KPMG

Aberdeen City Council

Audit strategy

Year ending 31 March 2020

For Audit, Risk and Scrutiny Committee consideration on 12 February 2020

3 February 2020

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 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 scoping and purpose section of this report.

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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 Aberdeen City Council, telephone 0141 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 Dianne McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Introduction

2019-20 is the fourth year of our external audit appointment to Aberdeen City Council (''the Council''), having been appointed by the Accounts Commission as auditor of the Council under the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2016-17 to 2020-21, inclusive. This five year period is also the maximum permitted for an engagement leader for an EU Public Interest Entity ("EU-PIE"). Our appointment includes the audit of the Aberdeen City Council Charitable Trusts.

Our planned work in 2019-20 will include:

— an audit of the financial statements and provision of an opinion on whether the financial statements:

  - give a true and fair view in accordance with the applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom ("the 2019-20 Code") of the state of the affairs of the Council as at 31 March 2020 and of the income and expenditure of the Council for the year then ended; and
  - have been prepared in accordance with IFRS as adopted by the European Union, as interpreted and adapted by the 2019-20 Code, the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003.

— participation in the shared risk assessment as part of the local area network;

— completion of returns to Audit Scotland and grant claims;

— a review and assessment of the Council's governance arrangements and review of the governance statement;

— a review of National Fraud Initiative arrangements;

— a review of arrangements for preparing and publishing statutory performance information; and

— contributing to the audit of wider scope and Best Value through performance of risk assessed work.

Adding value

Throughout the audit, we will consider opportunities to add value and will conclude on this in our Annual Audit Report. We add value through:

— our experience, which brings insight and challenge;

— our tools and approach, which contribute to audit quality; and

— transparency and efficiency, which improves value for money.

Our team

The team involved in the external audit has significant experience in the audit of local authorities. Matthew Moore continues as engagement manager and Michael Wilkie returns to the audit team of the Council as the engagement leader. Their relevant contact details are provided on the back page of this report. The team is supported by specialists, all of whom work with a variety of local government and public sector bodies. Due to the Council's status as an EU-PIE, we are also required to include an engagement quality control reviewer.

Michael Wilkie
Engagement leader – Audit director

Matthew Moore
Manager

Our work will be completed in four phases from November 2019 to September 2020. Our key deliverables are this audit strategy document and the Annual Audit Report.

Acknowledgements

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit work.

Headlines

Materiality

Group materiality for planning purposes is based on last year's expenditure and is set at £9.3 million, which equates to 1% of gross cost of services expenditure. We will review the level of materiality on receipt of draft accounts for 2019-20.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. In line with the Code of Audit Practice this is £0.25 million.

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Audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

— management override of controls fraud risk (assumed risk per ISA 240);

— fraud risk over expenditure recognition (assumed risk per ISA 240 and Practice Note 10);

— retirement benefits; and

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

We also include an other focus area in respect of capital expenditure.

We consider that valuation of council dwellings, other land and buildings, surplus assets and investment properties and retirement benefits to have the greatest effect on the overall audit strategy, the allocation of resources in the audit and on directing the efforts of the engagement team. We anticipate reporting on these areas in our financial statements annual audit opinion.

Pages seven to 12

£ Financial statement audit

Our financial statements audit work follows a four stage audit process which is identified below. **Appendix three** provides more detail on the activities that this includes. This report concentrates on the audit planning stage of the financial statements audit.

Financial statements audit planning → **Control evaluation** → **Substantive procedures** → **Completion**

There are a small number of changes to the Code of Practice on Local Council Accounting ("the Code") in 2019-20 with which the Council needs to comply, as set out on page 13. The most significant is the preparation of IFRS 16 *Leases* for 2020-21.

Wider scope

Auditors 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 test wider scope areas where there are identified risks. We consider that there are wider scope risks in respect of the delivery of savings required to achieve balanced budgets and in respect of large capital projects. We have not identified any wider scope financial statement level significant risks.

Pages 15 to 20

Headlines (continued)

Best Value

In June 2016, the Accounts Commission formally agreed the overall framework for the approach to auditing Best Value in councils. The framework introduced a five year approach to Best Value. 2019-20 represents year four of the Best Value plan for the Council during which we will consider Equal Opportunities.

Pages 15 to 20 provide more detail on our work over Best Value and wider scope areas.

Subsidiaries

In addition to the Council we deem that the Aberdeen City Integration Joint Board to be significant in the context of the group audit:

KPMG is auditor to the Aberdeen City Integration Joint Board.

Appendix six contains the group structure.

Independence

In accordance with International Standards on Auditing (UK) ('ISA') 260 'Communication of audit matters with those charged with governance' and the FRC Ethical Standards, we are required to communicate to you all relationships between KPMG and the Group that may be reasonably thought to have bearing on our independence both:

- at the planning stage; and
- whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.

Appendix two contains our confirmation of independence and any other matters relevant to our independence.

Total fees charged by us for the period ended 31 March 2019 were communicated in our Annual Audit Report issued in September 2019. Total fees for 2019-20 will be presented in our Annual Audit Report issued on completion of the audit. The audit fee for 2019-20 is £436,410 as set out on page 27.

Quality

International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

Our Audit Quality Framework and KPMG Audit Manual comply with ISQC1. Our UK Senior Partner has ultimate responsibility for quality control. Operational responsibility is delegated to our Head of Quality & Risk who sets overall risk management and quality control policies. These are cascaded through our Head of Audit in Scotland and ultimately to Michael Wilkie as the Director leading delivery of services to the Council.

The nature of our services is such that we are subject to internal and external quality reviews. KPMG's annual financial statements include our transparency report which summarises the results of various quality reviews conducted over the course of each year.

We also provide Audit Scotland with details of how we comply with ISQC1 and an annual summary of our achievement of KPIs and quality results.

We welcome your comments or feedback related to this strategy and our service overall.

