

Aberdeen City Council

Annual Audit Plan 2011/12



Prepared for Aberdeen City Council
February 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Summary plan

Summary of planned audit activity

Based on our analysis of the risks facing Aberdeen City Council, our planned work in 2011/12 includes:

- an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the financial position of Aberdeen City Council and its group as at 31 March 2012 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2011 Code of Practice on local authority accounting in the UK (the 2011 Code)
- reporting the findings of the shared risk assessment process in an Assurance and Improvement Plan Update. This will consist of the Local Area Network (LAN) examining new evidence in respect of existing risk assessments and will include updated scrutiny plans for the period 2012/13 to 2013/14 for Aberdeen City Council.
- provision of the annual report on the audit addressed to Aberdeen City Council and the Controller of Audit
- a review and assessment of Aberdeen City Council's governance and performance arrangements in a number of key areas including the review of: internal controls; the adequacy of internal audit; Statutory Performance Indicators; and national study follow-up work.
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts.

Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to Aberdeen City Council in achieving its business objectives. We also assess the risk of material misstatement or irregularity in Aberdeen City Council's financial statements. This report summarises specific governance and other risks that may affect the financial statements of Aberdeen City Council, and sets out the audit work that we propose to undertake in 2011/12 to address these. Our annual audit plan reflects:
 - the risks and priorities facing Aberdeen City Council
 - current national risks relevant to local circumstances
 - the impact of international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Accounts Commission

- issues brought forward from previous audit reports.
2. In addition to this annual audit plan which focuses on those risks which may impact on the financial statements, we will issue, on behalf of the Local Area Network, an Assurance and Improvement Plan Update which will update the LAN's joint assessment of the strategic and performance risks facing Aberdeen City Council and set out the planned scrutiny activity in the council for the period April 2011 to March 2014.

Our responsibilities

3. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
4. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
5. In carrying out our audit, we seek to gain assurance that Aberdeen City Council:
 - has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
 - has systems of recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
 - prepares financial statements which give a true and fair view of the financial position at 31 March 2012 and income and expenditure for the year then ended, in accordance with the Local Government (Scotland) Act 1973 and other applicable laws and regulations, including the 2011 Code
 - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
 - complies with established policies, procedures, laws and regulations
 - proactively manages and reviews its performance in line with its strategic and operational objectives
 - has made proper arrangements for securing best value in its use of resources and is complying with its community planning duties.

Our approach to the audit of the group accounts

6. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements, and identification of the key audit risks and challenges affecting the sector more generally. More information on planned audit activities and timescales is set out in the appendices but in summary, this approach includes:

- understanding the business and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation, understanding how these will be included in the financial statements and developing procedures to audit these
 - assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment
 - determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.
7. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2011/12 includes:
- comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for the delivery of unaudited accounts to agreed timescales with a comprehensive working papers package
 - completion of a planned internal audit programme.
 - management representations on key areas of the financial statements
 - representations from the auditors of the council's subsidiaries within the group boundary.
8. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. Internal audit for the council is provided by PricewaterhouseCoopers. Generally, we seek to rely on the work of internal audit wherever possible and, as part of our planning process we concluded that reliance could be placed on their work. International Standards on Auditing (ISAs) require evaluation of critical financial systems and testing of key controls on an annual basis. In reaching conclusions, audit work should be based on controls and transactions across the financial year. For 2011/12, reviews of financial systems by internal audit were largely completed in the early part of the financial year and while this will provide assurance, we will need to undertake additional testing to ensure coverage across the year.
9. We have however agreed a strategy for 2012/13 which will ensure improved sharing of the work between internal and external audit and wider coverage of systems across the year by internal audit. Based on our review of internal audit we plan to place formal reliance on the areas of work set out in Appendix D.

10. At the completion of the audit we will provide members and the Controller of Audit with an annual report containing observations and recommendations on significant matters which have arisen during the course of the audit. Separate reports will be prepared for the council and the pension funds.

