



# Aberdeen City Council

Annual Audit Plan  
2015/16

Prepared for Members of Aberdeen City Council

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## Key contacts

Stephen Boyle, Assistant Director  
[sboyle@audit-scotland.gov.uk](mailto:sboyle@audit-scotland.gov.uk)

Anne MacDonald, Senior Audit Manager  
[amacdonald@audit-scotland.gov.uk](mailto:amacdonald@audit-scotland.gov.uk)

Mark Johnstone, Senior Auditor  
[mjohnstone@audit-scotland.gov.uk](mailto:mjohnstone@audit-scotland.gov.uk)

Audit Scotland  
Business Hub 15, 3rd Floor South  
Marischal College  
Broad Street  
Aberdeen  
AB10 1AB

Telephone: 0131 625 1500

Website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies ([www.audit-scotland.gov.uk/about/ac/](http://www.audit-scotland.gov.uk/about/ac/)). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General ([www.audit-scotland.gov.uk/about/](http://www.audit-scotland.gov.uk/about/)).

The Accounts Commission has appointed Stephen Boyle as the external auditor of Aberdeen City Council for the period 2012/13 to 2015/16.

This report has been prepared for the use of Aberdeen City Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

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# Summary

## Introduction

1. This report summarises the key challenges and risks facing Aberdeen City Council and sets out the audit work that we propose to undertake in respect of the 2015/16 audit. This is the final year of our five year audit appointment. The Assistant Auditor General is currently undertaking a procurement process for the appointment of public sector auditors for the next five year cycle. Details of the council's new external auditor will be advised in the spring.
2. Our audit is focused on the identification and assessment of the risks of material misstatement in Aberdeen City Council's financial statements.
3. 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.

4. 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 2014/15, Aberdeen City Council made use of the connected charities provision and therefore prepared one set of financial statements in respect of all of its charitable trusts. The net assets of the combined charitable trusts amount to approximately £7.6 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

5. Our planned work in 2015/16 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 2016 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 2015 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
- 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
- reporting on the results of follow up work on the council's progress in implementing Best Value improvement plans
- a review and assessment of Aberdeen City Council's governance and performance arrangements including progress in implementing previous year audit recommendations. Key areas considered will include: internal controls, adequacy of internal audit, the IT environment and the management of Arm's Length External Organisations (ALEOs)
- 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
- collection of relevant financial and performance information to inform Audit Scotland's national reports
- a review of the council's arrangements for publication of statutory performance information including public performance reporting.

# Responsibilities

6. 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

7. 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.
8. 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

9. 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. 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 2016 and its expenditure and income for the year then ended.

## Format of the accounts

10. The financial statements should be prepared in accordance with the Code, which constitutes proper accounting practice.
11. 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

12. 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.
13. 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. Planned management action being relied on for 2015/16 includes:
- comprehensive closedown procedures for the council and group financial statements 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 2015/16
  - 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.
14. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. From 1 April 2015, the council entered into an agreement with Aberdeenshire Council's Internal Audit section for the provision of internal audit services. It was felt that this arrangement would provide opportunities for efficiencies. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function to

determine whether it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

15. Having confirmed that we can place formal reliance on Aberdeenshire Council's Internal Audit section, we plan to take assurance from the work of internal audit in the following areas, to support our audit opinion on the financial statements:
  - bank reconciliations
  - creditors
  - council tax
  - payroll.
16. In respect of our wider governance and performance audit work we also plan to review the findings and consider other areas of internal audit work including:
  - Arm's Length External Organisations (ALEOs)
  - Following the Public Pound

## Group arrangements

17. 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.

18. 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.
19. 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

20. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, 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.

21. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements both individually and collectively.
22. Based on our knowledge and understanding of Aberdeen City Council we have set our planning materiality at £7,837,000 (1% of gross expenditure).
23. We set a lower level, known as performance materiality, when defining our audit procedures. This is to ensure that uncorrected and undetected audit differences do not exceed our planning materiality. 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.
24. For 2015/16 performance materiality has been set at £5,486,000. We will report, to those charged with governance, all misstatements identified which are greater than £100,000. In line with auditing standards, amounts below this threshold need not be reported.
25. We set different levels of materiality for the council's annual accounts, those of the council's group and those of the charitable trusts. For the charitable trusts, 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 misstatement threshold are included in Exhibit 1.

#### Exhibit 1: Materiality levels

	Materiality £	Performance Materiality £	Misstatement Threshold £
Council	7,837,000	5,486,000	100,000
Group	7,266,000	3,633,000	100,000
Charitable Trusts	2,070 (SFA) 75,810 (BS)	1,449 (SFA) 53,067 (BS)	100 (SFA) 3,000 (BS)

#### Reporting arrangements

26. The Local Authority Accounts (Scotland) Regulations 2014 (2014 Regulations) require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The authority (or a committee whose remit includes audit or governance) is required to consider the unaudited annual accounts at a meeting by 31 August.
27. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period.



- 28. 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.
- 29. 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.
- 30. Exhibit 2 highlights the key dates for the Audit, Risk and Scrutiny Committee taking account of submission requirements.
- 31. 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. Responses to draft reports are expected within three weeks of submission. A copy of all final agreed reports will be sent to the Chief Executive, Interim Director of Corporate Governance, Head of Finance, Internal Audit and Audit Scotland's Performance Audit and Best Value Group.

**Exhibit 2: Annual Accounts audit timetable – key dates**

Key stage	Date
Consideration of unaudited financial statements by the Audit, Risk and Scrutiny Committee	27 June 2016
Agreement of unsigned financial statements for and issue of Annual Audit Report for pre-meeting of Audit, Risk and Scrutiny Committee	29 August 2016
Planned approval of audited financial statements for signature, and consideration of Annual Audit Report by the Audit, Risk and Scrutiny Committee	27 September 2016
Independent auditor's report signed	By 30 September 2016

- 32. 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. The Annual Audit Report will be issued by 30 September.
- 33. All annual audit reports produced are published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
- 34. Planned outputs for 2015/16 are summarised at [Appendix 1](#).

## Quality control

35. 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. This is to provide reasonable assurance that those 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).
36. 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

37. 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 Financial Reporting Council (FRC) 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.

38. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. In significant cases we would change the audit team, however where there are potential issues that are not fundamental to the delivery of the audit, we advise the senior finance officer of the circumstances and of the steps we have taken to manage this. We have advised the Head of Finance accordingly, in respect of any relationships impacting on the audit of Aberdeen City Council.

# Audit issues and risks

## Audit issues and risks

39. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Aberdeen City Council. We have categorised these risks into financial risks and wider dimension risks. The financial statements issues and risks, which require specific audit testing, are summarised below and detail contained in [Appendix 2](#).

## Financial statement issues and risks

40. **Fair Value Measurement:** The 2015 Code requires authorities to account for fair value measurement of assets and liabilities in accordance with International Financial Reporting Standard (IFRS) 13. Fair value is defined by the Code as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Examples of assets to which fair value measurement applies include surplus assets, investments held for sale, investment property and financial instruments. The council will require to consider if its existing practices will require any adjustment in light of the new standard. We will review the valuations to ensure the requirements have been applied accordingly.

41. **Council dwellings revaluation:** Council dwellings are revalued every 5 years, the current basis of valuation is fair value, determined using the basis of existing use for social housing (EUV-SH). As at 31 March 2015, the total net book value of council dwellings was £689,655 million. As part of the valuation process, the council is required to identify beacon properties and use these as a basis for calculation of the value of all properties. We will review the council's approach to the revaluation exercise to satisfy ourselves that the final valuation is not materially misstated.

42. **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 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 collate the necessary information to enable full compliance with the Code from 1 April 2016.

