



Aberdeen City Council Annual Audit Plan 2014/15

Prepared for Aberdeen City Council

February 2015



Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in Aberdeen City Council's financial statements.
2. This report summarises the key challenges and risks facing Aberdeen City Council and sets out the audit work that we propose to undertake in 2014/15. Our plan reflects:
 - the risks and priorities facing Aberdeen City Council
 - current national risks that are relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Accounts Commission for Scotland
 - issues brought forward from previous audit reports.
3. The Charities Accounts (Scotland) Regulations 2006 specifies the accounting and auditing rules for Scottish registered charities. Irrespective of the size of the charity, as a consequence of the interaction of section 106 of the Local Government (Scotland) Act 1973 with the regulations, a full audit is required of all registered charities where the local

authority is the sole trustee. In 2013/14, Aberdeen City Council prepared 4 sets of financial statements in respect of its charitable trusts which disclosed total assets of around £10 million. Accordingly, we will perform the audit of the council's charitable trusts in parallel with the audit of the council's financial statements.

Summary of planned audit activity

4. Our planned work in 2014/15 includes:
 - an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the state of affairs of Aberdeen City Council and its group as at 31 March 2015 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2014 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
 - an audit of the financial statements and provision of an opinion for the charitable trusts where the local authority is the sole trustee

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- reporting the findings of the shared risk assessment process in a Local Scrutiny Plan. This will summarise identified scrutiny risks and/or any changes to the Local Area Network's (LAN's) assessment since last year
 - a review and assessment of Aberdeen City Council's governance and performance arrangements in a number of key areas including: internal controls; the adequacy of internal audit; Statutory Performance Indicators; and a review of the ICT environment
 - provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
 - reporting of National Fraud Initiative arrangements and results.

Responsibilities

5. The audit of the financial statements does not relieve management or the Audit, Risk and Scrutiny Committee, as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

6. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
7. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Head of Finance

8. It is the responsibility of the Head of Finance, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:

- maintaining proper accounting records
- preparing financial statements which give a true and fair view of the state of affairs of Aberdeen City Council and its group as at 31 March 2015 and its expenditure and income for the year then ended.

Format of the accounts

9. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice. Aberdeen City Council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government. To enable summarisation, common accounting principles and standard formats should be used.

Audit Approach

Our approach

10. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of Aberdeen City Council and its group. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:

- understanding the business of Aberdeen City Council and its group and the risk exposure which could impact on the financial statements
- assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Aberdeen City Council will include these in the financial statements
- assessing and addressing the risk of material misstatement in the financial statements
- determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.

11. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2014/15 includes:

- comprehensive closedown procedures for the financial statements setting out clear responsibilities for preparation and accompanied by a timetable issued to all relevant staff
- delivery of unaudited financial statements with a comprehensive working papers package to be made available to audit over a phased period in accordance with an agreed timetable
- completion of the internal audit programme for 2014/15
- a letter of management representation for key areas of the financial statements
- representations from the auditors of the council's subsidiaries within the group boundary.

12. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. Internal audit is provided by PricewaterhouseCoopers. We seek to rely on the work of internal audit wherever possible and, as part of our planning

process, we carried out an early assessment of the internal audit function and concluded that we could place reliance on their work. Overall, we concluded that the internal audit service operates in accordance with relevant Public Sector Internal Audit Standards (PSIAS) which enables us to take assurance from their documentation and reporting procedures.

13. We plan to place formal reliance on internal audit's Continuous Financial Controls activity to support our audit opinion on the financial statements. This work reviews key financial control systems, for example, payroll, accounts payable, accounts receivable, treasury management, council tax and non-domestic rates.
14. In respect of our wider governance and performance audit work we also plan to review the findings of internal audit work around arm's-length bodies.

Group arrangements

15. Our responsibilities and approach set out earlier cover both our audit of the council and its group. In order to give an opinion on the group accounts, we need an understanding of the nature of the council's subsidiaries and associates and their relationships including any significant changes during the year, group wide controls including the work of internal audit and the consolidation process.

