KPMG

Aberdeen City Council

Audit strategy

Year ending 31 March 2022

For the Audit, Risk and Scrutiny Committee (ARSC) and the Controller of Audit 22 February 2022.

Contents

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the auditing *Code*").

This report is for the benefit of Aberdeen City Council and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scoping and purpose section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Michael Wilkie, who is the engagement leader for our services to Aberdeen City Council, telephone 0141 300 5890 email: michael.wilkie@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Hugh Harvie, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6682 or email to hugh.harvie@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Fiona Kordiak, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Introduction

2021-22 is the sixth year of our external audit appointment to Aberdeen City Council (''the Council''), having been appointed by the Accounts Commission as auditor of the Council under the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2016-17 to 2021-22 inclusive, which was extended at the request of the Accounts Commission. The engagement leader will not exceed the five year maximum permitted for a UK Public Interest Entity ("UK-PIE"). Our appointment includes the audit of the Aberdeen City Council Charitable Trusts.

Our planned work in 2021-22 will include:

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

  - give a true and fair view in accordance with the applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom ("the 2020-21 Code") of the state of the affairs of the Council and Group as at 31 March 2022 and of the income and expenditure of the Council and Group for the year then ended; and

  - have been prepared in accordance with IFRS as adopted by the European Union, as interpreted and adapted by the 2021-22 Code, the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003.

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

— completion of returns to Audit Scotland and grant claims;

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

— a review of National Fraud Initiative arrangements;

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

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

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

– **Executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls** and

– All of our related activities are undertaken in an environment of the utmost level of **objectivity,** independence, **ethics** and **integrity**.

Adding value

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

— our experience, which brings insight and challenge;

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

— transparency and efficiency, which improves value for money.

Introduction (continued)

Our team

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

Michael Wilkie
Engagement leader – Audit Director

Matthew Moore
Senior Manager

Timetable

Our work will be completed in four phases from November 2021 to November 2022. The timetable for the work is highlighted on page 30 of this report. We highlight a change in the timetable which is designed to ensure audit quality and appropriate time for governance and scrutiny of the draft financial statements. Following discussion with management we propose that the unaudited financial statements and audit update paper on key risks (audit testing being substantially progressed) will be presented in June 2022. The final audited accounts and audit conclusions to be considered in August/September 2022. This aligns the audit and issuance of unaudited accounts with the original ambition associated with Council's listed debt and desire that the unaudited accounts (when published for inspection) are not likely to be subject to material change.

Our key deliverables are this audit strategy document and the Annual Audit Report.

Headlines

Materiality

Group materiality for planning purposes is based on last year's expenditure and is set at £9.6 million, which equates to 1% of gross cost of services expenditure. We will review the level of materiality on receipt of draft accounts for 2021-22.

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

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Audit risks

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

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

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

— retirement benefits – Gross Liabilities; and

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

Whilst not considered to be significant risks, we also include an other audit risks in respect of capital expenditure and the accounting treatment of Covid-19 grant income and spend.

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

Pages 7 to 16

£ Financial statement audit

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

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

There are a small number of changes to the Code of Practice on Local Council Accounting ("the Accounting Code") in 2021-22 with which the Council needs to comply, as set out on page 17.

Wider scope and Best Value

Auditors are required to assess and provide conclusions in the Annual Audit Report in respect of four wider scope dimensions:

— financial sustainability;

— financial management;

— governance and transparency; and

— value for money.

We test wider scope areas where there are identified risks. We consider that there are wider scope risks in respect of the delivery of savings required to achieve a balanced budget given demand pressures as a result of Covid-19, and in respect of the delivery and success of large capital projects. We have not identified any wider scope financial statement level significant risks.

Pages 20 to 25

Headlines (continued)

Best Value

In June 2016, the Accounts Commission formally agreed the overall framework for the approach to auditing Best Value in councils. The framework introduced a five year approach to Best Value. Due to the extension in the audit contract 2021-22 represents year six of the Best Value plan for the Council during which we will consider the 4 audit dimensions outlined in the framework. We will follow up on the recommendations made in the Full Best Value report In 2020-21 and due to Covid 19 we will assess whether the Council have made the necessary arrangements for collecting, recording, and publishing the statutory performance information.

Pages 20 to 25 provide more detail on our work over Best Value and wider scope areas.

Subsidiaries

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

KPMG is auditor to the Aberdeen City Integration Joint Board.

Appendix six contains the group structure.

Independence

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

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

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

Total fees charged by us for the period ended 31 March 2021 were communicated in our Annual Audit Report issued in September 2021. Total fees for 2021-22 will be presented in our Annual Audit Report issued on completion of the audit. The audit fee proposed for 2021-22 is £441,000 as set out on page 32.

Quality

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

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

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

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

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

Financial statements audit planning

Materiality

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

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

Materiality for planning purposes has been set at £9.5 million (10m 2020.21) for the Council's standalone accounts, and at £9.6 million (£10.3m 2020/21) for the group accounts, which in both cases equates to 1% percent of gross expenditure. We adjust gross expenditure for plant and property impairments by removing the impairments in year and adding a 5 year rolling average of revaluation movements in our materiality calculations. We also remove the Integration Joint Board expenditure from the calculation, as income and expenditure is grossed up for presentational purposes within the consolidated income and expenditure account.

