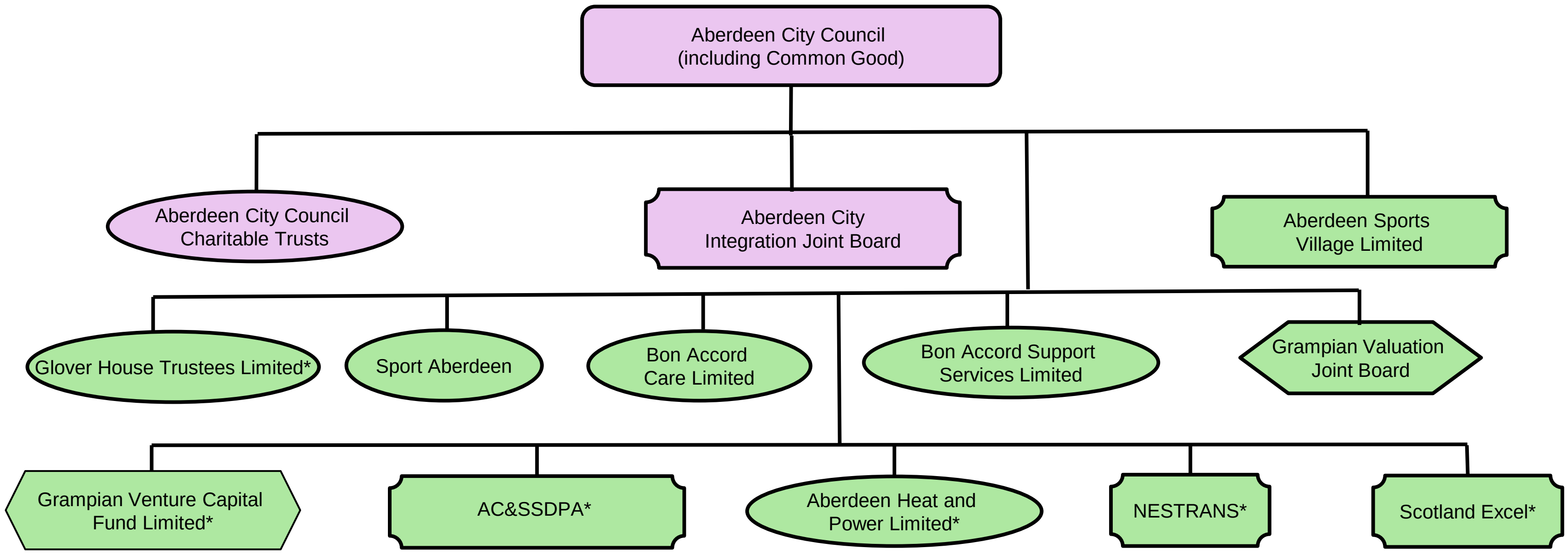
Status update 2021-22

Management consider this now complete</td></tr>
</table>

Prior year recommendations (continued) 2016-17

Finding(s) and risk(s)	Recommendation	Agreed management actions / audit update 2019-20
1. Complex accounting treatments *Audit dimensions: financial management*		Grade two
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. 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.	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. **Status update 2017-18:** In progress. 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.	**Responsible officer:** Senior Accountant. **Status update 2018-19:** In progress. There is evidence of review of complex areas of accounting, generally without exceptions being identified. However, a material misstatement was identified during the audit in respect of accounting for Lochside Academy. It is recommended that for material complex arrangements, an accounting paper is prepared by Finance and is subject to senior officer review. **2019-20 Update:** The review of the work around bringing the TECA site from Assets under Construction into operational and investment properties provided further evidence that the accounting paper and senior officer review had not taken place, and so the recommendation still stands. **Status update 2020-21 (in progress):** Management continued to develop their approach to the recommendation and this year considered the effect of the Covid Grants and the implications for the 2020/21 Annual Accounts. **2021-22 update** In other aspects including accounting for Fixed Assets there remains scope for greater consideration of complex accounting areas in advance of the audit.

Group financial statements



Key

Audited by KPMG "core team"

Audited by component auditor or not requiring a statutory audit – no reliance placed in respect of Group audit.

