

Aberdeen City Council

Annual Audit Plan – 2023/24 Audit



 AUDIT SCOTLAND

Prepared for Aberdeen City Council
April 2024

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 audit. The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- audit opinions on other statutory information published with the financial statements in the annual accounts, including the Performance Report, the Annual Governance Statement, and the Remuneration Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and where relevant, the Whole of Government Accounts (WGA) return
- review of the council's arrangements for preparing and publishing statutory performance information.

Audit appointment

2. We have been appointed as external auditors of the council for the 5-year period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of our five-year audit appointment. Details of the audit team are included at [Appendix 1](#).

Respective responsibilities of the auditor and Aberdeen City Council

3. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and the council. Key responsibilities are summarised below.

Auditor responsibilities

4. The responsibilities of appointed auditors are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the wider scope arrangements in place at the council. In doing this, we aim to support improvement and accountability.

Council responsibilities

6. The council is responsible for maintaining adequate accounting records and internal controls and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual accounts in accordance with statutory requirements.

7. The council has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver their objectives.

Adding Value

8. We aim to add value by tailoring audit work to the circumstances of the council and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Audit, Risk and Scrutiny Committee; and by recommending and encouraging good practice. In so doing, we will help the council promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual accounts

Introduction

9. The annual accounts are an essential part of demonstrating the council's stewardship of resources and its performance in the use of those resources.

10. As appointed auditors, we are required to perform an audit of the financial statements, consider other information within the annual accounts, and express a number of audit opinions in an Independent Auditor's Report. This is done in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum (which interprets the ISAs for the public sector) and guidance from Audit Scotland.

11. We focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

12. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

13. We assess materiality at different levels as described in [Exhibit 1](#). Based on our assessment of the group ([refer to paragraph 30](#)), we did not consider it necessary to set separate materiality values for the council's group accounts.

Exhibit 1

2023/24 Materiality levels for the council and its group

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the council's single entity and group operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.	£22.5 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance	£14.5 million

materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.

Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This is approximately 2% of planning materiality.	£500,000
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. Our risk assessment draws on our cumulative knowledge of the council, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.

15. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

16. Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements including group accounts. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, management's sources of assurance, and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2023/24 Significant risk of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing, make inquiries of relevant officers about inappropriate or unusual activity relating to the processing of journal entries and other adjustments and consider the need and extent of detailed journal entry testing. Evaluate significant transactions outside the normal course of business. Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
because of management's ability to override controls that otherwise appear to be operating effectively.		<ul style="list-style-type: none"> • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focused testing of accounting accruals and prepayments.

Source: Audit Scotland

17. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

18. We have rebutted this risk because the majority of the council's income comes from Scottish Government General Revenue Grant and other grant funding bodies which can be confirmed with third party confirmations. Other key revenue streams include council tax, non-domestic rates income and housing rents which are easily verifiable in total terms. In addition, the council's other income streams comprise of a high volume of low-value transactions, and we have concluded there are limited opportunities or incentives for management to manipulate the recognition of income in the financial statements to a material effect.

19. As a result, we have not incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

20. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

21. We have also rebutted this risk as there are limited opportunities or incentives for management to manipulate the way expenditure is recognised. Having evaluated the council's significant expenditure streams, several, including staff costs, interest payments and non-cash costs such as depreciation and transactions with the integration joint board, are not considered to be areas of risk. A significant level of other expenditure is verifiable in total terms by third party confirmation or relate to a high volume of individual transactions which are relatively small in scale.

22. Although there is a material residual balance, council payments are well-controlled and are therefore unlikely to result in a material misstatement in the financial statements.

23. To address any residual risk, our audit testing is directed towards significant and unusual transactions including accounting estimates. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

24. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements including group accounts. Based on our assessment of the likelihood and magnitude of the risks, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

25. The areas we have identified for specific audit focus are set out below and relate to both the council's single entity and group accounts:

- **Estimation in the valuation of land and buildings:** Valuations are carried out using a mix of in-house and external valuers on a five-year rolling programme basis. There is a significant degree of subjectivity in the valuation of land and buildings due to the assumptions made by the valuer and because of the rolling programme basis of valuation, there is a risk that the carrying value of assets not revalued in the year do not reflect their current value. Where the differences in value are likely to be significant, this increases the risk of material misstatement in the financial statements. Our work in this area includes using the work of an expert. In this case, we will draw assurance from the work of the valuers.
- **Pensions valuations:** Significant estimation and judgements are required in the measurement, valuation and disclosures of pensions valuations under IAS 19. These valuations are based on specialist actuarial and management assumptions. We will assess the work of the actuary, including consideration of the appropriateness of the assumptions used. We will assess the council's procedures for ensuring actuarial valuations provided are appropriate and confirm pension valuations provided by the actuary are correctly reflected in the accounts.