We design our procedures to detect errors in specific accounts at a lower level of precision; performance materiality is £6.1 million for the standalone accounts and £6.2 million for the group accounts. This equates to 65% of Materiality (65% 2020/21) reflecting our experience of the Council.

Reporting to the Audit, Risk and Scrutiny Committee

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

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

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

Group audit

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

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

Materiality
£9.6 million
1% gross expenditure

Reporting threshold
£250,000

Financial statements audit planning (continued)

Our risk assessment draws upon our historic knowledge of the business, the industry and the wider economic environment in which Aberdeen City Council operates.
We also use our regular meetings with senior officers to update our understanding and take input from component audit teams and internal audit reports.

COVID-19 is having a significant impact on the UK economy and has resulted in increased risk in a number of processes and services across the Council.

IFRS16 is being introduced from 1 April 2022, however there are disclosures required in the 2021-22 financial statements.

Due to the unprecedented levels of uncertainty there is an increased likelihood of significant risks emerging throughout the audit cycle that are not identified (or in existence) at the time we planned our audit. Where such items are identified we will amend our audit approach accordingly and communicate this to the Audit, Risk and Scrutiny Committee.

Significant risks

1. Valuation of council dwellings, other Land and Buildings, surplus assets and investment property. (KAM)
2. Retirement benefit obligations – Gross Liabilities (KAM)
3. Fraud risk from expenditure recognition.
4. Fraud risk from management override of controls

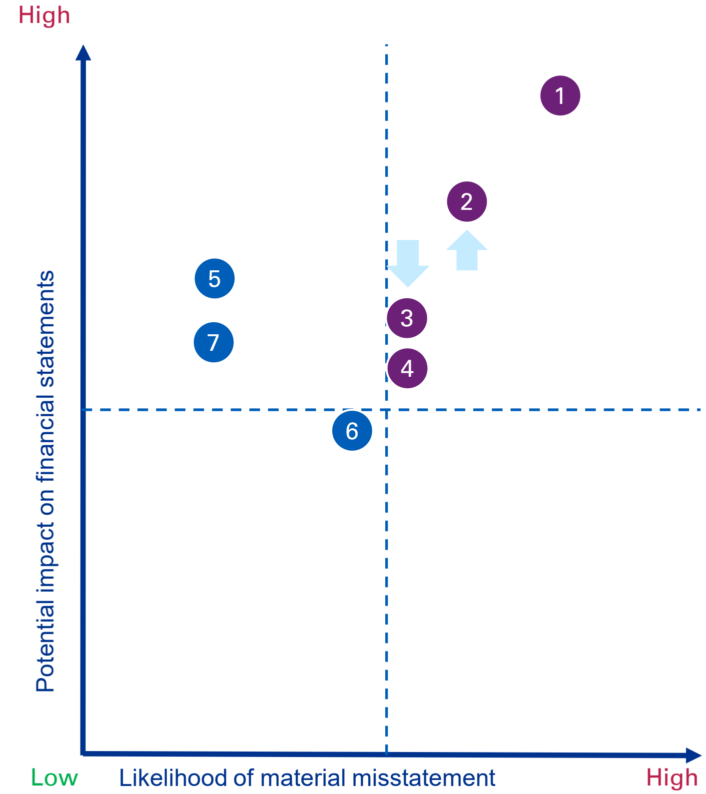
Other audit risks

5. Capital expenditure
6. Covid-19 related grants
7. IFRS16 Transition

KEY

- Significant financial statement audit risks
- Other audit risks

KAM - Key Audit Matter



Financial statements audit planning (continued)

Significant risks and other audit risks

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

Significant risk	The risk	Planned response
Financial statement risk		
Fraud risk from management override of controls	Management is typically in a position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. This is an assumed risk per ISA 240. Strong oversight of finances by management, and reporting to those charged with governance, provides additional review of potential material misstatements caused by management override of controls. Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the Council. We outline the respective responsibilities of KPMG and management in respect of fraud at **Appendices seven and eight.**	Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we will test the operating effectiveness of controls over journal entries and post closing adjustments. — We will evaluate the design and implementation and test the operating effectiveness of the controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate. — We will analyse all journals through the year using data and analytics and focus our testing on those with a higher risk, such as journals impacting expenditure recognition, and significant risk areas. — We will evaluate the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates — We will review the appropriateness of the accounting for significant transactions that are outside the Council's normal course of business, or are otherwise unusual. — We will evaluate the design and implementation of the the controls in place for the identification of related party relationships and test the completeness of the related parties identified. We will verify that these have been appropriately disclosed within the financial statements.