Main body

Subsidiary

Associate

Joint Venture /
Joint Board /
Partnership

* Entities not included in the group comprehensive income and expenditure account
AC&SSDPA = Aberdeen City and Shire Strategic Development Planning Authority

Appointed auditor’s responsibilities

AREA	APPOINTED AUDITOR’S RESPONSIBILTIES	HOW WE HAVE MET OUR RESPONSIBILITIES
Statutory duties	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix two outlines our approach to independence.
Financial statements and related reports	Provide an opinion on audited bodies’ financial statements and, where appropriate, the regularity of transactions. Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns.	Page 6 summarises the opinions we currently expect to issue. Pages 18 and 19 report on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report. We have not yet issued opinions in respect of grant claims and whole of government accounts.
Financial statements and related reports	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.
Corporate governance	Participate in arrangements to cooperate and coordinate with other scrutiny bodies.	Page 31 includes arrangements to cooperate and coordinate with other scrutiny bodies.
Wider audit dimensions	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies’: - Effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets; - Suitability and effectiveness of corporate governance arrangements; - Financial position and arrangements for securing financial sustainability; - Effectiveness of arrangements to achieve best value; and - Suitability of arrangements for preparing and publishing statutory performance information	We set out our conclusions on wider scope and best value in from page 22 onwards.

KPMG's Audit quality framework

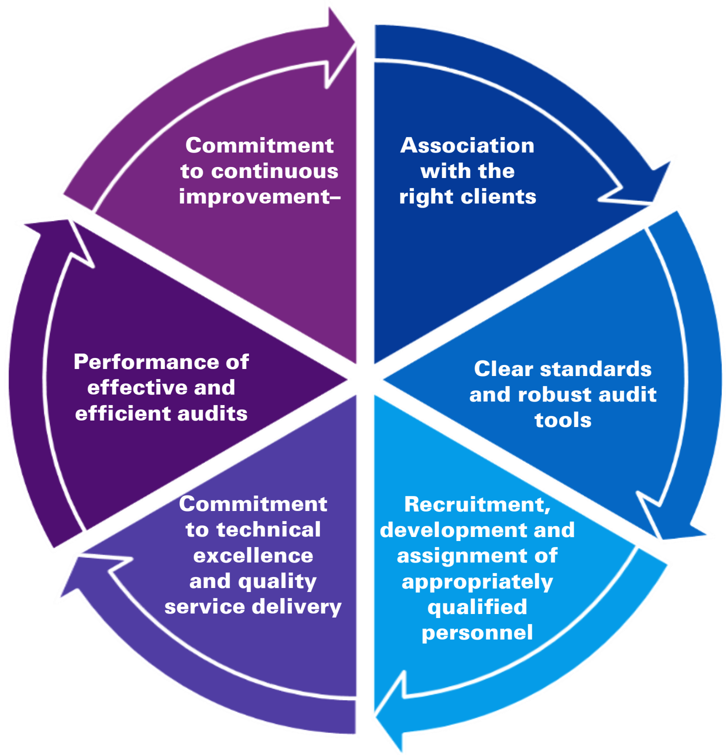
Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

Pension assumption benchmarking

Level of prudence compared to KPMG central assumptions

Outside normally acceptable range | *Cautious* | *Balanced* | *Optimistic* | *Outside normally acceptable range*

Acceptable range

Overall assessment of assumptions for IAS 19 for audit consideration	
The overall assumptions adopted by the Employer are considered to be balanced relative to our central rates and within our normally acceptable range overall.	*Balanced*

Underlying assessment of individual assumptions		**Methodology**	**Consistent methodology to prior year?**	**Compliant methodology with IAS 19?**	**Employer**	**KPMG central**	**Assessment vs KPMG central**	**Significant assumptions**
Discount rate		AA yield curve	✓	✓	2.10%	1.98%		✓
CPI inflation		Deduction to inflation curve		✓	2.70%	2.83%		✓
Salary increases		Employer best estimate	✓	✓	CPI plus 1.5%	In line with long-term remuneration policy		✓
Pension increases		In line with CPI + 0.1%	✓	✓	2.80%	2.71%		
Mortality	**Base tables**	In line with most recent Fund valuation	✓	✓	Non-Pens: 121%/101% (M/F) Pens: 114%/101% (M/F) of the SAPS Series 3 base tables (with middle tables for females)	In line with best-estimate Fund experience		✓
	Future improvements	In line with most recent Fund valuation			CMI 2019 projections model, 1.75% long-term trend rate, smoothing factor of 7.5 and default initial addition parameter	CMI 2020 projections model, 1.25% long-term trend rate and default smoothing and Company-specified initial addition parameters		
Other demographics		In line with most recent Fund valuation	✓	✓	50% of members commute maximum tax-free cash and 50% commute 3/80ths cash sum	In line with Fund experience		

The contacts at KPMG in connection with this report are:

Michael Wilkie

Director

Tel: +44 7795 370106

michael.wilkie@kpmg.co.uk

Matthew Moore

Manager

Tel: +44 7737 506243

matthew.moore:@kpmg.co.uk

Henry Lau

Assistant Manager

Tel: +44 7776 647043

henry.lau@kpmg.co.uk