16. International Standard on Auditing 600 (ISA600): using the work of another auditor focuses on the group engagement lead providing direction to component auditors to ensure that sources of assurance are agreed as part of the planning process. In reaching our opinion on the group accounts, we consider, review and evaluate as required the work of the auditors of the council's subsidiaries and associates within the group boundary and seek representations from them on a range of matters covering professional competence, conduct, and audit opinion. We also review the audited accounts for each of the entities in the group.
17. Having considered the effect of component auditors' reports, along with any unadjusted misstatements and events after the financial reporting period, we should have sufficient assurances to conclude on whether the entities' accounts, policies and disclosures have been appropriately consolidated in the group accounts.

Materiality

18. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

19. Based on our knowledge and understanding of Aberdeen City Council we have set our planning materiality at 1% of gross expenditure. For 2014/15 planning materiality is £7.566 million.
20. We set a lower level, known as performance materiality, when defining our audit procedures. This level depends on professional judgement and is informed by a number of factors including:
- extent of estimation and judgement within the financial statements
 - nature and extent of prior year misstatements
 - extent of audit testing coverage.
21. For 2014/15 performance materiality has been set at £3.778 million. We will report to those charged with governance all misstatements greater than £100,000. In line with auditing standards, amounts below this level are considered 'clearly trivial' and need not be reported.
22. In addition, an inaccuracy which would not normally be regarded as material in terms of monetary value may be important for other reasons (for example the failure to achieve a statutory requirement, or an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context. Such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

Exhibit 1: Materiality levels

	Materiality £	Performance Materiality £	Clearly Trivial £
Council	7,566,000	3,778,000	100,000
Group	7,066,000	3,533,000	100,000
Lands of Skene	323 (SFA) 40,000 (BS)	162 (SFA) 20,000 (BS)	10 (SFA) 1,000 (BS)
Lands of Torry	1,274 (SFA) 20,000 (BS)	637 (SFA) 10,000 (BS)	30 (SFA) 500 (BS)
Education Endowments	6 (SFA) 1,676 (BS)	3 (SFA) 838 (BS)	1 (SFA) 50 (BS)
Charitable Trusts	208 (SFA) 25,348 (BS)	104 (SFA) 12,674 (BS)	8 (SFA) 100 (BS)

23. We set different levels of materiality for the council's annual accounts, those of the council's group and those of the individual charities. For the charities, different levels of materiality have been set for the Statement of Financial Activities (SFA) and Balance Sheet (BS) due to the disparity in values between the two. The levels of materiality, performance materiality and 'clearly trivial' are included in Exhibit 1.

Reporting arrangements

24. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The Audit, Risk and Scrutiny Committee is required to consider the unaudited annual accounts at a meeting by 31 August.
25. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period.
26. The 2014 regulations require the local authority (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.
27. The authority is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The local authority is also required to publish a copy of the accounts of its subsidiaries. The annual audit report is required to be published on the website by 31 December.

28. Exhibit 2 highlights the key dates for the Audit, Risk and Scrutiny Committee taking account of submission requirements.

Exhibit 2: Annual Accounts audit timetable – key dates

Key stage	Date
Planned approval of unaudited annual accounts by Audit, Risk and Scrutiny Committee	25 June 2015
Planned approval of audited annual accounts for signature by Audit, Risk and Scrutiny Committee	24 September 2015
Independent auditor's report signed	By 30 September 2015

29. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible head of service and relevant officers to confirm factual accuracy. A copy of all final agreed reports will be sent to the Chief Executive, Acting Director of Corporate Governance, Head of Finance, Internal Audit and Audit Scotland's Performance Audit and Best Value Group.
30. We will provide an independent auditor's report to Aberdeen City Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with

applicable statutory requirements. As part of streamlining our audit approach, this year the Annual Audit Report will be combined with the ISA 260 report. As a result, the Annual Audit Report will be issued by 30 September which is one month earlier than previous years.

- 31. All annual audit reports produced are published on Audit Scotland's website www.audit-scotland.gov.uk
- 32. Planned outputs for 2014/15 are summarised at Appendix 1.

Quality control

- 33. 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. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).

- 34. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, Stephen Boyle.

Independence and objectivity

- 35. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.
- 36. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Aberdeen City Council.

Audit issues and risks

Audit issues and risks

37. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following main financial statements risk areas for Aberdeen City Council.