Financial statements audit planning (continued)

Significant risks and other audit risks (continued)

Significant risk	The risk	Planned response
Financial statement risk		
Fraud risk over expenditure recognition	Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We consider that there is not a risk of improper recognition of expenditure in respect of payroll costs, financing and investment expenditure, and depreciation. These costs are routine in nature and have limited risk of manipulation. As other operating expenditure is unlikely to be material, we also rebut the assumed risk in respect of this account. We have not rebutted the assumed risk in respect of the remaining expenditure accounts (£523 million) within the £1,148 million (in 2020-21) gross expenditure. The Council is currently projecting an overspend in year, funded by the use of the Covid19 reserves transfers created in 2020-21, providing a break even position to the general fund. The risk is for the expenditure in the months following month 9 reporting, including the year end processes and cut off. (The risk is the completeness, accuracy and existence of the expenditure).	— Comparison of the outturn with the in year budget monitoring, considering variances from budgeted reserves utilisation to actual utilisation. — Evaluate the design and implementation of controls specific to expenditure cut-off. — Testing of expenditure cut-off including a search for unrecorded liabilities. — Detailed testing of transactions focusing on the areas of greatest risk, including creditors, accruals and provisions to challenge completeness, accuracy and existence of these balances. — Review and challenge management in respect of cut-off arrangements and use of any de-minimis levels — Testing of journal entries in relation to expenditure for evidence of management bias.

Income recognition fraud risk

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

We consider that the Council's significant income streams, which include taxation and non-specific grant income are free of management judgement or estimation. We do not consider recognition of the remaining income sources to represent a significant risk for the Council as there are limited incentives and opportunities to manipulate the way income is recognised, and these are not likely to be materially inappropriate. We did not identify any such errors or manipulation in the prior year. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area beyond our standard fraud procedures.

Financial statements audit planning (continued)

Significant risks and other audit risks (continued)

<table>
<tr><th>Significant risk</th><th>The risk</th><th>Planned response</th></tr>
<tr><td colspan="3">Financial statement risk</td></tr>
<tr><td>Valuation of council dwellings, other land and buildings, surplus assets and investment properties

(KAM)</td><td>The Accounting Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. There is a significant risk over the valuation assertion due to material estimates included within the valuation.

The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle.

In 2021-22 the following category of assets will be subject to revaluation and we expect the movement to be material:
— Swimming pools and sport centres;
— Golf courses;
— Community and Community Education centres;
— Museums and Theatres;
— Crematorium; and
— Council Offices.

Given the quantum of the carrying values and the inherent use of assumptions in their valuation, we consider there to be significant risk of misstatement.

In addition to those assets revalued in year, the Council will have to evidence how it satisfies itself that the other assets not revalued in 2021-22 are not materially misstated, especially with the current impact of the Covid19 pandemic and the economic impact of inflationary pressures within the construction industry.

Continued…</td><td>Our procedures include:

Control design:
— We will obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred.
— We will evaluate the design and implementation of the controls relating to the valuation of the Council dwellings, other land and buildings, surplus assets and Investment Properties.
— We will critically assess the approach that the Council has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach.
— We will assess the risk of the valuation changing materially during the year, or between the date of valuation and the year end.

Assessing valuer's credentials:
— We will critically assess the independence, professional qualifications, competence and experience of the Council valuer.

Assessing methodology choice and benchmarking assumptions:
— We will utilise our internal specialist to critically assess the methodology used by the valuer by considering whether the valuations are in accordance with the RICS Valuation Professional Standards 'the Red Book' and relevant accounting standards.
— We will challenge the key assumptions upon which the valuations were based for a sample of properties, by making a comparison to our own assumption ranges derived from market data.
— We will meet with the Council valuer to understand the assumptions and methodologies used in valuing the various assets revalued during 2021-22 and the market evidence used to support the assumptions.

Continued…</td></tr>
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Financial statements audit planning (continued)

Significant risks and other audit risks (continued)

Significant risk	The risk	Planned response
Financial statement risk		
Valuation of council dwellings, other land and buildings, surplus assets and investment properties (continued)	Continued….. The Council also holds investment properties, which as at 31 March 2021 were valued at £192 million. These properties are subject to annual revaluation and similarly we consider there to be a risk of misstatement arising from the use of assumptions in the valuations. This includes significant assets such as Marischal Square development and the hotels and Energy centre at TECA site. The Covid19 pandemic has had a significant impact on the operation of P&J Live, hotels and interest in Marischal Square accommodation and may impact on investment and surplus asset valuations generally. P&J Live was classified as an operational asset (valued on the basis of depreciated cost), while the energy centre was classified as an investment property (valued at cost) in 2020-21, we have challenged management to continue to assess whether a market value can be determined. We understand that the Waste to Energy Plant will be completed in 2021-22 and management will need to document their judgements as to the classification of this asset, the basis of valuation, and the valuation itself.	Continued….. — We will challenge management's assessment of why it considers that the land and buildings not revalued in 2021-22 are not materially misstated. We will consider if the assumptions are appropriate and if input data is in accordance with support/benchmarks. **Input assessment** — For a sample of properties we will agree the observable inputs used in the valuations, such as land size and floor space to information held by the Estates Department. For the sample we will agree rental income to the amounts invoiced. **Disclosure assessment** — We will critically assess the adequacy of the Council's disclosures in relation to the judgement in relation to valuing properties.

