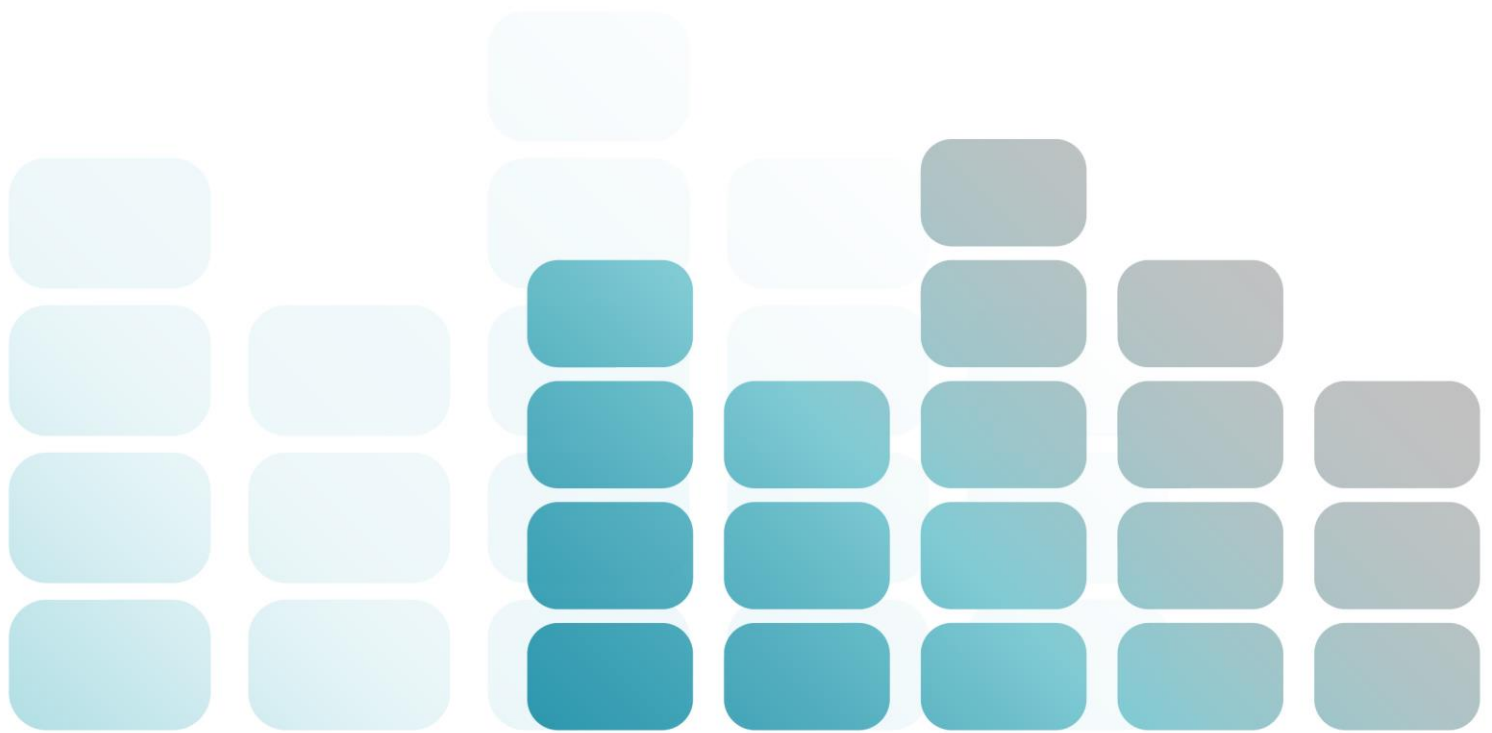


Aberdeen City Council

Annual Audit Plan 2024/25



Prepared for Aberdeen City Council
March 2025

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Introduction

Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2024/25 audit of Aberdeen City Council's (the council's) annual accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

Appointed auditor and independence

2. We have been appointed by the Accounts Commission as external auditors of the council for the period from 2022/23 until 2026/27. The 2024/25 financial year is therefore the third of the five-year audit appointment.