Council responsibility for the preparation of group accounts

11. It is the responsibility of Aberdeen City Council and the Section 95 Officer (Head of Finance) to prepare the financial statements in accordance with the Code. This means:
 - ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority
 - maintaining proper accounting records
 - preparing IFRS compliant financial statements which give a true and fair view of the group's financial position and their expenditure and income in accordance with the 2011 Code
 - preparing and publishing with their financial statements a statement on the system of internal financial control which gives due consideration to the group. While this is the requirement as set out in the 2011 Code, we endorse recommended best practice which encourages local authorities to voluntarily undertake a review of internal controls, taking appropriate account of the group, and to report the outcome through an annual governance statement
 - reviewing the main components of the system of internal financial control, including the arrangements for internal audit and group entities so that there are sufficient assurances to support the statement on internal financial control or the annual governance statement
 - preparing and publishing with their financial statements a remuneration report for the council, covering relevant members and staff and certain individuals connected with council subsidiary companies e.g. a chief executive and directors whose remuneration is £150,000 or more
 - preparing an explanatory foreword which provides a commentary on both the council's and its group's financial results for the year
 - preparing group accounts and a Whole of Government Accounts return.
12. In addition, prior to the conclusion of the financial statements audit, preparing a letter of management representation.

Format of the accounts

13. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003. The council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government and is required to prepare its accounts using common accounting principles and standard formats for summarisation.

Council responsibility for corporate governance arrangements

14. Through the chief executive, the council is responsible for:
- establishing arrangements for ensuring the proper conduct of its affairs and those of its group including the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance (including audit committees) would normally be involved in monitoring these arrangements
 - developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. On an annual basis, a review of the effectiveness of the council's governance and systems of internal control should be carried out and reported upon.

Audit issues and risks

15. This annual audit plan focuses on governance and other risks specific to the financial statements of the council. Our Assurance and Improvement Plan will provide a broader analysis of wider risks and issues faced by the council, setting out our planned work in relation to performance and other governance issues in more detail.
16. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following main financial statements risk areas for the council.

Financial management

17. **Budget savings and financial pressures:** A major impact on the council's position for 2011/12 and future years budgets is the current economic downturn of the United Kingdom economy and the subsequent impact this has had on the level of funding available to the public sector. As a result of this the council's grant funding for 2011/12 was £7.3 million less than in 2010/11. Strong financial management and governance are therefore increasingly important, including effective budgetary control systems and internal audit functions.
18. **Financial position:** The council agreed a balanced 2011/12 Revenue Budget in February 2011. As part of the development of the budget, the Council undertook an extensive Priority Based Budgeting (PBB) exercise that reviewed all costs currently being incurred across council services. This resulted in the approval and publication of a 5 year Business Plan in 2011. The agreed 2011/12 budget includes £15.6 million of savings identified from the PBB review. The budget also includes a number of one-off sources of funding. The use of this funding is either set aside from the uncommitted reserves and balances available in the General Fund, or expected as a one-off receipt in 2011/12.
19. As at 30 November 2011, a forecast year end surplus of £0.3 million was reported to the Corporate Management Team. This would result in uncommitted General Fund balances of £11.6 million at the year end, slightly above the recommended balance of £11.1 million that the council has previously set, which equates to 2.5% of the net revenue budget. This forecast includes an expected £0.4 million shortfall in the transfer of development sites to the Housing

Revenue Account. Other matters with a significant financial impact include the closure and disposal of St Nicholas House, Marischal College coming into operational use and the need to place children in residential accommodation / schools outside the city.