Financial statements audit planning

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the users of the financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £9.2 million for the Council's standalone accounts, and at £9.3 million for the group accounts, which in both cases equates to 1% percent of gross expenditure. We adjust gross expenditure for plant and property impairments, as these fluctuate significantly year-on-year. We take a five year rolling average of revaluation movements into our materiality calculations. We also remove the Integration Joint Board expenditure from the calculation, as income and expenditure is grossed up for presentational purposes within the consolidated income and expenditure account.

We design our procedures to detect errors in specific accounts at a lower level of precision; performance materiality is £5.8 million for the standalone accounts and £6.0 million for the group accounts.

Reporting to the Audit, Risk and Scrutiny Committee

Under ISA 260 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.25 million.

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Risk and Scrutiny Committee to assist it in fulfilling its governance responsibilities.

Group audit

We will report the following matters in the Annual Audit Report:

- deficiencies in the system of internal controls or instances of fraud which the subsidiary auditors identify;
- limitations on the group audit, for example, where the access to information may have been restricted; and
- instances where our evaluation of the work of the subsidiary auditors gives rise to concern about the quality of that auditor's work.

Materiality
£9.3 million
1% gross expenditure

Reporting threshold
£250,000

Financial statements audit planning (continued)

Significant risks and other focus areas

In accordance with paragraph 19A of ISA 700, we are required to describe in our financial statements audit opinion those assessed risks of material misstatement which have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. We have identified the valuation of council dwellings, other land and buildings, surplus assets and investment properties, and retirement benefits as the areas which we consider, at the planning stage of our audit, to have the greatest effect on our approach and on which we will report in our opinion in the financial statements. We will update this assessment in our ISA 260 report.

Significant risk	The risk	Planned response
Financial statement risk		
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.	— 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. — 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. — In line with our methodology, we will carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the Council's normal course of business, or are otherwise unusual.

Financial statements audit planning (continued)

Significant risks and other focus areas (continued)

Significant risk	The risk	Planned response
Financial statement risk		
Fraud risk over expenditure recognition	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 have not rebutted the assumed risk in respect of the remaining expenditure accounts (£634 million) within the £1,017 million (in 2018-19) gross expenditure.	— Comparison of the the outturn with the in year budget monitoring, considering variances from budgeted reserves utilisation to actual utilisation. — Testing of operating effectiveness of controls specific to capital vs revenue allocation and 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 estimates for evidence of bias. — Testing of journal entries in relation to expenditure for evidence of management bias.

Income recognition fraud risk

As above, ISA 240 requires us to consider if the fraud risk from revenue recognition is significant.

We do not consider recognition of the income sources to represent a significant risk for the Council as there are limited incentives and opportunities to manipulate the way income is recognised. Income of a commercial or non-standard nature (“other income”), where the risk of manipulation is inherently greater, is not likely to be materially inappropriate. We therefore rebut the revenue recognition fraud risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Financial statements audit planning (continued)

Significant risks and other focus areas (continued)

Significant risk	The risk	Planned response
Financial statement risk		
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. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. In 2019-20 the following category of assets will be subject to revaluation and we expect the movement to be material: — Sports grounds / clubhouses; — 3R's (PPP) schools; — Education House; — Car parks; — Halls; and — Operational miscellaneous. Given the quantum of the carrying values and the inherent use of assumptions in their valuation, we consider 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 2019-20 are not materially misstated. During the year refurbishment of the Aberdeen Art Gallery was completed and the property became operational. Therefore the costs will be transferred from Assets Under Construction into Operational Buildings, at which time a valuation in use will be required. Continued…	Our procedures include: **Control design:** — We will obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. — We will review 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. — We will assess the risk of the valuation changing materially during the year, or between the date of valuation and the year end. **Assessing valuer's credentials:** — We will critically assess the independence, professional qualifications, competence and experience of the Council valuer. **Assessing methodology choice and benchmarking assumptions:** — We will utilise our internal specialist to critically assess the methodology used by the valuer by considering whether the valuations are in accordance with the RICS Valuation Professional Standards 'the Red Book' and relevant accounting standards. — We will challenge 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. — We will meet with the Council valuer to understand the assumptions and methodologies used in valuing the various assets revalued during 2019-20 and the market evidence used to support the assumptions. Continued…

Financial statements audit planning (continued)

Significant risks and other focus areas (continued)

Significant risk	The risk	Planned response
Financial statement risk		
Valuation of council dwellings, other land and buildings, surplus assets and investment properties (continued)	Continued….. The Council also holds £146 million (as at 31 March 2019) investment property which is subject to annual revaluation and similarly we consider there to be a risk of misstatement arising from the use of assumptions in the valuations. The Marischal Square development was valued for the second time in 2018-19 and new leases have been signed with tenants in 2019-20, giving rise to potential change in the carrying value of this investment property (£55 million as at 31 March 2019). During 2019-20 The Events Centre Aberdeen ("TECA") construction was completed and the costs previously included in Assets Under Construction (£326 million as at 31 March 2019) and the additional costs in 2019-20 will have to be transferred to Investment Properties.	Continued….. — We will challenge management's assessment of why it considers that the land and buildings not revalued in 2019-20 are not materially misstated. We will consider if the assumptions are appropriate and if input data is in accordance with support/benchmarks. **Input assessment** — We will agree observable inputs used in the valuations, such as land size and floor space to information held by Estates. We will agree rental income to the amounts invoiced. **Disclosure assessment** — We will critically assess the adequacy of the Council's disclosures in relation to the judgement in relation to valuing properties.