3. We are independent of the council in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of the council to communicate.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual accounts, the Management Commentary, the Annual Governance Statement, and an opinion on the audited part of the Remuneration Report.
- Reporting on the council's arrangements for securing Best Value.
- An Annual Audit Report setting out significant matters identified from the audit of the annual accounts and the wider scope areas specified in the Code of Audit Practice.
- Providing assurance on the Housing Benefit Subsidy Claim and the Non-Domestic Rates Income Return.
- A review of the council's arrangements for preparing and publishing statutory performance information.

Responsibilities

6. The Code of Audit Practice sets out the respective responsibilities of the council and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information reported within the annual accounts, and concluding on the council's arrangements for the wider scope areas.

The council's responsibilities

8. The council has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and

establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual accounts, comprising financial statements and other information that gives a true and fair view.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

Audit of the Annual Accounts

Introduction

9. The audit of the annual accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

Materiality

10. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual accounts.

11. Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor’s professional judgement.

12. The materiality levels determined for the audit of Aberdeen City Council and its group are outlined in [Exhibit 1](#). Based on our assessment of the group ([refer paragraph 25](#)), we did not consider it necessary to set separate materiality values for the council’s group accounts.

Exhibit 1 2024/25 Materiality levels for the council and its group

Materiality	Amount
Materiality – based on our assessment of the needs of the users of the financial statements and the nature of the council’s single entity and group operations. For the year ended 31 March 2025, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2023/24.	£24 million

Materiality	Amount
Performance materiality – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 65% of planning materiality.	£15.6 million
Reporting threshold – all misstatements greater than the reporting threshold will be reported.	£600,000

Source: Audit Scotland

Key audit matters

13. The Code of Audit Practice requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

14. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

15. The matters determined to be key audit matters will be communicated in the Annual Audit Report. [Exhibit 2, page 8](#) outlines the significant risks of material misstatement to the financial statements that have been identified, including those that have greatest impact on the planned audit procedures and require most attention when performing the audit.

Significant risks of material misstatement to the financial statements

16. The risk assessment process draws on the audit team's cumulative knowledge of the council, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

17. Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in [Exhibit 2](#). These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks are also outlined in Exhibit 2.

18. The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan and Exhibit 2 may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to the council and those charged with governance, where relevant.

Exhibit 2

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response
<p>Fraud caused by management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing, make inquiries of relevant officers about inappropriate or unusual activity relating to the processing of journal entries and other adjustments and consider the need and extent of detailed journal entry testing. • Evaluate significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Assess the council's internal control framework and conclude on the adequacy of scrutiny over the operation of fundamental controls*. • Review the financial ledger to identify cost centres and account codes which may be more susceptible to fraud and consider further audit procedures. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focused testing of accruals and prepayments to ensure transactions are recorded in the correct financial year.

Source: Audit Scotland

*Fundamental controls

- Segregation of duties: ensuring access to systems are restricted to appropriate levels and/or user activities are regularly reviewed (to negate the possibility of individuals processing transactions all the way through the payments process).
- Reconciliations: ensuring feeder systems are effectively reconciled to other systems (e.g., general ledger); using third-party information (suppliers' statements) and reconciling with payment systems.

- **System documentation:** system documentation should be maintained which details key controls to be carried out by staff to prevent fraud or error.
- **Monitoring:** scrutiny monitoring should be at a level that would allow managers to identify anomalous payments at an early stage.
- **Counter-fraud arrangements:** counter-fraud and whistle blowing policies should be regularly refreshed and promoted with staff.

Other areas of audit focus

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

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

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

Group audit

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

22. As the parent in the group, the council prepares group financial statements which comprises subsidiaries, associates and joint ventures. Audit procedures have been undertaken to identify if there are any risks of material misstatement to the group financial statements, or any components where audit procedures are required for the purposes of the group audit. The outcome from these procedures is outlined in [Exhibit 3](#).

23. We will be liaising with the component auditors as appropriate to agree group audit instructions and set expectations around any potential audit procedures. We are currently planning to take only limited assurance from the work of component auditors but will keep this under review as the audit progresses.