Financial statements audit planning (continued)

Significant risks and other audit risks (continued)

<table>
<tr><th>Significant risk</th><th>The risk</th><th>Planned response</th></tr>
<tr><td colspan="3">Financial statement risk</td></tr>
<tr><td>Retirement benefits – Gross Liabilities

(KAM)</td><td>The gross pension liability (£1.6 billion as at 31 March 2021), represents a material element of the Council’s balance sheet. The Council is an admitted body of North East Scotland Pension Fund, which had its last triennial valuation completed as at 31 March 2020.

The impact of the triennial valuation will be felt in the contributions paid in 2021/22, however it will help to form the valuation as at 31 March 2022 using the roll forward basis.

The calculation of the Local Government Pension Scheme liability requires the use of an actuarial methodology, the result of which is dependent upon a number of assumptions. These include both financial and demographic assumptions, such as the discount rate, inflation rates, mortality rates etc. These assumptions should reflect the profile of the Council’s employees, and be based on appropriate data. The basis of the assumptions should also be derived on a consistent basis year to year.

The Gross Liabilities at 31 March 2022 should now include an assessment of the liability due to the legal rulings for McCloud / GMP and Seargent.

There is a risk that the assumptions and methodology used in the valuation of the Council’s pension obligation are not reasonable. This could have a material impact on the net pension liability accounted for in the financial statements.</td><td>Our audit approach includes:

Control design:
— Assess the design and implantation of controls over the provision of membership information to the actuary who uses it, together with the assumptions, to calculate the pension obligation.

Benchmarking assumptions:
— Challenging, with the support of our own actuarial specialists, the key assumptions applied, being: the discount rate; inflation rate; and mortality/life expectancy against externally derived data.
— Challenging the rate of increase in pensionable salaries assumption, by comparing it to other evidence such as business and transformation plans and our understanding of Government and staff expectations.

Management Expert:
— Evaluate the competency, objectivity of the scheme actuaries to confirm the qualifications and the basis for their calculations.

Data Testing
— Agree the data provided by the council to the North East Scotland Pension Fund for use within the calculation of the scheme valuation

Assessing transparency:
— Considering the adequacy of the disclosures in respect of the sensitivity of the liability to these assumptions.
— Assessing if the disclosures within the financial statements are in accordance with the Accounting Code’s requirements.</td></tr>
</table>

Financial statements audit planning (continued)

Significant risks and other audit risks (continued)

Other audit risks	Summary	Planned response
Financial statement other audit risk		
Capital expenditure	The Council has a five year £1 billion capital plan which is focused around the city centre masterplan. This includes an initial budget of £214 million for 2021-22. The Pandemic has had an impact on the delivery of the planned capital program meaning a delay on some of the capital developments. Key projects in progress during 2021-22 include the Energy from Waste Plant construction, and affordable housing build. Due to the significance of this capital investment programme and complexity of some of the projects, we consider it to be an area of audit focus. This is in respect of ensuring that the classification of costs between operating and capital expenditure is appropriate and in respect of capturing all relevant costs and contributions.	Our audit approach includes: **Control design:** — Testing the design, implementation and operating effectiveness of controls over the capital projects. — Testing the design, implementation and operating effectiveness of controls in respect of the review of costs allocated to capital and revenue projects. **Tests of detail:** — Use of substantive sampling methods to evaluate the appropriateness of capital or revenue accounting classification by reference to supporting documentation. — Assessing a sample of items allocated to revenue expenditure to determine whether they are correctly classified. — Review and corroborate to supporting audit evidence of manual journals.

Financial statements audit planning (continued)

Significant risks and other audit risks (continued)

Other audit risk	Summary	Planned response
Financial statement other audit risk		
Covid-19 related grants	As part of the ongoing economic support provided by the Scottish government, the Council has provided ongoing support by operating various grant type schemes for industries and people within the Council region. The Council received in 2020-21 £53m in Grants where they were acting as Agent on top of any funding they received for themselves. CIPFA/LASAAC issued guidance in May 2021 on Accounting for Coronavirus Grants / Funding streams. A further addendum to this guidance has been issued on Protective Personal Protection (PPE) stocks. This guidance provided detailed guidance as to how to account for the specific grants, with the Council acting as either the 'agent' or 'principal' with associated income and expenditure to third parties either primarily excluded or included in the Council's balances respectively. In addition, due to the complexity, development of guidance and relative inexperience of administering the schemes, there is an element of risk of fraud and error in respect of payments made and disclosure.	Our audit approach, dependant on any guidance issued, may include: **Inquiry and understanding:** — Inquiring of Officers how the various grants are processed and controlled through the responsible departments. — Requesting management to provide a summary of schemes, their nature, volume and value of payments. — Understanding the controls in place to mitigate the risk of fraudulent claims against the support grants and schemes. **Control design:** — Testing the design and operating effectiveness of controls in awarding grants and reliefs, where they exist. **Tests of detail:** — Challenging the judgement of whether to account for various schemes with the Council as 'agent' or 'principal'. — Assessing a sample of items awarded to determine whether grants or reliefs have been appropriately awarded and recorded in line with guidance issued. — Assessing whether any accruals, provisions or prepayments have been appropriately made in respect of guidance and the 2021-22 Code.