Financial statements audit planning (continued)

Significant risks and other focus areas (continued)

Significant risk	The risk	Planned response
Financial statement risk		
Retirement benefits	The net pension liability (£332 million as at 31 March 2019, including assets of £1.358 billion) 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 2017. The next triennial valuation will take place as at 31 March 2020, however this will not impact the Council contributions until the 2021-22 financial year. 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. 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.	Our audit approach includes: **Control design:** — Testing the design and operating effectiveness of controls over the provision of membership information to the actuary who uses it, together with the assumptions, to calculate the pension obligation. **Benchmarking assumptions:** — Challenging, with the support of our own actuarial specialists, the key assumptions applied, being: the discount rate; inflation rate; and mortality/life expectancy against externally derived data. — 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. **Assessing transparency:** — Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to these assumptions. — Testing the assets recorded and disclosed, using our actuarial team. — Assessing if the disclosures within the financial statements are in accordance with the Code's requirements.

Financial statements audit planning (continued)

Significant risks and other focus areas (continued)

Other focus area	Summary	Planned response
Financial statement other focus area		
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 £300 million for 2019-20. Key projects in progress during 2019-20 include the Energy from Waste Plant, completion of TECA and the refurbishment of the Art Gallery. 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.	Our audit approach includes: **Control design:** — Testing the design and operating effectiveness of controls over the capital projects. — Testing the design and operating effectiveness of controls in respect of the review of costs allocated to capital and revenue projects. **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 corroboration of manual journals. We will specifically consider TECA, as it includes more complex accounting treatments, including wider scope and Best Value aspects.

Other matters

Accounting framework update

The Code is revised each year, incorporating selected changes to the underlying International Financial Reporting Standards (‘IFRS’).

The key accounting changes in the 2019-20 edition of the Code include:

- Updates to reflect 2018 IASB Conceptual Framework and provides details of improvements and updates;
- Guidance on the Code's adoption of the amendments to IFRS 9 Financial Instruments relating to prepayment features with negative compensation;
- Updates to reflect the Code clarifications relating to contracts with lender option borrower option clauses;
- New guidance on the group accounts scope clarification for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (introduced by the Annual Improvements to IFRSs 2014 to 2016 Cycle);
- Explanation of the Code approach to drafting amendments;
- Removal of references to Carbon Reduction Commitment Scheme following the Scheme closure;
- A new section has been added on the accounting treatment for the apprenticeship levy; and
- Updates for the new voluntary transfers presentation (for Scottish local authorities only) in the movement in reserves statement and expenditure and funding analysis. This includes the treatment within the reserves.

From 2020-21, IFRS 16 *Leases* supersedes IAS 17 *Leases*. IFRS 16 introduces a single lessee accounting model. The Council will be more likely to account for operating leases in a similar way to the current IAS 17 treatment for finance leases. A large volume of leases which are currently accounted for as operating leases will become financial leases and will be recognised within the Council’s balance sheet.

These changes are significant and the Council has started to prepare in advance, particularly where the 2019-20 balances will form the comparatives in future accounts. As part of the 2019-20 audit, we will consider the Council’s arrangements for preparing to transition to IFRS 16.

Revision to the Going Concern Standard

In September 2019 the Financial Reporting Council published a revised UK auditing standard for Going Concern ISA UK 570. This responds to recent enforcement cases and well-publicised corporate failures where the most recent auditor's report had not included a material uncertainty on going concern. The revised standard is applicable for periods commencing on or after 15 December 2019. Given the funding, nature and legislation in respect of the Council, we do not anticipate significant changes to the approach of management regarding going concern.

Controls testing

In respect of the financial statements, we identify the constituent account balances and significant classes of transactions and focus our work on identified risks. Determining the most effective balance of internal controls and substantive audit testing enables us to ensure the audit process runs smoothly and with the minimum disruption to the Council’s finance team.

In 2018-19 we reported that recommendations in respect of certain general IT controls, designed to enhance the control environment, were not fully implemented by 31 March 2019. During the 2019-20 audit we will follow-up on management’s progress in implementing the agreed recommendations. We will also report any new findings arising from our work in 2019-20.

Other matters (continued)

Bond accounting

We considered the accounting for the £370 million bond to be a significant risk in the 2016-17 audit, being the year of issuance. In 2019-20 we do not consider it to be a significant risk, consistent with 2018-19. For 2019-20 management will update factual RPI movements to the 28 February 2020 measurement date (which determines the bond principal outstanding and interest payable) and will accrue for the month of March 2020 using factual RPI movements, which will be available when the accounts are prepared.

Management will also estimate future RPI movements in order to complete accounts disclosures and to facilitate long-term budgeting.

The Council must comply with the conditions of the Bond Trust Deed, which are not unusual for such financial instruments. We will obtain management's support for the compliance during the final audit.

The bondholders could seek repayment of the bond principal in certain circumstances. One such circumstance is if the Council's credit rating (as assessed by Moody's) is downgraded such that it is three notches or more below that of UK sovereign debt. The Council's credit rating is one notch below that of UK sovereign debt and is rated as "negative", in common with other local authority ratings reviewed in November 2019. We would consider the impact to any revisions to credit rating relative to UK sovereign debt.

Brexit uncertainty

A combination of the challenges facing the economy, rapidly changing risks to business models and Brexit means that the level of uncertainty facing all bodies is unprecedented, at a time when they will be approving annual reports and accounts. This in turn means that our audits need to respond to the changing landscape and our approach will inevitably need to react as events unfold.

In all long form audit opinions (relevant to EU PIEs) we consider whether Brexit is a Key Audit Matter requiring specific consideration and emphasis. We will assess the position in June 2020, taking account of the UK Government progress in respect of negotiating a future trading relationship with the EU.

Internal audit

International Standard on Auditing (UK and Ireland) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect, if any, on external audit procedures;
- obtain an understanding of internal audit activities to assist in planning the audit and developing an effective audit approach;
- perform a preliminary assessment of the internal audit function when it appears that internal audit is relevant to our audit of the financial statements in specific audit areas; and
- evaluate and test the work of internal audit, where use is made of that work, in order to confirm its adequacy for our purposes.

We will continue liaison with internal audit and update our understanding of its approach and conclusions were relevant. The general programme of work will be reviewed for significant issues to support our work in assessing the statement of internal control.