43. **Charities SORP:** From 2015/16, charities are required to apply either the Financial Reporting Standard for Smaller Entities (FRSSE) or Financial reporting standard (FRS) 102 when preparing their accounts on an accruals basis. Two new statements of recommended practice (SORPs) have been developed to provide guidance to charities on how to apply either the FRSSE or FRS 102. They replace the previous SORP that was issued in 2005. Charities which are under the threshold for small companies have the option to follow the Charities SORP (FRSSE), and we expect that this will

apply to the council's charitable trusts. The new SORP introduces a number of changes, mainly presentational, but also including the content of the trustees' annual report and a new classification of investment termed 'social investment'.

**44. 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.

**45. Severance payments:** Due to the ongoing public interest in severance arrangements across the public sector, it is important that all payments are justified and evidenced. We will therefore be undertaking a review of 2015/16 payments in this area to ensure compliance with regulations and where appropriate, that the relevant costs in respect of senior staff have been properly presented within the council's remuneration report.

## Wider dimension issues and risks

- 46. Best Value audit:** In July 2015, the Accounts Commission published the findings from its recent audit of Best Value and Community Planning. These findings were largely positive and while progress in a number of areas was recognised, the Accounts Commission also considered that it was too early to assess the effectiveness of much of the improvements put in place.
- 47.** The Controller of Audit was therefore required to note continuing interest in the council and to monitor and report back if there is evidence that improvements are not being delivered or embedded. The council's progress in responding to the areas for improvement which are broadly set out below will therefore be considered through the local audit and reported in our Annual Audit Report in September 2016.
- Vision and strategic direction
  - Leadership and working relationships
  - Performance management and scrutiny
  - Financial management and improvement.

- 48. Performance and scrutiny of the council's Arm's-Length External Organisations (ALEOs):** As of June 2015, the council has implemented a framework of governance hubs for its significant ALEOs – Bon Accord Care, Aberdeen Sports Village, Sport Aberdeen and Aberdeen Exhibition and Conference Centre (AECC) – to provide assurance around their governance arrangements. The remit of the hubs is to receive, through an agreed data set, a high level statement of assurance from ALEOs on the effectiveness of their systems of governance and operational performance, with a view to ensuring that the outcomes of that organisation are being met, and the risks to that organisation and to the council are mitigated and managed.
- 49.** Minutes of the hubs are presented to the Audit, Risk and Scrutiny Committee and further reports are being prepared for relevant service committees. To date the hubs have met twice, however we understand that it is the council's intention to increase the frequency of hub meetings to 4 per year.
- 50.** Aberdeen has a significant group structure and as part of our opinion work for the group accounts, we will review and assess the development of the governance arrangements.
- 51. Performance Reporting:** Performance reports are presented regularly to each service committee and have been revised to reflect the remits for the new committee structure. The format of reports, including the number of indicators provided, continue to vary significantly across services. For example, comparison against target is used but trend information is not consistently used.
- 52.** There is a dedicated section on the council's website called 'Aberdeen Performs' which is a repository of all performance information produced by the council ranging from its Corporate Business Plan and Service Plans, its Annual Reports to the public, its Statutory Performance Indicators and a link to the new Local Government Benchmarking Framework among others.
- 53.** Work is ongoing for the development of a consistent approach for reporting performance information to elected members and to review public performance reporting. These plans are being refreshed in light of the Best Value improvement plan and we will review progress as part of the 2015/16 audit.
- 54. Financial Pressures:** In February 2015, the council approved a balanced revenue budget for 2015/16. The 5 year indicative budget at that time however predicted a cumulative shortfall at 2019/20 of £52 million assuming that the council does nothing and accepts estimated future cost pressures. The council has been developing plans to address the forecast future shortfalls, however the actual level of savings arising have yet to be identified and agreed. Plans include transformation, outcome budgeting and PACE (Procurement Achieving Commercial Excellence).
- 55.** Further impacting on this position was the Scottish Government funding settlement announcement in December 2015. This covered one year only and in respect of Aberdeen, there was a decrease in funding of 3.5%. This provided additional challenges for the council in preparing a balanced budget for 2016/17 and limited the opportunity to prepare 5 year budgets. In common with other

councils, Aberdeen only approved a one year budget in February 2016. There is a risk that expenditure cannot be contained within available resources and that the necessary efficiencies are not secured to meet the estimated shortfall.