Annual Accounts Opinion Risks

38. **Local Authority Accounts (Scotland) Regulations 2014 (2014 regulations):** As set out in paragraphs 24 to 27, the 2014 regulations introduced a number of key changes with regard to the processes for approval and publication of both the unaudited and audited annual accounts.
39. In order to meet these certification dates for the annual accounts and the planned earlier publication of the Annual Audit Report, we held discussions with the Head of Finance and his team to review our respective ways of working in order to implement a smarter approach for the preparation and audit of the council's financial statements and the charities' accounts. This will require a change in working practices for both the finance and audit teams but should enable us to

collectively deliver the audited accounts to meet the required timescales.

40. The 2014 regulations require a management commentary to be included in the financial statements for the first time. This requires greater disclosures than have been included to date as part of the explanatory foreword, for example, more information on principal risks and uncertainties, main trends and factors affecting future development and performance and social, community and human rights issues.
41. **Fraud Risk:** We have identified that some areas of the council's financial statements have an element of fraud risk attached, for example:
- **Income:** Auditing standards (ISA 240 *The auditor's responsibility to consider fraud in an audit of financial statements*) requires auditors to presume a risk of fraud where income streams are significant. While Aberdeen City Council receives a significant amount of funding from the Scottish Government, there are also a range of other sources including Council Tax, Non Domestic rates and charges for services. The extent/complexity of income means there is an inherent risk that income could be materially misstated. The ISA requires auditors to evaluate which types of revenue transactions give rise to such risks. We will therefore design and perform audit procedures to address these matters.

- **Management override of controls:** ISA 240 requires auditors to consider, on all audits, management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively. We will therefore design and perform audit procedures which are responsive to the risks identified in respect of Aberdeen City Council.

42. **New group accounts standards:** The Code of practice on local authority accounting in the United Kingdom 2014/15 (the Code) requires authorities to prepare group financial statements in accordance with relevant accounting standards. From 2014/15, the group accounting standards are IFRS 10 Consolidated financial statements, (as adapted by Code paragraph 9.1.1.3), IFRS 11 Joint arrangements, IFRS 12 Disclosure of interests in other entities, and IAS 28 Investments in Associates and Joint Ventures (as amended in 2011). The council is required to consider the implications of the new standards and we will review the group accounts to ensure the requirements have been applied accordingly.
43. **Capital Investment:** Through its Strategic Infrastructure Plan (SIP), the council is taking forward a number of significant developments. Several projects have complex funding arrangements, involving different models of working with external partners and agencies and consequently, these projects are quite different in nature to traditional projects

historically funded by borrowing. Robust governance and performance monitoring arrangements will be required to provide elected members with the necessary assurances on progress. In addition, an ongoing awareness of developments in significant projects is required as part of our wider understanding of the business of the council and this assists in our anticipation of the accounting implications that need to be considered to ensure the required disclosures have been included in the financial statements.

44. Examples of projects relevant to the 2014/15 audit are:
- **Aberdeen Western Peripheral Route (AWPR):** Funding for AWPR has been the subject of a tripartite Memorandum of Understanding (MoU) between the Scottish Ministers, Aberdeen City Council and Aberdeenshire Council signed on 30 October 2003 and subsequently varied in April 2007 and April 2013 to reflect changes to the project. The MoU confirmed that the level of funding contributions from the two partner local authorities would be restricted at the lower of either a maximum of £75m or 9.5% each. The approved 2014/15 - 2018/19 non-housing capital plan includes expenditure of £57 million over the 5 year period. This is a significant project which partners will wish to monitor to ensure expenditure is contained within agreed spending plans.

- **Hydrogen buses:** The council has worked in partnership to secure a range of funding streams to enable a fleet of hydrogen buses to be acquired by the city. The fleet will belong to the council and will form part of the property, plant and equipment on the council's balance sheet.
- **Marischal Square:** In 2013, Muse Developments was selected as the council's strategic partner for this development. Arrangements are developing and any impact on the council's 2014/15 financial statements needs to be considered.

45. **Holiday pay:** A recent ruling by the European Court of Justice reached the opinion that the calculation of holiday pay could be based on variable payments in addition to basic pay, for example contractual overtime or bonus payments. In addition, it may be possible for employees to make retrospective claims and for former employees to make claims. The council has estimated that the impact of the decision on its current employees is around £500,000 while it continues to consider the position in respect of retrospective claims and former employees. We will assess the council's response to this legal opinion including the adequacy of any provision included in the financial statements.
46. **Highways assets:** These are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code requires highways to be measured for the first time on a depreciated replacement cost

basis. This represents a change in accounting policy from 1 April 2016 which will require a revised opening balance sheet as at 1 April 2015 and comparative information in respect of 2015/16. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets. We will monitor the council's progress in planning ahead to allow full compliance with the Code.