Group Consideration

26. As group auditors, we are required under ISA (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

27. The council's group comprises component entities, including subsidiaries, associates, and joint ventures. The larger components of the group, namely Aberdeen Common Good and Aberdeen City Integration Joint Board are both within our audit portfolio as allocated by the Accounts Commission. We can therefore draw assurance from our work on those audits for the purpose of our group audit opinion.

28. Our planned audit approach for the components is informed by our assessment of risk at the component level and our consideration of the size and nature of assets, liabilities, and transaction streams.

29. While the annual accounts audits of the other components are performed by other auditors, we do not plan to place reliance on their work. Non-current assets and pension assets/liabilities are the key material balances in the group bodies. Given the nature of these balances, we will seek valuations for significant non-current assets in the group and review the actuarial reports and assumptions in respect of employer bodies within the group with significant pension assets/liabilities. We will also consider the assurances the council obtains for its group accounts including year-end reconciliations and the consolidation process.

30. Due to the level of intra-group transactions managed by the council which are eliminated on consolidation, group expenditure is not significantly different from the council's single entity expenditure and therefore we do not consider it necessary to set separate materiality values from the council for the group accounts. Materiality levels are set out in [Exhibit 1](#) on page 5.

Management Commentary, Annual Governance Statement, and the audited part of the Remuneration Report

31. In addition to an opinion on the financial statements, the Accounts Commission prescribes that opinions be given on the other statutory information published with the accounts i.e. an opinion on whether the Management Commentary, Annual Governance Statement and audited part of the Remuneration Report have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the financial statements.

32. To inform these opinions, we consider whether the disclosures within each statement comply with the requirements of the applicable guidance and confirm that relevant information reflects the contents of the financial statements and other supporting documentation.

33. As part of the 2022/23 audit, we highlighted these areas as in need of improvement. Recommendations were agreed by management and are due to be implemented as part of the 2023/24 annual accounts. We will report on progress as part of this year's audit.

Audit of the trusts registered as Scottish charities

34. The Charities Accounts (Scotland) Regulations 2006 require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Therefore, a full and separate audit and Independent Auditor's Report is required for each registered charity where members of the council are sole trustees, irrespective of the size of the charity.

35. Members of Aberdeen City Council are the sole trustees for seven trusts registered as Scottish charities, with total assets of some £8 million. Common control is one of the criteria which permits these trusts to be combined within a single set of connected accounts for audit purposes. The preparation and audit of financial statements of registered charities is regulated by the Charities and

Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

36. Other than the presumed significant risk of fraud due to management override of controls, which has also been identified as a significant risk in respect of the council's annual accounts, no specific planning risks were identified in respect of the charity's accounts.

Materiality levels for the 2023/24 audit of trusts registered as Scottish charities

37. Materiality levels for the various trusts are set out in [Exhibit 3](#).

38. We can set lower, specific materiality levels for certain classes of transaction, account balances or disclosures where lesser amounts could influence the decisions of the users of the financial statements. We recognise that transactions with payments are of importance to the users of the financial statements and therefore a lower secondary materiality figure has been set for the Statement of Financial Activities.

Exhibit 3

2023/24 Materiality levels for Aberdeen City Council Charitable Trusts

Charitable trust	Planning Materiality	Performance Materiality	Reporting Threshold
Overall materiality	£170,000 (Based on 2% of audited 2022/23 net asset value)	£127,500 (Based on 75% of planning materiality)	£8,500
Secondary materiality (for the Statement of Financial Activities)	£7,000 (Based on 2% of audited 2022/23 income)	£5,250 (75% of PM)	£350

Source: Audit Scotland

Wider Scope and Best Value

Introduction

39. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

40. In summary, the four wider scope areas are:

- Financial management – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- Financial sustainability – we will look ahead to consider whether the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- Vision, leadership, and governance – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the council. We also consider the effectiveness of the governance arrangements to support delivery.
- Use of resources to improve outcomes – we will consider how the council demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

41. We have identified significant risks in the wider scope areas set out in [Exhibit 4](#). This exhibit sets out the risks, management's sources of assurance, and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 4

2023/24 wider scope risks

Description of risk	Management's sources of assurance	Planned audit response
<p>1. Financial sustainability</p> <p>The council has been reducing its cost base in recent years. A further programme of transformation commenced in August 2022 when the council adopted a new Target Operating Model (TOM 1.2) intended to address a funding gap of £134 million over five years.</p> <p>The council's revenue budgeted expenditure for 2023/24 is approx. £560 million. This reflects proposed savings and efficiencies of some £50 million. Longer term, the council's funding gap shortfall, increases from £30 million in 2024/25 to £110 million in 2028/29. Delivery of planned savings and efficiencies would reduce the above shortfall to £25 million in 2024/25 and £85 million in 2028/29.</p> <p>With ring-fenced funding and significant financial challenges, there are mounting pressures on the sustainability of council services.</p>	<ul style="list-style-type: none"> • Regular budget monitoring. • Quarterly management accounts. • Medium term financial planning arrangements. 	<ul style="list-style-type: none"> • Discussion with officers. • Continue to monitor the financial position throughout the year and provide an update in our 2023/24 Annual Audit Report. • Consider the long-term affordability of budget decisions.