Group audit considerations

Appendix six sets out our understanding of the Group structure and nature of each associated entity.

We conduct our audit of the Group in accordance with International Standard on Auditing 600 ("ISA 600") *Using the work of another auditor*.

In 2018-19 we assessed that there was a significant risk for the Council's group accounts in respect of the pension liability within Bon Accord Care Limited. In 2019-20 we have considered this risk not to be significant and no group audit instructions will be issued to the auditor of Bon Accord Care Limited.

Wider scope and Best Value

Approach

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 below an overview of our approach to wider scope and Best Value requirements of our annual audit. We provide on pages 17 to 20 our risk assessment in respect of these areas. We will provide narrative on these and other areas in the Annual Audit Report where relevant.

Risk assessment

We consider the relevance and significance of the potential business risks faced by local authorities, and other risks that apply specifically to the Council. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.*

In doing so we consider:

- The Council's own assessment of the risks it faces, and its arrangements to manage and address its risks.
- Evidence gained from previous audit work, including the response to that work.
- The work of other inspectorates and review agencies, through the Local Area Network ('LAN') which is established for each Council.

The LAN brings together local scrutiny representatives in a systematic way to agree a shared risk assessment. Michael Wilkie is the LAN lead for the shared risk assessment process for the Council.

The shared risk assessment process across Scotland changed for 2019-20 and no local scrutiny plans are prepared. We use the shared risk assessment process to consider if there are wider scope risks relevant to the Annual Audit Report.

Linkages with other audit work

There is a degree of overlap between the work we do as part of the wider scope and Best Value audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Council's organisational control environment, many aspects of which are relevant to our wider scope and Best Value audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and wider scope and Best Value work, and this will continue. We consider information gathered through the shared risk assessment and the Audit Commission's five strategic priorities when planning and conducting our work.

Wider scope and Best Value (continued)

Approach (continued)

Identification of significant risks

The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'*

If we identify significant wider scope and Best Value risks, we will highlight the risk to the Council and consider the most appropriate audit response in each case, including:

- Considering the results of work by the Council, inspectorates and other review agencies.
- Carrying out local risk-based work to form a view on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Concluding on wider scope and Best Value

At the conclusion of the wider scope and Best Value audit we will consider the results of the work undertaken and assess the assurance obtained against each of the wider scope audit dimensions and Best Value, regarding the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our wider scope and Best Value conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.

Reporting

We have completed our initial wider scope and Best Value risk assessment and have not identified any significant risks, as noted on the next page. We will update our assessment throughout the year and should any issues present themselves we will report them in our Annual Audit Report.

We will report on the results of the wider scope and Best Value audit through our Annual Audit Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

Wider scope and Best Value (continued)

Risk assessment

We have not identified wider scope significant risks relevant to the Council. We include in the following tables areas of focus and their impact on the audit approach. In summary we consider that the following are key areas of focus:

- Delivery of transformation, income generation and efficiencies to meet the financial sustainability challenges within the local authority environment.
- Progress of significant capital projects and the plans for their use. The Council is further investing in the City through the various capital programme boards (Asset Management, City Centre Masterplan, Energy, Housing and Transportation).
- Audit Scotland highlighted two areas which may represent significant risks to all bodies and we reference these in the relevant wider scope sections: EU withdrawal; and Fraud and Corruption in procurement function.

Our year four Best Value work will consider specifically *Equal Opportunities* and we will provide narrative on in the Annual Audit Report.

Wider scope area	Why	Audit approach
Financial sustainability and financial management	Financial sustainability looks forward to the medium and longer term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. ***Areas of focus:*** Delivery of balanced budget over the medium term. Management identified a savings need of £38 million, required to deliver a balanced budget and meet the needs-led pressures in services for 2020-21. Further savings are also required in future years, primarily to be delivered through service redesign including from digital transformation. The Scottish Government has not yet set out the Local Government settlement for 2020-21, with the Scottish budget expected in early February 2020. The Council has taken the opportunity to re-profile the Public Works Loan Board loans into a more prudent approach to funding their repayment. Continued……	— We will consider the Council's financial plans and its ability to adapt to the changing landscape in local government funding. This will involve consideration of the 2020-21 budget and longer term financial plans from 2021-22 and beyond, including sensitivity analysis and bond repayment/RPI assumptions. — We will review the Council's proposed prudent loans fund repayment schedule, assessing if it is in accordance with legislation. — We will review the progress of the delivery of the required savings to meet the balanced budgets.

Wider scope and Best Value (continued)

Risk assessment (continued)

Wider scope area	Why	Audit approach
Financial sustainability and financial management (continued)	Capital Programme The Council planned to invest a capital programme of around £300 million during 2019-20. The Quarter two financial reporting pack showed the following projected spend for year on the various capital programmes: • TECA – £92 million • Asset Management - £36 million • City Centre Masterplan - £16 million • Energy - £28 million • Housing - £53 million • Transportation - £11 million The Quarter two reporting pack suggested that there will be a projected underspend/slippage of £65 million for the year to 31 March 2020.	— We will review the progress of key capital programmes, the largest of which being the TECA. — We will consider the income and expenditure assumptions and compare to the business case assumptions approved by the Council. We will consider the impact of variances, should they exist, on the Council's future budgets.
	Audit Scotland planning guidance requires us to consider the following matters which are potential risks to all Public Sector bodies. EU withdrawal The Bill covering the UK's withdrawal from the European Union was passed by Parliament in January 2020, effective 31 January 2020. There is now a transition period in place until 31 December 2020 and an uncertain trading relationship with the EU thereafter. This will require management to consider the impact on Council operations.	We will: — remain alert to the impact of EU withdrawal on the Council's operations and the environment within which it operates. We will consider the appropriateness of management's risk assessment and planning for both matters. — review the arrangements that the Council put in place when more clarity is received as to the impact on the Council.