- 56. 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 an integrated joint board (IJB) model for Aberdeen. A shadow IJB is in operation from 1 April 2015 and has been developing arrangements in preparation for an operational 'going live' date of 1 April 2016.
- 57.** Both the council and NHS Grampian approved the Aberdeen City Health and Social Care Integration Scheme at separate meetings on 4 March 2015 and subsequently it was submitted to the Scottish Government for final approval prior to the 1 April 2015 deadline. Following discussions with the Scottish Government the shadow IJB has until March 2016 to finalise the Integration Scheme.
- 58.** The Aberdeen City IJB was formally established on 6 February 2016, although operational responsibility has been deferred until 1 April 2016. However, the board will require to prepare financial statements covering the accounting period from the establishment date to 31 March 2016. In addition, the IJB will be regarded as a joint venture which the council may need to consider for inclusion within its group accounts.
- 59.** The IJBs are regarded as local government bodies and will be audited by the relevant local government auditor. In Aberdeen's

case, the appointed auditor will therefore be Stephen Boyle. We will prepare a separate audit plan to meet our responsibilities in respect of the IJB's financial statements.

- 60.** In May 2015, the Scottish Government issued final guidance for Integration Financial Assurance at both pre- and post-integration stages. This sets out the assurances required from audit committees within each of the partner bodies, and subsequently from the IJB when established. Prior to the introduction of the IJB, where practical, it is recommended that the Audit, Risk and Scrutiny Committee obtain assurance:
- on the finance provisions to be included in the integration scheme
  - on the plans for financial governance and financial assurance and risk
  - that lessons have been learned from other integration projects
  - that the financial metrics to be used in future to assess whether integration has met its objectives have been identified and that a process for obtaining baseline data is in place.
- 61.** 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. The council's Internal Audit plan was updated to review integration arrangements and regular reports are expected during 2015/16. We will therefore monitor progress with this agenda throughout the year.

- 62. Capital Investment:** Through its Strategic Infrastructure Plan (SIP) and City Centre Masterplan (CCM), the council is taking forward a number of significant developments. These plans have recently been enhanced with the agreement of a City Region Deal.
- 63.** The UK and Scottish governments announced in January 2016 that a deal worth £250 million over 10 years had been agreed with Aberdeen City Council and Aberdeenshire Council. Alongside this, the Scottish government announced a further investment of £254 million for infrastructure projects to support the region. The council has approved the formation of a Joint Committee to oversee the implementation of the deal. The establishment of a Programme Board and a Programme Management Office to support the day to day management of the deal have also been agreed. Further arrangements will be implemented in the months ahead.
- 64.** In 2014/15, we examined the accounting implications for several projects which were quite different in nature to traditional projects historically funded by borrowing. One such project was the Marischal Square development, a public/private sector collaboration with Muse Developments, which involves a sale and leaseback arrangement covering a 35 year period.
- 65.** While we concluded that the council has good awareness of the risks associated with the project and is managing them accordingly, we plan to maintain a watching brief on this project during the 2015/16 audit to:
- monitor the actions by the council to continue to mitigate identified and evolving risks
  - be informed about recent developments as this project continues to attract a high level of public interest.
- 66.** Using a sample of current capital projects, we will also be reviewing progress against recommendations made in Audit Scotland's national performance audit report, *Major Capital Investment in Councils*, initially published in March 2013. This work was due to be completed as part of the 2014/15 audit but in recognition of the council's recent refresh of its project management framework, we deferred follow up work for a year in order that the new arrangements could become more embedded.
- 67. Cyber Security:** Over the past year several Scottish public organisations have been victims of cyber-attacks. All public sector bodies should be aware of a cyber-attack and take actions to reduce the risk of a successful attack. We will review the council's cyber security arrangements and report our findings in our Annual Audit Report.