Source: Audit Scotland

Best Value

42. Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within our annual audit work. Auditors are required to evaluate and report on the performance of councils in meeting their Best Value duties.

43. The arrangements to secure Best Value at the council will be assessed over the period of the audit appointment and will include an annual evaluation of risks and improvement areas and public performance reporting. We will also follow up findings reported previously to assess the pace and depth of improvement. This work will be integrated with the wider scope audit areas discussed above.

44. As part of our annual audit, we conduct Best Value thematic reviews as directed by the Accounts Commission. In 2023/24, the thematic review will focus on workforce innovation and the actions being undertaken by the council to build future workforce capacity and skills and increase productivity and innovation. Our conclusions and judgements will be reported in our Annual Audit Report.

45. At least once every five years, the Controller of Audit will report to the Accounts Commission on a council's performance in meeting its Best Value duties. The first year of the reporting programme to the Commission runs from October 2023 to August 2024. While the running order may be subject to change, Aberdeen City Council is currently included in the 2026/27 reporting programme.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

46. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

47. We will provide:

- an Independent Auditor's Report to the council and the Accounts Commission setting out our opinions on the annual accounts
- the council and the Controller of Audit with an Annual Audit Report containing judgements and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

48. [Exhibit 5](#) outlines the target dates for our audit outputs. To assist the council in the release of its annual reporting which is treated as a market announcement for the purposes of the London Stock Exchange, we aim to issue the independent auditor's report by 30 June 2024. This date is substantially in advance of the statutory deadline of 30 September 2024.

Exhibit 5

2023/24 Audit outputs

Audit Output	Target completion date set by the Accounts Commission	Planned reporting date to Audit, Risk and Scrutiny Committee
Annual Audit Plan	31 March 2024	9 May 2024
Independent Auditor's Report	30 September 2024	27 June 2024
Annual Audit Report	30 September 2024	27 June 2024

Source: Audit Scotland



49. All Annual Audit Plans and the outputs detailed in [Exhibit 5](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

50. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with the Chief Officer - Finance and his team.

51. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 6 Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	9 May 2024
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	Week commencing 6 May 2024
Clearance meeting with the Chief Officer – Finance	By 7 June 2024
Issue of draft Letter of Representation and proposed Independent Auditor’s Report	20 June 2024
Agreement of audited and unsigned annual accounts	20 June 2024
Issue of Annual Audit Report to those charged with governance.	20 June 2024
Signed Independent Auditor’s Report	By 30 June 2024
Certified Non-Domestic Rates Return	October 2024
Certified Housing Benefit subsidy claim	31 January 2025 (tbc)
Latest date for WGA assurance (if required)	31 December 2024 (tbc)

Source: Audit Scotland

Audit fee

52. In determining the audit fee, we have taken account of the risk exposure of the council and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £536,810 (2022/23 £522,010). This is split between the council £526,810 (2022/23 £512,010) and the charitable trusts £10,000 (2022/23 £10,000).

53. In setting the fee for 2023/24, we have assumed that the council has effective governance arrangements and will prepare a comprehensive and accurate set of annual accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Using the work of internal audit

54. It is the responsibility of the council to establish adequate internal audit arrangements. Services are provided by the chief internal auditor of Aberdeenshire Council under a shared service arrangement.

55. We take internal audit's findings into consideration when assessing the council's governance arrangements and our wider scope responsibilities. Where appropriate, we also assess the impact of internal audit's findings on our financial statements audit work. We are not however, planning to use the work of internal audit to provide assurance for our audit procedures on the financial statements but this is subject to review as the audit progresses.

Independence and objectivity

56. We are independent of Aberdeen City Council in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

57. Audit Scotland has robust arrangements in place to ensure compliance with the Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality who serves as Audit Scotland's Ethics Partner.

58. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of the council.

Audit Quality

59. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

60. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and

ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

61. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

62. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Appendix 1: Your audit team

The audit team involved in the audit of Aberdeen City Council have significant experience in public sector audit.

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Auditor

63. The local audit team is supported by a specialist technical accounting team who have significant experience of public bodies and work with accounting regulatory bodies.

Aberdeen City Council

Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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