Wider Dimension Risks

47. **Financial Pressures:** The 2014/15 revenue budget was approved by the council in February 2014. The 5 year indicative budget at that time predicted a cumulative shortfall at 2018/19 of £35 million. The draft revenue budget for 2015/16, presented to the Finance, Policy and Resources Committee in December 2014 highlighted a growing funding gap in the 5 year budget, with the cumulative shortfall increasing to £52 million, largely as a result of uncertainty in the expected level of Revenue Grant and increased cost pressures. There is a risk that expenditure is not contained within available resources and that the necessary efficiencies are not secured to meet the estimated shortfall.
48. The ICT function is currently being restructured as part of the ICT Improvement Plan under the responsibility of a new post of Head of Information Technology and Transformation. The council's external contract for hosting servers is due to end in

around 6 months. Options for future delivery of many ICT services such as a shared service desk and data centre are currently being developed. We will review ICT arrangements as part of our routine work in reviewing the council's transformation plans.

- 49. Performance and scrutiny of the council's Arm's-Length External Organisations (ALEOs):** The introduction of a series of governance hubs was agreed in 2014 which would establish a group of officers within each relevant service to consider performance information in respect of the council's group companies and ALEOs. It was agreed that the new governance hubs would report to the Audit, Risk and Scrutiny Committee on a regular basis. In addition, a sub-committee to the Audit, Risk and Scrutiny Committee, to be known as the Shareholder Scrutiny Group (SSG), was established to review the performance of the local authority trading company, Bon Accord Care. This met for the first time in November 2014.
- 50.** Aberdeen has a significant group structure and as part of our opinion work for the group accounts, we will review and assess progress in implementing the new governance arrangements.
- 51. Restructuring:** In summer 2014 the council implemented a revised committee structure and a new management structure. An organisational review implemented a '3+1' senior management model where the 'plus one' is a joint role with NHS Grampian to take forward the health and social care

integration agenda. The committee structure was also reviewed to provide better alignment with the organisational structure which reduced the number of service committees from 5 to 3 plus the integration shadow board. Both directors and committees have assumed greater responsibilities and remits which will require to be kept under review to ensure that structures are operating effectively.

- 52. Health and Social Care Integration:** The Public Bodies (Joint Working) (Scotland) Act 2014 provides the framework for the integration of health and social care services in Scotland. The council and NHS Grampian agreed on a body corporate/ integrated joint board model for Aberdeen. The restructure of the council's management team includes a chief officer who is jointly accountable to both the council and NHS Grampian for the health and social care integration agenda. This post was filled in August 2014 and the incumbent took office in October 2014.
- 53.** A Transitional Leadership Group was approved in November 2013 to oversee integration in Aberdeen. This became a Shadow Joint Board from January 2015 and by April 2016, an integration Joint Board will be in place.
- 54.** Aberdeen City Council and NHS Grampian need to continue to develop and embed effective relationships to ensure the integration agenda is delivered in line with plans. We will monitor progress with this agenda throughout the year.

55. Shared Section 95 Officer Arrangements: In December 2014, the council entered into a trial shared service arrangement with Shetland Islands Council for the delivery of the remit of the Chief Financial Officer – commonly referred to as the Section 95 Officer. This arrangement will initially be for 12 months, with a review to be undertaken after 6 months. The council regard this initiative as both an opportunity and a challenge. In response, the council are increasing the number of accountants within the team and are also amending the roles and responsibilities of the senior posts within the team to ensure there is strengthened leadership and capacity. While we have shared our concerns around capacity with the Head of Finance, we also recognise that steps have been taken to build the capability of the team. We will consider the outcome of the six month review as part of the assurances we collate in forming our governance opinion for the year.

56. Performance Reporting: In March 2014, the Corporate Management Team adopted a performance dashboard to consider the council's performance. More recently, the Finance, Policy and Resources Committee has received a similar tool for reviewing the Corporate Governance Service indicators and has sought further refinement. It is intended that the use of dashboards will be rolled out across the council in due course. In the spirit of transparency and proper accountability, links to the dashboards should also be made available on the council's website to afford the public easy

access to the most up to date information on the performance of the various services of the council. We will review the council's use of performance information as part of our review of the arrangements for Statutory Performance Indicators.