24. Non-current assets, reserves and staff costs are the key material balances in the group. Given the nature of these balances, we will seek valuations for significant non-current assets, review the level of reserves held and undertake analytical procedures in respect of staff costs. We will also consider the assurances the council obtains for its group accounts including year-end reconciliations and the consolidation process.

25. Due to the level of intra-group transactions managed by the council which are eliminated on consolidation, group expenditure is not significantly different from the council's single entity expenditure and therefore we do not consider it necessary to set separate materiality values from the council for the group accounts. Materiality levels are set out in [Exhibit 1, page 6](#).

Exhibit 3

Outcome of risk assessment procedures on the group audit

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
Aberdeen City Council (Parent)	Consolidated on a line-by-line basis	Yes – Exhibit 2	Yes – full scope audit	Audit Scotland
Aberdeen Common Good (100% subsidiary)	Consolidated on a line-by-line basis	Yes – risk of material misstatement due to property valuations	Yes – part of parent body audit	Audit Scotland
Bon Accord Care/Support Services (100% subsidiaries)	Consolidated on a line-by-line basis	No, but is material to group financial statements	Yes – analytical procedures at group level	Anderson, Anderson & Brown

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
Aberdeen Sports Village (Joint Venture)	Accounted for on equity basis	Yes – risk of material misstatement due to property valuations	Yes – analytical procedures at group level	Anderson, Anderson & Brown

Source: Audit Scotland

Audit of the trusts registered as Scottish charities

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

27. Members of Aberdeen City Council are the sole trustees for seven trusts registered as Scottish charities, with total assets of some £9 million. Common control is one of the criteria which permits these trusts to be combined within a single set of connected accounts for audit purposes. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

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

Materiality levels for the 2024/25 audit of trusts registered as Scottish charities

29. Materiality levels for the various trusts are set out in [Exhibit 4, page 12](#).

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

Exhibit 4**2024/25 Materiality levels for Aberdeen City Council Charitable Trusts**

Charitable trust	Planning Materiality	Performance Materiality	Reporting Threshold
Overall materiality	£177,000 (Based on 2% of audited 2023/24 net asset value)	£132,750 (Based on 75% of planning materiality)	£9,000
Secondary materiality (for the Statement of Financial Activities)	£10,000 (Based on 2% of audited 2023/24 income)	£7,500 (Based on 75% of planning materiality)	£500

Source: Audit Scotland

Wider scope and Best Value

Introduction

31. The Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The Code broadens the audit of the annual accounts to include consideration of additional aspects or risks in four wider scope areas, which are summarised below:

- **Financial management** – this means having sound budgetary processes. Factors that can impact on the council being able to secure sound financial management include the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial sustainability** – this means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering the council's medium- to longer-term planning for service delivery.
- **Vision, leadership and governance** – this means having a clear vision and strategy, with set priorities within the vision and strategy. This is assessed by considering the clarity of plans in place to deliver the vision and strategy and the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – this means using resources to meet stated outcomes and improvement objectives through effective planning and working with partners and communities. This is assessed by considering the council's arrangements for ensuring resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

32. A conclusion on the effectiveness and appropriateness of the council's arrangements for each of the wider scope areas will be reported in the Annual Audit Report. Alongside our consideration of financial management above, a follow up review will be undertaken to assess progress against the council's improvement plan which was developed in response to a significant fraud identified in September 2023. The fraud was the subject of a statutory report by the Controller of Audit in January 2025.

Best Value

33. Under the Code of Audit Practice, the audit of Best Value in councils is integrated within the annual audit. Auditors are required to take a risk-based approach to assessing and reporting on whether the council has made proper arrangements for securing Best Value, including follow up of findings previously reported in relation to Best Value.

34. The Accounts Commission also reports nationally on thematic aspects of councils' approaches to, and performance in, meeting their Best Value duties. As part of the annual audit, thematic reviews are conducted, as directed by the Accounts Commission. The thematic review for 2024/25 will focus on transformation by considering how the council is redesigning services to maintain outcomes and deliver services more efficiently. Conclusions and judgements on the thematic review will be reported in a separate management report and summarised in the Annual Audit Report.