## National performance audit studies

- 68.** Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process, we will carry out work to collect relevant financial and performance information to inform Audit Scotland's national reports. In 2015/16 this will include a follow up of the national performance audit *Scotland's Public Sector Workforce*, which was published in November 2013.

# Fees and resources

## Audit fee

69. Over the past four years, Audit Scotland has reduced audit fees by 24% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to maintain indicative audit fees for 2015/16 at the same level as last year. This represents an additional real term fee reduction of 1.6%.
70. In determining the audit fee we have taken account of the risk exposure of Aberdeen City Council, the planned 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 2016.
71. The agreed audit fee for the 2015/16 audit of Aberdeen City Council and the charitable trusts is £409,870 (2014/15 £416,000). This represents a decrease of 1.5%. Our fee covers:
- the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees
  - an allocation of the cost of national performance studies and statutory reports by the Controller of Audit
  - 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.

72. 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

73. 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.

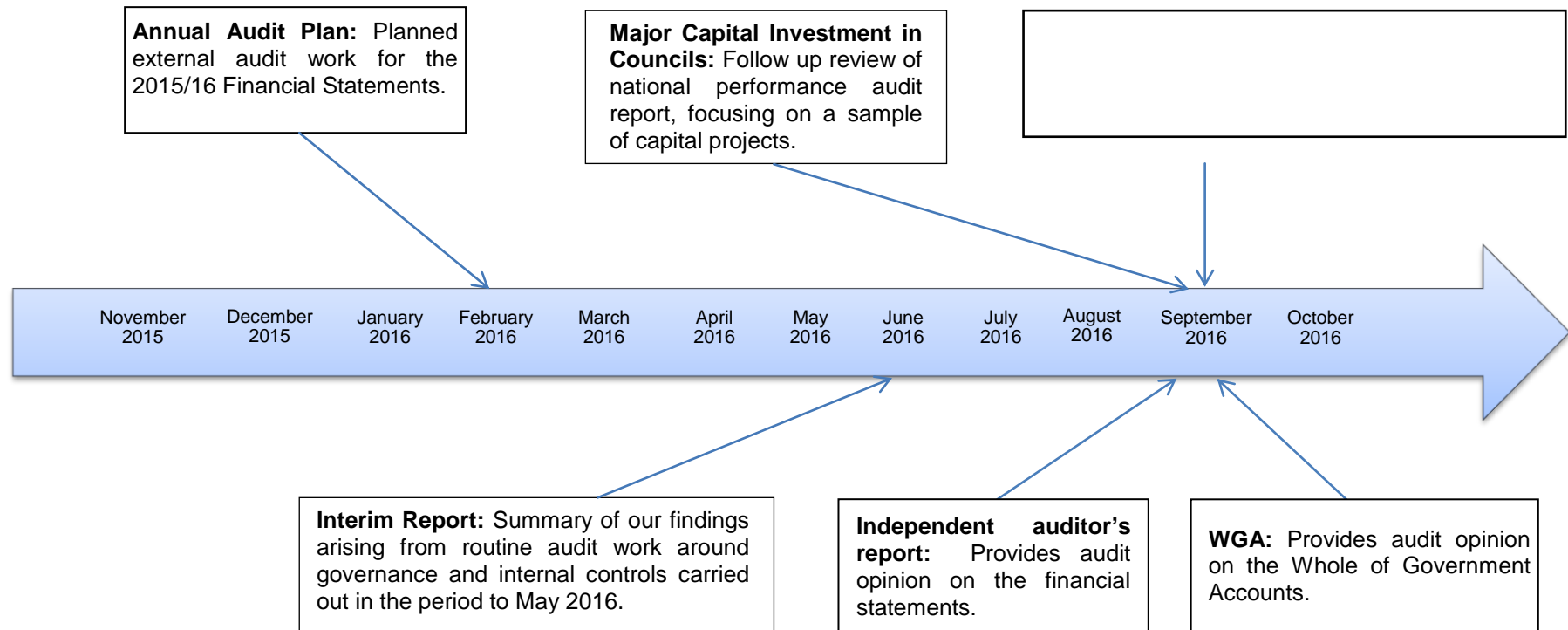


**Exhibit 3: Audit team**

Name	Experience
Stephen Boyle Assistant Director (and certifying auditor)	Stephen has 19 years' experience of public sector finance. He trained as an accountant with a Big 4 firm, before joining Audit Scotland in 2002. He re-joined Audit Scotland in June 2013, after spending three years with Glasgow Housing Association as Assistant Director of Finance.
Anne MacDonald Senior Audit Manager	Anne has many years of public sector experience mainly in local government covering both financial audit and best value audit.
Mark Johnstone 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.
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.
Deirdre Sim Auditor	Deirdre has 19 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.