Wider scope and Best Value (continued)

Risk assessment (continued)

Wider scope area	Why	Audit approach
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 and performance information. The Council has continued to review and enhance its governance arrangements. There have also been member changes during 2019-20, as a result of by-elections. Audit Scotland planning guidance requires us to consider the following matters which are potential risks to all Public Sector bodies. Fraud and Corruption in procurement Inappropriate rebates, kickbacks and false invoicing are potential risks across the public sector. For all bodies, other than those where the full wider scope is not judged to be appropriate, auditors should assess the risk of fraud and corruption in the procurement function.	— We will consider the Council's governance arrangements, their appropriateness and their robustness. — We will consider the effectiveness of scrutiny and governance arrangements, by evaluating the challenge and transparency of the reporting of financial and performance information. — We will assess whether the risk of procurement fraud is acknowledged on the Council's risk register, and whether reasonable policies are in place and enforced to prevent unacceptable instances taking place as well as systems to ensure all acceptable instances are recorded in a register. — We will assess whether there are controls around the procurement process, including segregation of duties, and if these are adequate, followed and enforced. — We will assess whether staff involved in procurement-related decisions are adequately trained and that the Council has arrangements in place to encourage and protect whistle-blowers. — We will consider if internal audit coverage of procurement systems is adequate and proportionate to the risks faced by the body.

Wider scope and Best Value (continued)

Risk assessment (continued)

Wider scope area	Why	Audit approach
Value for money	Value for money is concerned with how effectively resources are used to provide services. We have not identified specific value for money risks.	— We will specifically consider statutory performance indicators, performance reporting and arrangements to provide for continuous improvement. — In the context of the Council's capital plan and procurement procedures, we will consider the arrangements to provide for value for money.

Appendices

Mandated communications with the Audit, Risk and Scrutiny Committee

Matters to be communicated	Link to audit, risk and scrutiny committee papers
Independence and our quality procedures ISA 260.	■ See next page
The general approach and overall scope of the audit, including levels of materiality, fraud and engagement letter ISA 260.	■ Main body of this paper
■ Disagreement with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report, and their resolution (AU 380).	■ In the event of such matters of significance we would expect to communicate with the Audit Risk and Scrutiny Committee throughout the year. ■ Formal reporting will be included in our ISA 260 report for the Audit, Risk and Scrutiny Committee meeting, which focuses on the financial statements.
■ Significant difficulties we encountered during the audit. ■ Significant matters discussed, or subject to correspondence, with management (ISA 260).	
■ Our views about the qualitative aspects of the entity's accounting and financial reporting. ■ The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements (ISA 260 and ISA 540).	
■ This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit. (ISA 240)	
■ Audit adjustments, whether or not recorded by the entity, that have, or could have, a material effect on its financial statements. We will request you to correct uncorrected misstatements (including disclosure misstatements) (ISA 450).	
■ The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements (ISA 570).	
■ Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570).	
■ Expected modifications to the auditor's report (ISA 705).	
■ Related party transactions that are not appropriately disclosed (ISA 550)	

Auditor independence

Assessment of our objectivity and independence as auditor of Aberdeen City Council

Professional ethical standards require us to provide to you at the planning stage 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, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. 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

— Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

We have considered the fees charged by us to the Council and its affiliates for professional services provided by us during the reporting period. Total fees charged by us for the year ended 31 March 2019 and planned for the year ended 31 March 2020 are as follows:

Services provided to the Council and its group in respect of:	2019-20 continuing (incl VAT) £	2018-19 (incl VAT) £
Audit of the financial statements	264,710	254,500
Audit of subsidiaries (Charitable Trusts)	8,800	8,600
Total audit services	**273,510**	**263,100**
Other non-audit services		
Total non-audit services	-	-
Total	**273,510**	**263,100**

There are no non-audit fees for 2019-20. 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 Aberdeen City Council since that date.

All non-audit services require audit committee or equivalent approval. We will seek approval in advance of any such services being proposed

We are appointed by the Accounts Commission via Audit Scotland as external auditor of Aberdeen City Council Charitable Trusts and Aberdeen City Integration Joint Board.

We are also appointed as external auditor of Aberdeen Sports Village Limited, a subsidiary of the Council, this is not an appointment of the Accounts Commission.

Auditor independence (continued)

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Audit, Risk and Scrutiny Committee.
KPMG LLP pays rates to the Council in respect of its Aberdeen office, on an arms-length basis. KPMG LLP will also relocate the office to a Council-owned property, again on arms-length commercial terms.

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 partner and audit staff is not impaired.

This report is intended solely for the information of the audit, risk and scrutiny committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Timeline

Communication

January
Interim fieldwork, business update and controls testing

February
Presentation of Audit Strategy

Statutory inspection period

June
Presentation of Annual Audit Report

Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sept

2019 2020

Audit workflow

November
Audit planning meeting

- Perform risk assessment procedures and identify risks
- Determine audit strategy
- Determine planned audit approach

February
Interim onsite audit work, including hard close audit

- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated
- Substantive audit of hard close results to 31 December 2019

May
Final audit fieldwork commences.

29 June
Financial statements signed by the Council and KPMG

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate
- Form opinion

September
WGA return completed

- Review wider scope objectives and areas
- Perform grant and other audit testing
- Perform completion procedures

Audit outputs

Output	Description	Report date
Audit strategy	Our strategy for the external audit of the Council and its group, including significant risk and audit focus areas.	For 12 February 2020 ARSC meeting
Independent auditor's report	Our opinion on the Council's financial statements.	29 June 2020
Annual audit report	We summarise our findings from our work during the year, including in respect of wider scope areas.	29 June 2020
NFI report	We report on the Council's actions to investigate and follow-up NFI matches.	By 28 February 2020
Whole of Government Accounts	We report on the pack prepared for consolidation and preparation of the Whole of Government Accounts.	By 28 September 2020
Audit reports on other returns	We will report on the following returns: - Current issues return. - Technical database. - Fraud returns.	 January, March, August and October 2020 May and August 2020 February, May and August 2020
Grant claim audits	We provide an opinion on: - Education Maintenance Allowance, Housing Benefit, and Non domestic rates	To submit by: July 2020, November 2020 and October 2020