Summary assurance plan

57. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix 2. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix 2. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

Fees and resources

Audit fee

58. Over the past four years, on a national basis, Audit Scotland has reduced audit fees by 23.5% in real terms, exceeding our 20% target. The overall fee strategy for 2013 largely held indicative fees at the same level as the previous year. For 2014, there has been an increase of 1%.
59. In determining the audit fee we have taken account of the risk exposure of Aberdeen City Council, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. In setting the fee, we have agreed an approach for earlier access to certain working papers and receipt of the complete set of working papers to support the unaudited financial statements on a phased basis up to 30 June 2015.
60. The agreed audit fee for 2014/15 audit of Aberdeen City Council and the trust funds is £416,000 (2013/14 £410,400) which represents an increase of 1.36% on the previous year. Our fee covers:
- the costs of planning, delivering and reporting the annual audit including auditors' attendance at committees

- your organisation's allocation of the cost of national performance audits and statutory reports by the Accounts Commission
- a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National Fraud Initiative), support costs and auditors' travel and subsistence expenses.

61. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Audit team

62. Stephen Boyle, Assistant Director, Audit Services is your appointed auditor. The local audit team will be led by Anne MacDonald who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 3. The core team will call on other specialist and support staff as necessary.

Exhibit 3: Audit team

Name	Experience
Stephen Boyle BAcc CPFA, Assistant Director	Stephen has 18 years' experience of public sector finance. He trained as an accountant with a Big 4 firm, before joining Audit Scotland in 2002. He later worked as Head of Finance and Corporate Services for Cube Housing Association, before spending three years with Glasgow Housing Association as Assistant Director of Finance. He re-joined Audit Scotland in June 2013.
Anne MacDonald CA, Senior Audit Manager	Anne has many years public sector experience mainly in local government financial audit.
Mark Johnstone CPFA, Senior Auditor	Mark has a significant number of years of public sector audit experience with Audit Scotland, across the local government, central government, health and further education sectors.

Name	Experience
Edward Stansfeld, Senior ICT Auditor	Edward trained as an auditor in private practice in the early 90s, and then worked in industry for five years. He joined Audit Scotland in 2001 as an IT audit specialist. Edward contributes to the international ISM3 information security standard which provides a process-based view of ISO27001/BS7799.
Deirdre Sim, Auditor	Deirdre has 18 years public sector audit experience in a wide range of clients in the local government and health sectors.
Steven Caldwell, Professional Trainee	Steven joined Audit Scotland's graduate training programme in October 2013 and is currently working towards his ICAS qualification.
Bryan Gillingham, Professional Trainee	Bryan joined Audit Scotland's graduate training programme in October 2014 and is currently working towards his ICAS qualification.

Appendix 1: Planned audit outputs

Planned outputs	Target date for consideration by Audit, Risk and Scrutiny Committee	Submission date for returns to Audit Scotland / Scottish Government
Governance		
Local Scrutiny Plan 2015/16	30 April 2015	N/A
Governance management letter	25 June 2015	N/A
Performance Audit		
National Fraud Initiative – Data Return	N/A	June 2015
Overview Report – Data Return	N/A	Early October 2015
Financial statements		
Report to Audit, Risk and Scrutiny Committee – Communication of audit matters to those charged with governance (Combined ISA260 and the Annual Report to elected members and the controller of audit on the 2014/15 audit	24 September 2015	N/A
Independent auditor's report on the financial statements	N/A	By 30 September 2015
Audit opinion on charitable trusts	N/A	By 30 September 2015

Planned outputs	Target date for consideration by Audit, Risk and Scrutiny Committee	Submission date for returns to Audit Scotland / Scottish Government
Audit opinion on Whole of Government Accounts	N/A	Early October 2015
Grants		
Education Maintenance Allowance	N/A	31 July 2015
Criminal Justice Services Returns	N/A	30 September 2015
Housing Benefit Subsidy	N/A	30 November 2015
Non Domestic Rates Income return	N/A	January 2016

Appendix 2: Significant audit risks

We undertake a risk-based audit whereby we focus on those areas where we have identified a risk of material misstatement in the accounts. This section shows how our audit approach focuses on the risks we have identified through our planning procedures. ISA 315 *Identifying and assessing the risks of material misstatement through understanding the entity and its environment* defines a significant risk as “an identified and assessed risk of material misstatement that, in the auditor’s judgement, requires special audit consideration.”