20. The council's Priority Based Budgeting process identified a Local Area Trading Company (LATC) for Adult Social Care services as an option to deliver £2.5 million of savings to the council over a 5 year period. A report to the Social Care & Wellbeing (SCW) Committee on 25 January 2012 considered a Business Case and Implementation Plan and recommended progression with a project to set up the LATC. The LATC will be wholly owned by the council and around 600 FTE staff are expected to transfer. The council would commission adult social care services from the LATC. The development of the LATC is expected to bring a number of benefits including improved value for money, efficiency savings and increased flexibility. A review of progress will be presented to the SCW Committee in April 2012 with a final decision by full council likely in autumn 2012. Similarly, the council has approved the establishment of a Property Limited Liability Partnership (LLP) to manage the housing repairs service from summer 2012. These developments may require disclosure as post-balance sheet events within the 2011/12 financial statements.
21. The Priority Based Budgeting process also identified an Alternative Delivery Model for Corporate Governance services as a potential efficiency saving. The council is in competitive dialogue with potential suppliers to outsource various functions of the Corporate Governance service including Finance, Benefits & Revenues, ICT and Human Resources. The council has identified the functions that it wishes to keep 'in-house' with the others part of negotiations. The continuation of this project is being discussed at Finance & Resources Committee in March 2012. If this project does not proceed, the council will need to achieve alternative savings by other means in 2012/13 to meet the savings level identified in the 5 year Business Plan.
22. **Equal Pay:** The council made a provision of £8.156 million in 2010/11 for potential outstanding equal pay claims, covering many years, arising as a result of Single Status legislation. The Council implemented its equal pay solution in May 2009. The main groups of staff involved are employed in the Cleaning, Catering, Education and Social Work services. As a consequence of uncertainties arising from Employment Tribunal outcomes and evolving case law, the level of provision needs to be kept under review on an annual basis.
23. **Housing Benefit Subsidy/Council Tax Benefit Subsidy:** A provision of £1.071 million was included in the council's financial statements in 2010/11 relating to the anticipated level of claw back by the Department for Work and Pensions (DWP) in regard to overpayments on Housing and Council Tax Benefits. We understand that supervisory checks have been increased to improve the accuracy of benefits processing. Until we are in a position to verify the new arrangements in practice, there is an ongoing risk that errors continue to exist which may lead to further clawback by DWP.

Accounts presentation and disclosure

24. Following the implementation of IFRS in 2010/11, there are comparatively few changes introduced in the 2011 Code. There is a new section on Heritage Assets, amended reporting requirements for investment properties held for sale and a number of additional disclosure requirements. It is essential that the council ensures that its financial statements work programme and templates have been updated to reflect all the relevant changes in presentation and disclosure as required by the 2011 Code.
25. In their ISA260 report on the 2010/11 financial statements, the previous auditors noted a number of material and significant adjustments relating to capital accounting entries. As part of the preparation of the 2011/12 financial statements, the council should review issues arising from the previous year audit and ensure that these are addressed as part of the planning process.
26. In addition to the preparation of the financial statements for the council, staff will also be involved in the preparation of financial statements for North East Scotland Pension Fund. Transitional arrangements were provided in respect of the pension fund separate opinion for 2010/11. This provided an extended deadline for one year only. For 2011/12 therefore the pension fund accounts will also require to be certified by 30 September 2012. It should be noted that there is a separate audit plan for the pensions funds.
27. Following an initial meeting with Finance staff, we found that plans are in place to deliver the financial statements. We will continue to liaise on the arrangements as the audit progresses

Other issues

28. **Development of Union Terrace Gardens:** The council is considering the development of Union Terrace Gardens through private contributions and Tax Increment Financing (TIF) funding. A referendum to decide if the project should continue is currently being carried out within the city with a decision expected in March 2012. If approved, a key risk will be the affordability of the project and its impact on the council's finances should TIF funding fail to provide the necessary additional non-domestic rate income for the city. This is a potential long term risk for the council but one that is dependent on the outcome of the referendum.

Group arrangements

29. Our responsibilities and approach set out earlier cover both our audit of the council and its group. In order to give an opinion on the group accounts, we need an understanding of the nature of the council's subsidiaries and associates and their relationships, including any significant changes during the year, group wide controls including the work of internal audit and the consolidation process.
30. International Standard on Auditing 600 (ISA600) using the work of another auditor, requires a change in emphasis to our audit of group accounts. The ISA focuses on the group engagement lead providing more direction on component auditors to ensure that sources of assurance are agreed as part of the planning process. In reaching our opinion on the group

accounts, we consider, review and evaluate as required the work of the auditors of the council's subsidiaries and associates within the group boundary and seek representations from them on a range of matters covering professional competence, conduct, and audit opinion. We also review the audited accounts for each of the entities in the group.

31. Having considered the effect of audit reports, along with any unadjusted misstatements and events after the financial reporting period, we should have sufficient assurances to conclude on whether the entities' accounts, policies and disclosures have been appropriately consolidated in the group accounts.