Fees

Audit Scotland has yet to complete a review of funding and fee setting arrangements for 2019-20. Therefore we can not provide an expected fee for 2019-20. An expected fee is calculated by Audit Scotland to each entity within its remit. This expected fee is made up of four elements:

— Auditor remuneration

— Pooled costs

— Contribution to Audit Scotland's Performance Audit and Best Value team

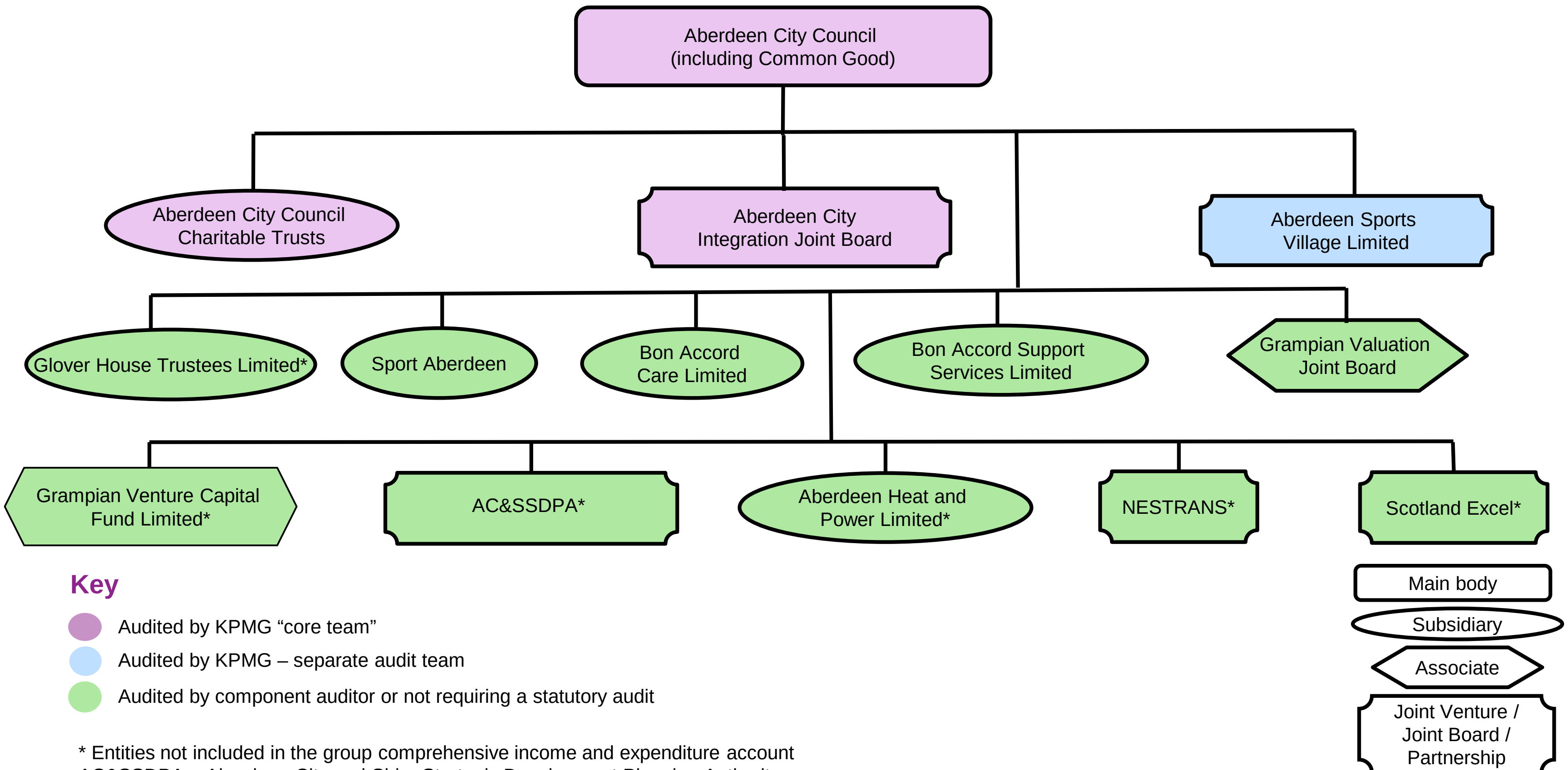
— Contribution to Audit Scotland costs

The expected fee for each body assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for the audit.

Should we be required to undertake significant additional audit work in respect of any of the areas of audit focus or other matters arise, we will discuss with management the impact of this on our proposed fee. We note that from 2020-21 the Council will apply IFRS 16 *Leases*, with 2019-20 lease arrangements needing to be considered in order to establish the required accounting entries from 1 April 2020. Auditor remuneration incorporates our audit work in respect of the Council's preparation for this new leases standard. The remuneration also reflects the additional audit work in respect of the valuation of TECA in its first year of use as an "investment property".

	2019-20 £ (incl VAT)	2018-19 (incl VAT)
Auditor remuneration	264,710	254,500
Pooled costs	24,530	23,760
Contribution to PABV	132,010	130,570
Contribution to Audit Scotland costs	15,160	15,380
Total Council audit fee	**436,410**	**424,210**
Audit of Aberdeen City Council Charitable Trusts	8,800	8,600
Total fee	**445,210**	**432,810**

Group financial statements



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

Responsibility in relation to fraud

We are required to consider fraud and the impact that this has on our audit approach. We will update our risk assessment throughout the audit process and adapt our approach accordingly.

Management responsibilities

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to audit, risk and scrutiny committee and auditors:
  - any significant deficiencies in internal controls.
  - any fraud involving those with a significant role in internal controls.