In this section we identify a range of risks facing Aberdeen City Council, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of Aberdeen City Council and its officers, with the auditor’s role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Audit Risk	Source of assurance	Assurance procedure
<i>Annual Accounts opinion risk</i>		
Local Authority Accounts (Scotland) Regulations 2014 (2014 regulations) The 2014 regulations introduce a number of key changes with regard to the processes for approval and publication of both the unaudited and audited annual accounts. There is a risk that the new requirements are not met.	<ul style="list-style-type: none">• Annual Accounts Action Plan prepared taking all key dates into account• Early planning meeting held with Head of Finance and his team to agree an approach to enable an earlier conclusion to the audit to ensure the audited accounts meet the timetable for the Audit, Risk and Scrutiny Committee.	<ul style="list-style-type: none">• Regular contact with finance department• Agreed timetable for delivery of draft annual accounts• Agreed early annual accounts audit work to be carried out in April and May.

Audit Risk	Source of assurance	Assurance procedure
<p>Income recognition</p> <p>Aberdeen City Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.</p>	<ul style="list-style-type: none"> • Internal Audit continuous controls review which assists in providing an opinion on the governance arrangements • There are a range of policies and procedures in place to prevent and detect fraud including standing orders and financial regulations • The council has a fraud policy in place. 	<ul style="list-style-type: none"> • Detailed substantive testing of revenue transactions • Assurances from the work carried out by internal audit.
<p>Management override of controls</p> <p>As stated in ISA240, management in all entities is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Internal Audit continuous controls review which assist in providing an opinion on the governance arrangements • There are a range of policies and procedures in place to prevent and detect fraud including standing orders and financial regulations. 	<ul style="list-style-type: none"> • Detailed testing of journal entries • Review of accounting estimates for bias • Evaluating significant transactions that are outside the normal course of business.
<p>Group Accounting Standards</p> <p>The Code of practice on local authority accounting in the United Kingdom 2014/15 (the Code) requires authorities to prepare group financial statements in accordance with relevant accounting standards. These have been updated for 2014/15.</p> <p>There is a risk that group relationships and transactions included in the financial statements do not comply with accounting standards.</p>	<ul style="list-style-type: none"> • Annual review of relationships with external bodies by the Accounting team in conjunction with Heads of Service to ensure that entities falling within the council's group boundary have been identified. 	<ul style="list-style-type: none"> • Regular contact with finance department • Early review to identify and confirm the impact on group accounts.

Audit Risk	Source of assurance	Assurance procedure
<p>Capital investment</p> <p>Through its Strategic Infrastructure Plan (SIP), the council is taking forward a number of significant developments. Several projects have complex funding arrangements, involve different models of working with external partners and agencies and consequently, there are potential technical accounting issues to resolve.</p> <p>There is a risk that significant transactions are not treated correctly in the financial statements leading to a potential misstatement in the results.</p>	<ul style="list-style-type: none"> • Dedicated project manager responsible for delivery of the SIP • Continued oversight of the Corporate Asset Group in the management of capital projects • Designated specialists to consider capital accounting and balance sheet during year and through year-end closure. 	<ul style="list-style-type: none"> • Watching brief on significant projects including review of associated documentation and discussion with officers.
<p>Holiday pay</p> <p>A recent legal ruling reached the opinion that the calculation of holiday pay could be based on variable payments in addition to basic pay and that employees and former employees may be able to make retrospective claims.</p> <p>There is a risk that provisions included in the financial statements do not meet the criteria set out in accounting standards.</p>	<ul style="list-style-type: none"> • Report to Finance, Policy and Resources Committee setting out the action undertaken by the council in relation to current practices and the ongoing work in assessing the potential for retrospective claims. 	<ul style="list-style-type: none"> • Consider the robustness of the action to date and adequacy of any provision included in the financial statements.