Financial statements audit planning (continued)

Significant risks and other audit risks (continued)

Other audit risk	Summary	Planned response
Financial statement other audit risk		
IFRS 16 Transition	From 2022-23, IFRS 16 *Leases* supersedes IAS 17 *Leases*. IFRS 16 introduces a single lessee accounting model. The Council will be more likely to account for operating leases in a similar way to the current IAS 17 treatment for finance leases. A large volume of leases which are currently accounted for as operating leases will become financial leases and will be recognised within the Council's balance sheet. These changes are significant and the Council has started to prepare in advance, particularly where the 2021-22 balances will form the comparatives in future accounts.	As part of the 2021-22 audit, we will consider the Council's arrangements for preparing to transition to IFRS 16.

Other matters

Accounting framework update

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

The key accounting changes in the 2020-21 edition of the Accounting Code include:

- Confirmation of the arrangement for the endorsement of standards arising because of United Kingdom's withdrawal from the European Union;
- Confirmation of the accounting arrangements for the Dedicated Schools Grant as a consequence of the issue of the Local Authorities (Capital Finance and Accounting (England) (Amendment) Regulations 2020;
- Amendments to Section 3.3 (Accounting Policies, Changes in Accounting Estimates and Error) to confirm (but not introduce) the adaptation in Section 3.3 and Appendix C of the Accounting Code for standards issued but not yet adopted;
- Augmentations to section 3.4 (Presentation of Financial Statements) for the reporting of estimation uncertainty;
- Amendments to Section 7.1 (introduction etc) to confirm the replacement of IPSAS29 *Financial Instruments: Recognition and Measurement with IPSAS 41 Financial Instruments*;
- Confirmation in Sections 7.2 (Subsequent Measurement of Financial Assets and Financial Liabilities) and 7.3 (Financial Instruments – Disclosure and Presentation Requirements) of the reporting requirements of interest rate benchmark reform;
- Confirmation in Appendix C (Changes in Accounting Policies: Disclosures in the 2020/21 and 2021/22 Financial Statements) of the transitional reporting requirements of the new standards introduced in the 2021/22 Code;
- Confirmation in Appendix D (New or Amended Standards Introduced to the 2021/22 Code) of the new standards introduced to the 2021/22 Code; and
- An appendix to the Accounting Code is included setting out the changes agreed by CIPFA/LASAAC in relation to the adoption of IFRS16, which is expected to be deferred to the 2022/23 Code and will apply from 1 April 2022

Controls testing

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

During the 2021-22 audit we will follow-up on management's progress in implementing the agreed recommendations. We will also report any new findings arising from our work in 2021-22.

Other matters (continued)

Bond accounting

We considered the accounting for the £370 million bond to be a significant risk in the 2016-17 audit, being the year of issuance. In 2021-22 we do not consider it to be a significant risk, consistent with 2020-21. For 2021-22 management will update factual RPI movements to the 28 February 2022 measurement date (which determines the bond principal outstanding and interest payable) and will accrue for the month of March 2022 using factual RPI movements, which will be available when the accounts are prepared.

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

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

The bondholders could seek repayment of the bond principal in certain circumstances. One such circumstance is if the Council's credit rating (as assessed by Moody's) is downgraded such that it is three notches or more below that of UK sovereign debt. The Council's credit rating is is rated as "stable". We would consider the impact to any revisions to credit rating relative to UK sovereign debt.

Internal audit

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

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

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

Group audit considerations

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

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

Other matters (continued)

Covid-19: Audit implications

We report our assessment of the impact of Covid-19 on our planned audit scope, timing, materiality, audit procedures, and fees.

- The planned scope and timing of our audit has not changed significantly from the prior year to respond to any assessed risks of material misstatement.
- Given the rapidly changing environment, the scope and timing of our audit may need to be modified further to respond to new events or changing conditions. If we make significant changes, then we will communicate these to you. We anticipate considering management's assessment of the treatment, value and number of claims or disbursements of various government grants and funding streams which are new and associated with Covid-19.
- Materiality for the financial statements as a whole has been considered against increased demand and expenditure required to maintain service delivery, against the increased inherent risk due to remote working.
- Due to the rapidly evolving situation, determining whether subsequent events should be reflected (adjusting) vs. disclosed (non-adjusting) in the financial statements may require significant judgement, and more subsequent events may be identified.
- Our audit procedures will be adjusted to respond to any increased risks of material misstatement, and we highlight the risk of potential delays to the completion of our audit to enable us to obtain sufficient appropriate evidence to support our audit opinion.
- We do not anticipate any changes to our procedures or risk assessment in respect of the Council's ability to continue as a going concern.