35. There will also be follow up audit work to assess the council's progress in implementing recommendations from earlier thematic work covering scrutiny, elected member relationships and delegated powers.

36. At least once over the five-year appointment, the Controller of Audit will report to the Accounts Commission on the council's performance in meeting its Best Value duties. The second year of this programme runs from October 2024 to August 2025. While the running order may be subject to change, the council is currently included in the 2026/27 reporting programme.

Significant wider scope risks

37. The risk assessment process has identified significant risks in the wider scope areas as outlined in [Exhibit 5, page15](#). This also includes the planned audit procedures in response to the risks.

Exhibit 5

Significant wider scope risks

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

Source: Audit Scotland

Reporting arrangements, timetable and audit fee

Audit outputs

38. The outputs from the 2024/25 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to the council and the Accounts Commission setting out opinions on the annual accounts.
- An Annual Audit Report to the council and the controller of audit setting out significant matters identified from the audit of the annual accounts, conclusions on the wider scope and Best Value audit, and recommendations, where required.

39. The matters to be reported in the outputs will be discussed with relevant officers for factual accuracy before they are issued. All outputs from the audit will be published on Audit Scotland's website, apart from the Independent Auditor's Report, which will be included in the audited annual accounts.

40. Target dates for the audit outputs are set by the Accounts Commission. In setting the target dates, consideration is given to the statutory date for approving the annual accounts, which is 30 September 2025 for local government bodies

Audit fee

41. The audit fee is determined in line with Audit Scotland's fee setting arrangements. The proposed audit fee for 2024/25 is £547,070 (2023/24 £536,810). This is split between the council £536,880 (2023/24 £526,810) and the charitable trusts £10,190 (2023/24 £10,000).

42. In setting the audit fee, it is assumed that the council has effective governance arrangements in place and that the complete annual accounts package will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

Audit timetable

43. Achieving the timetable for production of the annual accounts, supported by complete and accurate working papers, is critical to delivery of the audit in line with agreed target dates. [Exhibit 6](#) includes a timetable for the audit, which has been agreed with management. This will be kept under review as the audit progresses.

Exhibit 6 2024/25 audit timetable

Audit activity	Council target date	Audit team target date	Audit, Risk and Scrutiny Committee date
Issue of Annual Audit Plan	31 March 2025		8 May 2025
Annual accounts:			
• Consideration of unaudited annual accounts by those charged with governance	1 May 2025	-	8 May 2025
• Submission of unaudited annual accounts and all working papers to audit team	By 9 May 2025	-	-
• Latest date for audit clearance meeting	5 June 2025		-
• Issue of draft Annual Audit Report to officers for comment	-	10 June 2025	-
• Agreement of audited and unsigned annual accounts	19 June 2025		
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report to Audit, Risk and Scrutiny Committee.	19 June 2025		26 June 2025
• Approval by those charged with governance and signing of audited annual accounts	-	-	26 June 2025
• Signing of Independent Auditor's Report and issue of Annual Audit Report	-	By 30 June 2025	-

Source: Audit Scotland

Other matters

Using the work of internal audit

44. The council is responsible for establishing an internal audit function as part of an effective system of internal control. Services are provided by the chief internal auditor of Aberdeenshire Council under a shared service arrangement. As part of the audit, the audit team will obtain an understanding of internal audit's plans, including its nature, responsibilities and activities.

45. While internal audit and external audit have differing roles and responsibilities, external auditors may use the work of internal audit where it is considered appropriate. A review of internal audit's 2024/25 audit plan was carried out to identify if there were any areas where the audit team could use its work. The audit team opted not to use the work of internal audit but will review their reports and assess the impact of their findings on the audit.

Audit quality

46. Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

47. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2024/25 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as: governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant

judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

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

49. Audit Scotland may periodically seek the council's views on the quality of audit services provided. The audit team would also welcome feedback at any time.

Aberdeen City Council

Annual Audit Plan 2024/25



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