Audit Risk	Source of assurance	Assurance procedure
<p>Highway assets</p> <p>The 2016/17 Code requires highways to be measured for the first time on a depreciated replacement cost basis from 1 April 2016. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets.</p> <p>There is a risk that the new valuations will not be available when required.</p>	<ul style="list-style-type: none"> • Ongoing discussions between finance and infrastructure officers to gather the necessary information. 	<ul style="list-style-type: none"> • Monitor the council's progress in planning ahead to allow full compliance with the Code.
Wider responsibility risks		
<p>Financial Pressures</p> <p>The draft revenue budget for 2015/16, presented to the Finance, Policy and Resources Committee in December 2015 highlighted an increased funding gap with the cumulative shortfall increasing from £35 million to £52 million.</p> <p>There is a risk that savings targets will not be met impacting on services and delivery of strategic aims.</p>	<ul style="list-style-type: none"> • Regular meetings of Finance and HR Business Partners with Directors and Heads of Service to discuss all aspects of the council's business • Revisiting options identified but not progressed as part of the priority based budgeting exercise • Head of Service challenge process • New Head of Service post for IT and Transformation. 	<ul style="list-style-type: none"> • Ongoing monitoring of financial plans, assumptions and estimates.

Audit Risk	Source of assurance	Assurance procedure
<p>Performance and scrutiny of ALEOs</p> <p>There is a growing level of services provided by ALEOs. While this provides greater flexibility in the delivery of services, there is a risk that the council cannot demonstrate that the council's objectives are being met or that resources are being used effectively.</p>	<ul style="list-style-type: none"> • A series of officer led governance hubs have been developed in respect of the council's group companies and ALEOs which will report to the Audit, Risk and Scrutiny Committee. Once implemented and embedded, these arrangements should provide robust scrutiny of the governance and performance of ALEOs against the council's objectives • A Shareholder Scrutiny Group was formed and met for the first time in November 2014 as a sub committee of the Audit, Risk and Scrutiny Committee with the remit of scrutinising the performance of Bon Accord Care • Group finance directors met together for the first time in February 2015. It is intended that this forum will continue at least annually. 	<ul style="list-style-type: none"> • Monitoring of the new arrangements as they become embedded.

Audit Risk	Source of assurance	Assurance procedure
<p>Restructuring</p> <p>Roles and responsibilities of directors and the remits of council committees have been widened as part of the recent organisational restructure. The mechanisms put in place to support these wider roles and responsibilities will take time to become embedded increasing the risk that some important performance issues may go unnoticed in the interim.</p>	<ul style="list-style-type: none"> • Revised Heads of Service roles and remits • Additional Depute Convenors were appropriate • Cross service involvement, for example, in monitoring the Strategic Infrastructure Plan and with strengthened links to the corporate management team • Strengthened scrutiny arrangements 	<ul style="list-style-type: none"> • Monitoring of the new arrangements as they become embedded.
<p>Health and Social Care Integration</p> <p>Although arrangements for Health and Social Care integration are currently on track, Aberdeen City Council and NHS Grampian need to continue to develop and embed effective relationships to ensure the integration agenda is delivered in line with plans.</p>	<ul style="list-style-type: none"> • Work is underway to develop an integration scheme and the strategic plan for the joint board • A Resource Group involving council and NHS finance staff representation have provided detailed coverage of financial budgets. 	<ul style="list-style-type: none"> • Monitor progress of the new arrangements as they are developed.

Audit Risk	Source of assurance	Assurance procedure
<p>Shared Section 95 Officer Arrangements</p> <p>In December 2014, the council entered into a trial shared service arrangement with Shetland Islands Council for the delivery of the remit of the Chief Financial Officer – commonly referred to as the Section 95 Officer.</p> <p>There is a capacity risk that the demands on officers to provide the shared service will impact on the service provided in Aberdeen.</p>	<ul style="list-style-type: none"> • Restructure of Finance Department including recruitment of additional resource to build capacity • Access to resource available through PWC • Formal six month review of pilot exercise to be carried out. 	<ul style="list-style-type: none"> • Ongoing monitoring of the development of the service in Aberdeen.
<p>Performance Reporting</p> <p>It is intended that the use of performance dashboards will be rolled out across the councils committees in due course. In the spirit of transparency and proper accountability, links to the dashboards should also be made available on the council's website.</p> <p>In the absence of effective information, there is a risk that priorities are not being progressed as poor performance may not be promptly identified and therefore corrective action cannot be taken timeously.</p>	<ul style="list-style-type: none"> • Development of performance management processes • Corporate Management Team dashboard • SIP dashboard. 	<ul style="list-style-type: none"> • Monitoring of the new arrangements as they are developed.