Wider scope and Best Value

Approach

We are required to assess and provide conclusions in the Annual Audit Report in respect of four wider scope dimensions: financial sustainability; financial management; governance and transparency; and value for money. We set out below an overview of our approach to wider scope and Best Value requirements of our annual audit. We provide on pages 22 to 25 our risk assessment in respect of these areas. We will provide narrative on these and other areas in the Annual Audit Report where relevant.

Risk assessment

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

In doing so we consider:

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

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

For 2021-22 there is no expected LAN meeting or activity. Audit Scotland have collated the scrutiny plans of partners, available on its website. Scrutiny improvement | Audit Scotland (audit-scotland.gov.uk)

Linkages with other audit work

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

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

Wider scope and Best Value (continued)

Approach (continued)

Identification of significant risks

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

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

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

Concluding on wider scope and Best Value

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

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

Reporting

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

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

Wider scope and Best Value (continued)

Risk assessment

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

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

Our year five Best Value work will consider specifically on Partnership Working and Empowering Communities and we will provide narrative in the Annual Audit Report. We will also co-ordinate the Best Value Assurance Report alongside the wider scope of audit to ensure consistency.

Wider scope area	Why	Audit approach
Financial sustainability and financial management	Financial sustainability looks forward to the medium and longer term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. ***Areas of focus:*** Delivery of balanced budget over the medium term. In March 2021, management identified a savings need of £30.4 million, required to deliver a balanced budget and meet the needs-led pressures in services for 2021-22. The Covid-19 pandemic has continued to impact on the in year financial management with a £1.5m contingency budget being added to the 2021/22 budget, delegated to decide on its use to the Chief Officer – Finance. The Q2 reported position was forecasting a £12.8million deficit fully funded from Covid 19 reserves that were created as at 31 March 2021, resulting in a balanced position for the year to 31 March 2022. The conditions outlined by Scottish Government within the Local Government Settlement for 2021-22 are included within the above budget and forecast. Continued……	— We will consider the Council's financial plans and its ability to adapt to the changing landscape in local government funding. This will involve consideration of the 2021-22 budget and longer term financial plans from 2022-23 and beyond, including sensitivity analysis and bond repayment/RPI assumptions. — We will review any Council plans to use the Scottish Government's relaxation of financial regulations due to the Covid 19 Pandemic, assessing if it is in accordance with legislation. — We will review the progress of the delivery of the required savings to meet the balanced budgets.

Wider scope and Best Value (continued)

Risk assessment (continued)

Wider scope area	Why	Audit approach
Financial sustainability and financial management (continued)	Capital Programme The Council has been delivering against the 2016 Strategic Infrastructure Plan over recent years and this is now nearing completion, with the majority of projects either underway or completed. The pandemic has impacted on progress on the capital programme during 2020/21 and reprofiling spend was needed for the 2021/22 Capital Programme resulting in an agreed General Fund Capital Programme of £250million and a Housing Revenue Account capital programme of £147million in 2021/22 The Quarter two monitoring report is showing that the estimated spend for the year will be again impacted and the general fund capital spend is forecasted at £158million. The HRA capital forecast is the complete HRA programme of £147million.	— We will review the progress of key capital programmes. — We will consider the income and expenditure assumptions and compare to the business case assumptions approved by the Council. We will consider the impact of variances, should they exist, on the Council's future budgets.

Wider scope and Best Value (continued)

Risk assessment (continued)

Wider scope area	Why	Audit approach
Governance and transparency	Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. The Council has continued to review and enhance its governance arrangements. Audit Scotland planning guidance requires us to consider the following matters which are potential risks to all Public Sector bodies.	— We will consider the Council's governance arrangements, their appropriateness and their robustness. — We will consider the effectiveness of scrutiny and governance arrangements, by evaluating the challenge and transparency of the reporting of financial and performance information.

Wider scope and Best Value (continued)

Risk assessment (continued)

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

Appendices

Mandated communications with the Audit, Risk and Scrutiny Committee

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

Auditor independence

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

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

— General procedures to safeguard independence and objectivity;

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

— Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

— Instilling professional values

— Communications

— Internal accountability

— Risk management

— Independent reviews.

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

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

We have considered the fees charged by us to the Council and its affiliates for professional services provided by us during the reporting period. Total fees charged by us for the year ended 31 March 2021 and planned for the year ended 31 March 2022 are as follows:

Services provided to the Council and its group in respect of:	2021-22 continuing (incl VAT) £	2020-21 (incl VAT) £
Audit of the financial statements	263,730	264,230
Audit of subsidiaries (Charitable Trusts)	10,000	9,000
Total audit services	**273,730**	**273,230**
Other non-audit services		
Total non-audit services	-	-
Total	**273,730**	**273,230**

The FRC Ethical Standard caps fees for permissible non-audit services (excluding those services required by law or regulation in any year at 70% of the average audit fee over the three preceding financial years.

We can confirm there are no planned non-audit fees for 2021-22.

Under the FRC's Revised Ethical Standard, no new tax contingent fees for listed entities can be entered into after 17 June 2016. We confirm that no new contingent fees for tax services have been entered into for Aberdeen City Council since that date.

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

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

Auditor independence (continued)

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Audit, Risk and Scrutiny Committee.