National performance audit studies – impact and follow up

32. In addition to the above work, Audit Scotland's Performance Audit Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process and to maximise the impact of national performance audits, we provide regular returns summarising how councils have dealt with national reports on publication and follow up a small number of studies each year at a local level. In respect of the financial year 2011/12, there will be a specific follow up exercise of the national performance audit report *Maintaining Scotland's roads: a follow-up report* (published February 2011).

Summary assurance plan

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

Materiality

34. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
35. ISA 320 states that, "Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered."

36. When considering, in the context of a possible qualification to the audit opinion, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement, experience and internal guidelines from peers as broad guidance with regard to considering whether the results of tests of detail are material.
37. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.

Reporting arrangements

38. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the council and the Controller of Audit within 3 months of the financial year end i.e. 30 June. The non-statutory target for audit completion is 30 September.
39. During the audit, matters arising from our audit will be reported on a timely basis and will include an agreed action plan. A draft management report will be issued to appropriate officers to confirm factual accuracy. A response is generally expected within three weeks of submission.
40. A copy of formal reports will be sent to the Chief Executive, Director of Corporate Governance, Head of Finance, Internal Audit and Audit Scotland's Best Value & Scrutiny Improvement Group. We will also propose to report to the Audit and Risk Committee.
41. In order to discharge our responsibilities, it is important that we engage with and report our findings to those charged with governance, in this case the Audit and Risk Committee, before we conclude our audit. Reports in accordance with International Standard on Auditing 260 (ISA 260) Communication of audit matters with those charged with governance will be discussed with the Section 95 officer before being considered by elected members. The reports will cover all significant issues arising from the audit and will be considered by committee before we formally issue our audit opinion. This allows time for appropriate action to be taken on any significant matters.
42. We will provide independent auditor's reports to elected members and the Accounts Commission confirming that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements.
43. Annual reports to elected members and the Controller of Audit will also be produced to summarise all significant matters arising from the audits and overall conclusions about the

management of key risks. All annual reports produced by Audit Scotland are published on our website: (www.audit-scotland.gov.uk).

44. The full range of outputs to be delivered by the audit team are summarised in Exhibit 1.

Exhibit 1: 2011/12 Planned outputs

Planned outputs	Target delivery date
Governance	
Assurance and Improvement Plan Update (jointly prepared with other local government scrutiny bodies)	31 May 2012
Governance management letter	30 June 2012
Performance Audit	
Follow up exercise of the national report 'Maintaining Scotland's roads' (published 2011)	31 August 2012
Financial Statements - council/group	
Report to Audit and Risk Committee in terms of ISA260 (Communication of audit matters to those charged with governance)	30 September 2012
Independent Auditor's report on financial statements	30 September 2012
Management letter covering issues arising from the audit of the financial statements	30 September 2012
Whole of Government Accounts (WGA) return	1 October 2012
Annual Report	
Report to elected members and the Controller of Audit on the 2011/12 Audit of Aberdeen City Council	31 October 2012
Grants	
DWP housing and council tax benefits subsidy claim	30 November 2012
Non-domestic rate income return	28 February 2013
Criminal Justice Return	30 September 2012
Education Maintenance Allowance	31 July 2012

Client engagement activities

45. As part of the audit process, we meet with a range of members and officers to complete the necessary planning work and to gather assurances for each of our scheduled pieces of work. Exhibit 2 sets out the minimum number of meetings we are involved in as a matter of routine to keep up to date with council priorities and to enable us to be better placed to assess leadership and culture within the council and comment on the role of elected members.

Exhibit 2: Level of engagement

	Level of engagement
Audit & Risk Committee	A progress report will be provided to each meeting, other reports as appropriate, ISA 260 letter, auditor's opinion and annual report to members.
Chief Executive	At least every six months
Director of Corporate Governance	Quarterly
Head of Finance	Regular contact
Internal Audit	Regular contact
Corporate Accounting Manager	Regular contact
Corporate Management Team	Six monthly

Quality control

46. We are committed to ensuring that our audit reflects best practice and demonstrates best value to Aberdeen City Council and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client; in the case of Aberdeen City Council, Stephen O'Hagan is responsible for ensuring that our work is carried out on time and to a high quality standard.
47. As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.