KPMG's identification of fraud risk factors

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, to audit, risk and scrutiny committee, and others.
- Evaluate broad programmes and controls that prevent, deter, and detect fraud.

KPMG's response to identified fraud risk factors

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to to audit, risk and scrutiny committee and management.

KPMG's identified fraud risk factors

Whilst we consider the risk of fraud at the financial statement level to be low for the Council, we will monitor the following areas throughout the year and adapt our audit approach accordingly.

- Revenue recognition
- Cash
- Procurement
- Management control override
- Assessment of the impact of identified fraud.

Audit Scotland code of audit practice - responsibility of auditors and management

Responsibilities of management
Financial statements
Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for: ■ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; ■ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures; ■ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate Council; ■ maintaining proper accounting records; and ■ preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer- term financial sustainability of the body. Further, it is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely. Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.
Prevention and detection of fraud and irregularities
Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

Audit Scotland code of audit practice - responsibility of auditors and management

Responsibilities of management
Corporate governance arrangements
Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including Audit Committees or equivalent) in monitoring these arrangements.
Financial position
Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to: ■ such financial monitoring and reporting arrangements as may be specified; ■ compliance with any statutory financial requirements and achievement of financial targets; ■ balances and reserves, including strategies about levels and their future use; ■ how they plan to deal with uncertainty in the medium and longer term; and ■ the impact of planned future policies and foreseeable developments on their financial position.
Best Value, use of resources and performance
The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

Audit Scotland code of audit practice – responsibility of auditors and management

Responsibilities of auditors
Appointed auditor responsibilities

Auditor responsibilities are derived from statute, this Code, International Standards on Auditing (UK and Ireland), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities. These are to:
■ undertake statutory duties, and comply with professional engagement and ethical standards;
■ 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;
■ notify the Auditor General when circumstances indicate that a statutory report may be required;
■ participate in arrangements to cooperate and coordinate with other scrutiny bodies (local government sector only);
■ 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; and
    ■ financial position and arrangements for securing financial sustainability.
Weaknesses or risks identified by auditors are only those which have come to their attention during their 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.

Audit Scotland code of audit practice - responsibility of auditors and management

Responsibilities of auditors
General principles
This Code is designed such that adherence to it will result in an audit that exhibits these principles.
Independent
When undertaking audit work all auditors should be, and should be seen to be, independent. This means auditors should be objective, impartial and comply fully with the Financial Reporting Council's (FRC) ethical standards and any relevant professional or statutory guidance. Auditors will report in public and make recommendations on what they find without being influenced by fear or favour.
Proportionate and risk based
Audit work should be proportionate and risk based. Auditors need to exercise professional scepticism and demonstrate that they understand the environment in which public policy and services operate. Work undertaken should be tailored to the circumstances of the audit and the audit risks identified. Audit findings and judgements made must be supported by appropriate levels of evidence and explanations. Auditors will draw on public bodies' self-assessment and self-evaluation evidence when assessing and identifying audit risk.
Quality focused
Auditors should ensure that audits are conducted in a manner that will demonstrate that the relevant ethical and professional standards are complied with and that there are appropriate quality-control arrangements in place as required by statute and professional standards.

Audit Scotland code of audit practice – responsibility of auditors and management

Responsibilities of auditors
Coordinated and integrated
It is important that auditors coordinate their work with internal audit, Audit Scotland, other external auditors and relevant scrutiny bodies to recognise the increasing integration of service delivery and partnership working within the public sector. This would help secure value for money by removing unnecessary duplication and also provide a clear programme of scrutiny activity for audited bodies.
Public focused
The work undertaken by external audit is carried out for the public, including their elected representatives, and in its interest. The use of public money means that public audit must be planned and undertaken from a wider perspective than in the private sector and include aspects of public stewardship and best value. It will also recognise that public bodies may operate and deliver services through partnerships, arm's-length external organisations (ALEOs) or other forms of joint working with other public, private or third sector bodies.
Transparent
Auditors, when planning and reporting their work, should be clear about what, why and how they audit. To support transparency the main audit outputs should be of relevance to the public and focus on the significant issues arising from the audit.
Adds value
It is important that auditors recognise the implications of their audit work, including their wider scope responsibilities, and that they clearly demonstrate that they add value or have an impact in the work that they do. This means that public audit should provide clear judgements and conclusions on how well the audited body has discharged its responsibilities and how well they have demonstrated the effectiveness of their arrangements. Auditors should make appropriate and proportionate recommendations for improvement where significant risks are identified.

Additional planning communications for EU-PIEs

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 the key audit partner at page 3 in our Audit Strategy.
Independence of external experts engaged by KPMG and non-KPMG auditors	We have not engaged external experts for the performance of aspects of our audit.
Communications with audit committee and management	We have described the nature, frequency and extent of communication with the audit committee and management at page 26 above.
Scope and timing of the audit	We have described the scope and timing of the audit within this report.
Audit methodology	Our audit responses to identified risks are described from page 7 of this report.
Valuation methods	We will 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	We will report on whether 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 at page 6 in our Audit Strategy.
Non-compliance with laws and regulation or articles of association	We will report on whether actual or suspected non-compliance with laws and regulation or articles of association were identified during the audit.
Significant deficiencies in internal control	We will report on all significant deficiencies and whether they have been resolved by management.
Significant difficulties	We will report on any significant difficulties encountered during the audit. We will report on significant matters arising from the audit that were discussed, or subject to correspondence, with management. We will report on matters that are significant to the oversight of the financial reporting process.
Non-KPMG component auditors	We are not planning to rely on any non-KPMG auditors in 2019-20.
Management's approach to consolidation	We will report on whether management's approach to consolidation is consistent with IFRS.

Under EU audit reform, it is mandatory for all EU PIEs to tender the audit contract at least every 10 years and rotate auditors at least every 20 years. The Accounts Commission appoints auditors to each local authority for a period of five years, with a tender exercise being conducted in late 2020.