Adebayo Ladejobi Professional Trainee	Adebayo qualified as a Chartered Accountant in Nigeria. He joined Audit Scotland's graduate training programme in October 2015 and is currently working towards his ICAS qualification.

# Appendix 1: Planned audit outputs

1. Timeline - The diagram below shows the key outputs planned for Aberdeen City Council in 2015/16.



## 2. Timeline – Detailed listing of all audit outputs

Planned outputs	Target date for consideration by ARSC*	Submission date for returns to Audit Scotland / Scottish Government
<b>Governance</b>		
Local Scrutiny Plan 2016/17	9 March 2016	31 March 2016
Interim Report	27 June 2016	30 June 2016
Managing Capital Projects – follow up activity	27 June 2016	30 September 2016
External Audit Outstanding Recommendations	Each ARSC* meeting	N/A
External Audit Progress Report	Each ARSC* meeting	N/A
<b>Performance Audit</b>		
National Fraud Initiative – Data Return	N/A	29 February 2016
Fraud Returns	N/A	31 May 2016
Workforce planning – follow up activity	N/A	30 June 2016
Arrangements for Statutory Performance Information	N/A	30 September 2016
Overview Report – Data Return	N/A	30 September 2016

\*ARSC = Audit, Risk and Scrutiny Committee

Planned outputs	Target date for consideration by ARSC*	Submission date for returns to Audit Scotland / Scottish Government
<b>Financial statements</b>		
Report to Audit, Risk and Scrutiny Committee – Communication of audit matters to those charged with governance - Annual Report to elected members and the controller of audit on the 2015/16 audit	27 September 2016	By 30 September 2016
Independent auditor's report on the financial statements	27 September 2016	By 30 September 2016
Audit opinion on charitable trusts	27 September 2016	By 30 September 2016
Audit opinion on Whole of Government Accounts	N/A	By 30 September 2016
<b>Grants</b>		
Education Maintenance Allowance	N/A	31 July 2016
Criminal Justice Services Returns	N/A	30 September 2016
Housing Benefit Subsidy	N/A	30 November 2016
Non Domestic Rates Income return	N/A	October 2016

## Appendix 2: Significant audit risks

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks during our audit work.