KPMG LLP has relocated its office to a Council-owned property, which it rents on an arms-length commercial terms basis.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

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

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

Yours faithfully

KPMG LLP

Timeline

Communication

Audit workflow

Nov Dec Jan

2021 2022

January
Interim fieldwork, business update and controls testing

January
Audit planning meeting

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

Feb Mar Apr

February
Presentation of Audit Strategy

February / March
Interim onsite audit work,

- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

May Jun Jul

Statutory inspection period

June
Present a Audit progress report on Draft Statements

May
Final audit fieldwork commences.

29 June
Draft and Final Financial statements presented to Risk and Audit Committee for approval.

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

Aug Sept

August / September
Present our Annual Audit Report to TCWG

September
WGA return completed

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

Audit outputs

Output	Description	Report date
Audit strategy	Our strategy for the external audit of the Council and its group, including significant risk and audit focus areas.	For 22 February 2022 ARSC meeting
Independent auditor's report	Our opinion on the Council's financial statements	For the Risk and Audit Committee to be arranged in August / September
Annual audit report	We summarise our findings from our work during the year, including in respect of wider scope areas.	For the Risk and Audit Committee to be arranged in August / September - deadline 31 October 2022
NFI report	We report on the Council's actions to investigate and follow-up NFI matches.	By 28 February 2022
Whole of Government Accounts	We report on the pack prepared for consolidation and preparation of the Whole of Government Accounts.	By 28 September 2022
Audit reports on other returns	We will report on the following returns: - Current issues return. - Technical database. - Fraud returns.	 January, March, August and October 2022 May and August 2022 February, May and August 2022
Grant claim audits	We provide an opinion on: - Education Maintenance Allowance, Housing Benefit, and Non domestic rates	To submit by: July 2022, November 2022 and October 2022

Fees

An expected fee is calculated by Audit Scotland to each entity within its remit. This expected fee is made up of four elements:

— Auditor remuneration

— Pooled costs

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

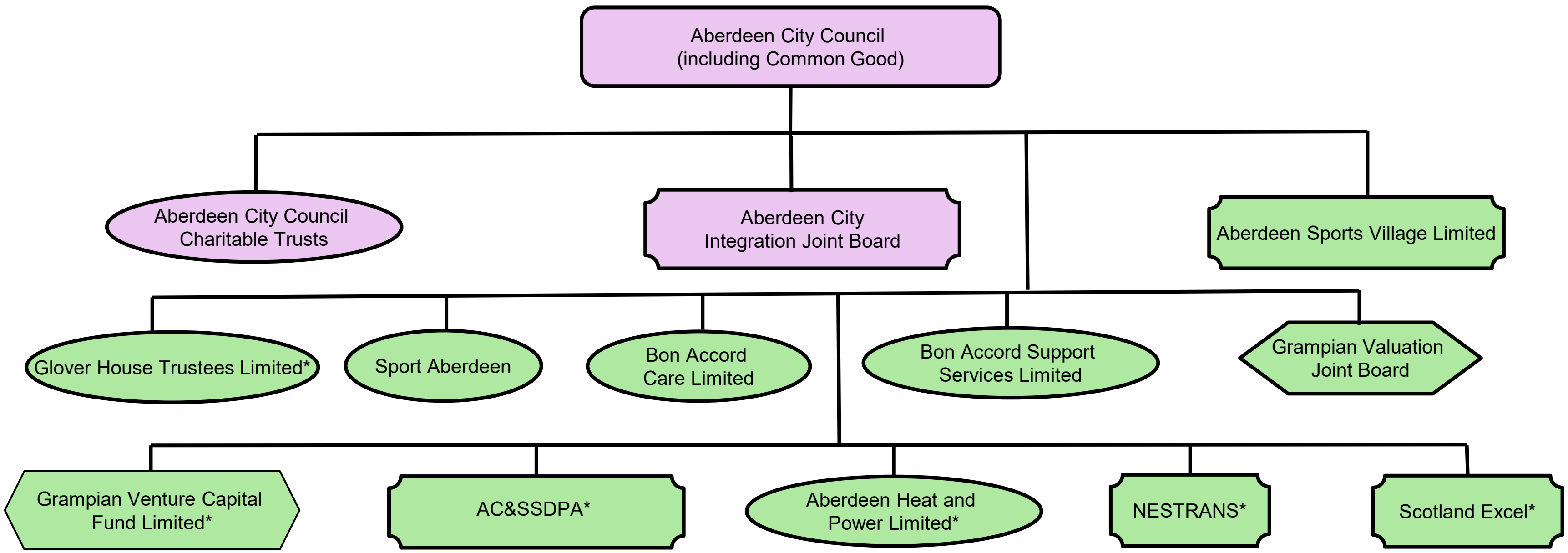
— Contribution to Audit Scotland costs

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

Should we be required to undertake significant additional audit work in respect of any of the areas of audit focus or other matters arise, we will discuss with management the impact of this on our proposed fee.