Financial Reporting Council's (FRC's) areas of focus

The areas of focus from the FRC's Annual Review of Corporate Reporting 2018/19 along with four thematic reviews issued in 2019 should be considered for reporting in the current financial period. Further improvements and candid disclosures in corporate reporting are called for to address matters of increasing concern to investors as well as enhancing public trust in business. The FRC suggests lack of disclosures on key and emerging issues implies that management is unaware of their potential impact, is not managing the issues effectively or is being opaque.

Narrative reporting	The FRC expects the information included in the strategic report (or equivalent) to provide quality communication with stakeholders regarding a range of environmental, social and governance issues, including climate risk, as well as a balanced and comprehensive analysis of the development and performance of the organisation's business during the financial year. In times of uncertainty investors look for greater transparency in reporting to inform decision making and so careful disclosure is expected in areas exposed to heightened levels of risk such as going concern, Brexit and all areas of material estimation uncertainty.
Brexit	Improvements in disclosures have seen organisations highlighting a range of specific risks which varied by industry/sector. The FRC noted that they should also identify mitigating action that had been taken and disclosures in this area would continues to be monitored.
Alternative Performance Measures (APMs)	The FRC still finds deficiencies in identifying and reconciling APMs to audited IFRS numbers, absent or unclear definitions of APMs and explanations of why certain amounts were excluded from adjusted measures, when they appear to be part of the normal business. The FRC's existing checklist set out in its APM thematic review issued in 2017 continues to be its benchmark.
Significant accounting judgements	Several cases of insufficient disclosures where a particular judgment had a significant impact on reporting were found, including complex cases relating to consolidation judgment and the question of control over another entity. The FRC expects disclosures of judgment demonstrating full understanding of the rights and obligations arising from the relevant arrangements distinguishing between substantive and protective rights.

FRC's areas of focus (continued)

Significant estimates	The FRC continues to focus on disclosure of significant estimates to give clearer insight into possible future material changes in balance sheet values over the twelve months ahead. Disclosures regarding the sensitivity of changing assumptions and range of possible outcomes are expected.
Reporting on cash	The FRC continues to identify basis errors involving misclassification of cash flows between operating, investing and financing activities many of which inflate operating cash flows. There is a concern these errors are not being picked up during quality testing.
Supplier financing arrangements	The FRC still believe many companies are not providing relevant information about this type of arrangement, including why they are being used and the extent of their dependency.
IFRS 16 Leases	Expectations for the new standard include a clear explanation of the impact of transition and the practical expedients taken, a reconciliation between the previous IAS 17 commitment and IFRS 16 liability along with details of the key judgments applied. APMs will need to address the inconsistencies as a result of comparatives information not being restated. See next page.
Non-financial assets	The FRC will expect disclosures to explain circumstances leading to an impairment, significant judgment applied, and that the disclosures requirements of IAS 36 and IAS 1.125 . 2019/20 specific issues include the effect of Brexit, and/or other political-macro economic risks, the impact of climate change and environmental impact and the effect of IFRS 16.
Revenue	The FRC expects improvements in the description of the specific nature of performance obligations, and when are such obligations met (over time or at a point in time), organisation-specific disclosures of significant judgements, as well as consistency between the financial statement disclosures and other information (i.e.: strategic report).

FRC's areas of focus (continued) - readiness for IFRS 16 *Leases*

The Council is completing its impact assessment in readiness for adopting IFRS 16 in the 2020-21 annual accounts.

Key actions completed

- Built inventory of all leases
- Gathered information needed to calculate assets/liabilities
- Assessed impact of accounting policies and for KPIs

Remaining priorities

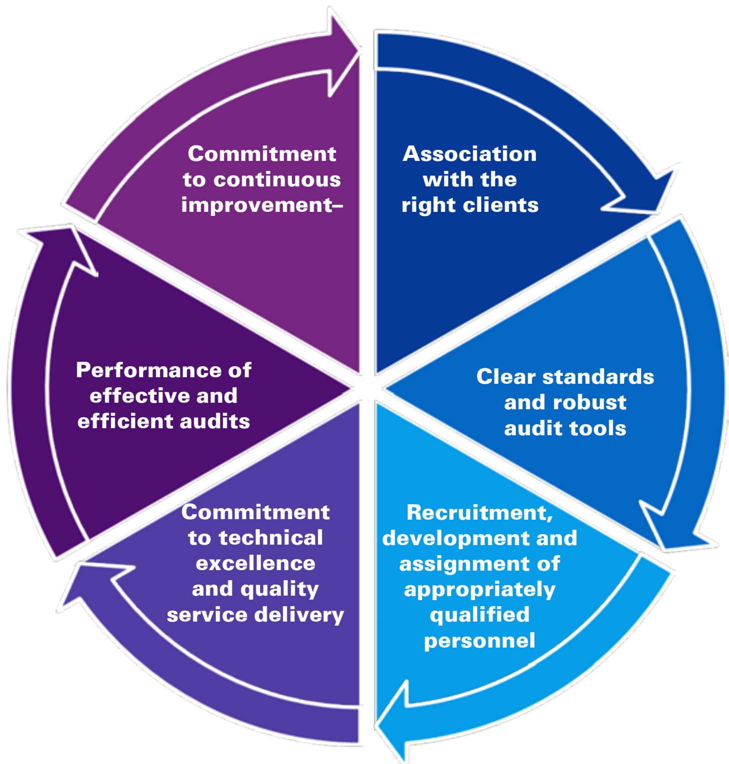
- Analysed IT landscape, processes and controls
- Decide approach to transition
- Implement new IT controls
- Develop training materials

Our assessment of readiness is based on our discussions with management only.

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.



Commitment to continuous improvement

- 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

Performance of effective and efficient audits

- 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

Commitment to technical excellence and quality service delivery

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

Association with the right clients

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

Clear standards and robust audit tools

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

Recruitment, development and assignment of appropriately qualified personnel

- 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

The contacts at KPMG in connection with this report are:

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