No	Audit Risk	Source of assurance	Audit assurance procedure
<b>Financial statement issues and risks</b>			
1	<p><b>Fair values</b></p> <p>The 2015 Code requires authorities to account for fair value measurement of assets and liabilities in accordance with IFRS 13. There is a risk that valuations are not carried out as per the requirements of the Code and therefore the value of assets and liabilities are misstated.</p>	<ul style="list-style-type: none"> <li>• Early planning meeting held with Head of Finance and his team to confirm expectations from new financial reporting requirements.</li> </ul>	<ul style="list-style-type: none"> <li>• Regular contact with finance department</li> <li>• Agreed timetable for delivery of draft annual accounts.</li> </ul>
2	<p><b>Council dwellings revaluation</b></p> <p>Council dwellings are revalued every 5 years, the current basis of valuation is fair value, determined using the basis of existing use for social housing (EUV-SH). This is a significant undertaking, requiring a number of complex judgements and calculations. There is a risk that the value of council dwellings is materially misstated.</p>	<ul style="list-style-type: none"> <li>• Instructions to the valuer and valuation report/certificates.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of valuation approach and test checks of amounts to valuation certificates</li> <li>• The valuer falls within the category of an expert and therefore we will place reliance on the work of the valuer in accordance with auditing standards.</li> </ul>

No	Audit Risk	Source of assurance	Audit assurance procedure
3	<p><b>Highway assets</b></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 or that they will be materially misstated leading to a qualified opinion on the 2016/17 accounts.</p>	<ul style="list-style-type: none"> <li>Ongoing discussions between finance and infrastructure officers to gather the necessary information.</li> </ul>	<ul style="list-style-type: none"> <li>Monitor the council's progress in planning ahead to collate the necessary information to enable full compliance with the Code.</li> </ul>
4	<p><b>Charities SORP (FRSSE)</b></p> <p>The new Statement of Recommended Practice for charities introduces a number of presentational and other changes to the annual accounts. There is a risk that the new requirements are not met.</p>	<ul style="list-style-type: none"> <li>Early planning meeting held with Head of Finance and his team to confirm expectations from new financial reporting requirements.</li> </ul>	<ul style="list-style-type: none"> <li>Regular contact with finance department</li> <li>Agreed timetable for delivery of draft annual accounts.</li> </ul>
5	<p><b>Income recognition</b></p> <p>The 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"> <li>Internal Audit reviews which assists in providing an opinion on the governance arrangements</li> <li>There are a range of policies and procedures in place to prevent and detect fraud including standing orders and financial regulations</li> </ul>	<ul style="list-style-type: none"> <li>Detailed substantive testing of revenue transactions</li> <li>Assurances from the work carried out by internal audit.</li> </ul>

No	Audit Risk	Source of assurance	Audit assurance procedure
		<ul style="list-style-type: none"> <li>The council has recently refreshed its anti-fraud arrangements with the issue of 'Policy and Strategic Response to Fraud, Bribery and Corruption'.</li> </ul>	
6	<p><b>Management override of controls</b></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"> <li>Internal Audit reviews which assist in providing an opinion on the governance arrangements</li> <li>There are a range of policies and procedures in place to prevent and detect fraud including standing orders and financial regulations.</li> </ul>	<ul style="list-style-type: none"> <li>Detailed testing of journal entries</li> <li>Review of accounting estimates for bias</li> <li>Evaluating significant transactions that are outside the normal course of business.</li> </ul>
7	<p><b>Severance payments</b></p> <p>The council is required to disclose the level of severance payments made to staff in the Remuneration report. We are aware of a number of senior staff members who have left the council during the year and therefore where such payments may have been made. There is a risk that any payments made have not been appropriately calculated and authorised.</p>	<ul style="list-style-type: none"> <li>HR policies and procedures</li> <li>Authorisation process for all transactions.</li> </ul>	<ul style="list-style-type: none"> <li>Review of a sample of cases</li> <li>Audit of the remuneration report.</li> </ul>