	2021-22 £ (incl VAT)	2020-21 (incl VAT)
Auditor remuneration	263,730	264,230
Pooled costs	27,490	24,560
Contribution to PABV	136,320	136,010
Contribution to Audit Scotland costs	14,080	14,200
Total Council audit fee	**441,620**	**439,000**
Audit of Aberdeen City Council Charitable Trusts	10,000	9,000
Total fee	**451,620**	**448,000**

Group financial statements



Key

- Audited by KPMG "core team"
- Audited by component auditor or not requiring a statutory audit

Main body
Subsidiary
Associate
Joint Venture / Joint Board / Partnership

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

Responsibility in relation to fraud

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

Management responsibilities

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

KPMG's identification of fraud risk factors

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

KPMG's response to identified fraud risk factors

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

KPMG's identified fraud risk factors

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

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

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

Responsibilities of management

Financial statements

Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;
- maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures;
- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate Council;
- maintaining proper accounting records; and
- preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer- term financial sustainability of the body.

Further, it is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

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

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

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

Responsibilities of auditors

Appointed auditor responsibilities

Auditor responsibilities are derived from statute, this Code, International Standards on Auditing (UK and Ireland), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns;
- notify the Auditor General when circumstances indicate that a statutory report may be required;
- participate in arrangements to cooperate and coordinate with other scrutiny bodies (local government sector only);
- demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies:
    - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;
    - suitability and effectiveness of corporate governance arrangements; and
    - financial position and arrangements for securing financial sustainability.

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the auditing Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

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

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

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

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

Additional planning communications for UK-PIEs

Type	Response
Our declaration of independence	OK — No matters to report. The engagement team has complied with relevant ethical requirements regarding independence.
Key audit partner(s)	OK — We have identified the key audit partner at page 3 in our Audit Strategy.
Independence of external experts engaged by KPMG and non-KPMG auditors	OK — We have not engaged external experts for the performance of aspects of our audit.
Communications with audit committee and management	OK — We have described the nature, frequency and extent of communication with the audit committee and management at page 26 above.
Scope and timing of the audit	OK — We have described the scope and timing of the audit within this report.
Audit methodology	OK — Our audit responses to identified risks are described from page 7 of this report.
Valuation methods	OK — We will report the valuation methods applied to the items in the financial statements and the impact of any changes.
Going concern assessment	OK — There are no significant matters affecting the entity's ability to continue as a going concern.
Requested explanations and documents	OK — We will report on whether requested explanations and documents were provided by management.

Type	Response
Materiality	OK — Quantitative materiality applied to the audit of the financial statements as a whole and materiality for balances/disclosures affected by qualitative factors is set out at page 6 in our Audit Strategy.
Non-compliance with laws and regulation or articles of association	OK — We will report on whether actual or suspected non-compliance with laws and regulation or articles of association were identified during the audit.
Significant deficiencies in internal control	OK — We will report on all significant deficiencies and whether they have been resolved by management.
Significant difficulties	OK — We will report on any significant difficulties encountered during the audit. We will report on significant matters arising from the audit that were discussed, or subject to correspondence, with management. We will report on matters that are significant to the oversight of the financial reporting process.
Non-KPMG component auditors	OK — We are not planning to rely on any non-KPMG auditors in 2020-21.
Management's approach to consolidation	OK — We will report on whether management's approach to consolidation is consistent with IFRS.

It is mandatory for all UK PIEs to tender the audit contract at least every 10 years and rotate auditors at least every 20 years. The Accounts Commission appoints auditors to each local authority for a period of five years, with a tender exercise conducted in late 2021 following a one year extension.

FRC's areas of focus

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

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

FRC's areas of focus

Reporting on cash	The FRC continues to identify basis errors involving misclassification of cash flows between operating, investing and financing activities many of which inflate operating cash flows. There is a concern these errors are not being picked up during quality testing.
Supplier financing arrangements	The FRC still believe many companies are not providing relevant information about this type of arrangement, including why they are being used and the extent of their dependency.
IFRS 16 leases	Expectations for the new standard include a clear explanation of the impact of transition and the practical expedients taken, a reconciliation between the previous IAS 17 commitment and IFRS 16 liability along with details of the key judgments applied. APMs will need to address the inconsistencies as a result of comparatives information not being restated.
Non-financial assets	The FRC will expect disclosures to explain circumstances leading to an impairment, how CGUs have been derived, significant judgment applied, and that the disclosures requirements of IAS 36 and IAS 1.125. 2019/20 specific issues include the effect of Brexit, and/or other political-macro economic risks, the impact of climate change and environmental impact and the effect of IFRS 16.
Financial instruments	For corporates, the focus will continue on the application of the ECL requirements to contract balances, lease receivables and intercompany loan assets, credit risk disclosures, key assumptions and sensitivity analysis of ECL when ECLs are identified as a source of significant estimation uncertainty.
Revenue	The FRC expects improvements in the description of the specific nature of performance obligations, and when are such obligations met (over time or at a point in time), Trust-specific disclosures of significant judgements, as well as consistency between the financial statement disclosures and other information (i.e.: strategic report).

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