No	Audit Risk	Source of assurance	Audit assurance procedure
<b>Wider dimension issues and risks</b>			
8	<p><b>Best Value</b></p> <p>The findings of the Accounts Commission’s audit of Best Value and Community Planning highlighted four areas for improvement - Vision and strategic direction, Leadership and working relationships, Performance management and scrutiny and Financial management and improvement.</p> <p>The council needs to respond to these to ensure it is meeting its best value obligations.</p>	<ul style="list-style-type: none"> <li>• Regular updates on developments in each of the key areas</li> <li>• Refreshed corporate plan considered by council in February 2016</li> <li>• Governance review being scoped by Corporate Governance service which will initiate an 18 month piece of work.</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor progress of developments as they evolve and report progress through the Annual Audit Report.</li> </ul>
9	<p><b>Performance and scrutiny of ALEOs</b></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"> <li>• A series of officer led governance hubs, meeting on a six monthly basis, have been developed in respect of the council’s group companies and ALEOs with subsequent reporting to the Audit, Risk and Scrutiny Committee.</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring new arrangements as they become embedded and report progress through the Annual Audit Report</li> <li>• Review of the council’s revised Local Code of Practice for Following the Public Pound.</li> </ul>
10	<p><b>Performance Reporting</b></p> <p>Work is ongoing for the development of a consistent approach for reporting performance information to elected members and to review public performance reporting.</p>	<ul style="list-style-type: none"> <li>• Refresh of ‘Aberdeen Performs’ is scheduled for 2015/16</li> <li>• A governance review is planned including performance information requirements.</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring new arrangements as they are developed and report progress through the Annual Audit Report.</li> </ul>



No	Audit Risk	Source of assurance	Audit assurance procedure
	Performance issues may not be promptly identified and thus corrective action not taken timeously. Public performance reporting is not easily accessible for users.		
11	<p><b>Financial Pressures</b></p> <p>The draft revenue budget for 2016/17, presented to the Finance, Policy and Resources Committee in December 2015 highlighted an increase in the 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"> <li>• Regular meetings of Finance and Business Partners with Directors and Heads of Service to discuss all aspects of the council's business</li> <li>• Involvement of extended CMT in the financial planning process to ensure all options are challenged</li> <li>• Development of 2016/17 budget.</li> <li>• Development of an outcome based budget approach in the longer term.</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing monitoring of financial plans, assumptions and estimates and commentary in our Annual Audit Report.</li> </ul>
12	<p><b>Health and Social Care Integration</b></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> <p>There is a risk the required actions are not completed and the Board is unable to take operational responsibility from April 2016.</p>	<ul style="list-style-type: none"> <li>• Chief Officer appointed in 2014</li> <li>• Shadow Integration Joint Board in place</li> <li>• Internal audit involvement in reviewing the preparations for health and social care integration</li> <li>• Decision taken to appoint a chief financial officer. Interim chief financial officer approved until recruitment for a permanent appointment is concluded.</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor progress of the new arrangements as they are developed.</li> </ul>

No	Audit Risk	Source of assurance	Audit assurance procedure
13	<p><b>Capital investment</b></p> <p>Through the City Region Deal, its Strategic Infrastructure Plan (SIP) and City Centre Masterplan (CCM), the council is taking forward a number of significant developments. Several projects have complex funding arrangements and/or involve different models of working with external partners and agencies. Consequently, these projects may involve different risks and require additional governance considerations from the more traditional projects funded by borrowing.</p> <p>Where more complex projects are involved, there is a risk that decisions are not transparent due to their unique or sensitive nature. In some cases, this attracts greater public interest and requires increased public engagement. This risk may be more acute if projects fall outside the council's standard project management framework.</p>	<ul style="list-style-type: none"> <li>• Dedicated project manager responsible for delivery of the SIP</li> <li>• Continued oversight of the Corporate Asset Group in the management of capital projects</li> <li>• Marischal Square Project Delivery Group meets on a regular basis to discuss progress and update the risk register</li> <li>• City Region Deal governance framework being developed.</li> </ul>	<ul style="list-style-type: none"> <li>• Watching brief on significant projects involving review of associated documentation and discussion with officers</li> <li>• Follow up of previous recommendations from the Major Capital Projects Study</li> <li>• Review of a sample of 2015/16 capital projects.</li> </ul>