Fees and resources

48. Our agreed fee for the 2011/12 audit of Aberdeen City Council is £472,600 which is split £436,700 in respect of the council and £35,900 for North East Scotland Pension Funds. There is a separate audit plan in respect of the pension funds. Our fee in respect of the council audit covers:
- work and outputs described in this proposal
 - attendance at the Audit and Risk Committee and key council/committee meetings
 - scrutiny co-ordination work undertaken by Audit Scotland including audit involvement in the shared risk assessment and assurance and improvement plan process
 - functions which support the local audit process e.g. access to advice and information on relevant audit issues
 - a share of Audit Scotland's net costs which reflects, for example:
 - best value audit, national performance studies and statutory reports by the controller of audit
 - housing benefit performance audit work undertaken by a specialist team
 - Audit Scotland's National Fraud Initiative – a data matching activity every 2 years with preparatory work and national reporting in the interim year.
49. In determining the agreed fee we have taken account of the risk exposure of Aberdeen City Council, the management assurances in place and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of the draft accounts and working papers by 30 June 2012. An additional fee may be required if our audit cannot proceed as planned or if any unplanned work arises.
50. Fiona Kordiak, Director, Audit Services, is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors. For Aberdeen City Council the Assistant Director is Stephen O'Hagan.
51. The local audit team will be led by Anne MacDonald who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience of our team is provided at Appendix C. The core audit team will call on other specialist and support staff as necessary.

Independence and objectivity

52. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships within the audit team.
53. We comply with ethical standards issued by the Auditing Practices Board and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at Appendix E.

Appendix A - Summary assurance plan

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

Risk	Source of Assurance	Planned audit action
Financial management		
<p>Delivery of savings There is a risk that expenditure is not contained within available resources and that planned savings to address the identified funding shortfall are not delivered.</p>	<ul style="list-style-type: none"> • Regular financial monitoring reports to service committees and Finance and Resources Committee • Corporate performance report to Corporate Management Team • Performance monitoring by service committees • A review of the council's progress against the 5 year business plan • Sponsoring Group's review of programme reports covering all major projects • Regular meetings of Finance and HR Business Partners with Directors and Heads of Service to discuss all aspects of the council's business. 	<ul style="list-style-type: none"> • Monitor the effectiveness of the budgetary control and efficiency saving processes • Review ongoing outturns against budget reported to council • Commentary in annual report to members.

Risk	Source of Assurance	Planned audit action
<p>Level of General Fund Reserves</p> <p>The council may not achieve its agreed level of uncommitted General Fund reserves at the year end.</p>	<ul style="list-style-type: none"> Regular financial monitoring reports. 	<ul style="list-style-type: none"> Review ongoing outturns against budget reported to council Commentary in annual report to members.
<p>Local Area Trading Company, Property LLP and Alternative Delivery Model (ADM) Projects</p> <p>The scale of these projects provide a risk that council may not deliver the anticipated level of savings and that potential uncertainty amongst staff may impact on the robustness of internal financial controls.</p>	<ul style="list-style-type: none"> Progress reports to council Development and discussion of full business cases Guarantees, where possible, given by bidders Gateway reviews in respect of ADM project Internal Audit regularly review key controls and management scrutiny of processes. 	<ul style="list-style-type: none"> Ongoing monitoring of the projects to assess any impact on financial statements.
<p>Equal Pay</p> <p>The council continues to have a number of outstanding equal pay claims. These will need to be kept under review in light of evolving case law to ensure that an appropriate level of provision is made.</p>	<ul style="list-style-type: none"> Ongoing review of implications of equal pay settlements Maintaining a provision for such claims on council Balance Sheet and regular review of value. 	<ul style="list-style-type: none"> Review reports to council. Continue to assess latest projections Report results in the annual report to members.
<p>Housing and Council Tax Benefits</p> <p>There is a risk that the council is subject to further claw back by the DWP which may impact on the level of provision carried in the financial statements.</p>	<ul style="list-style-type: none"> Improved supervisory checks Maintaining a provision for such claims on council Balance Sheet reviewed annually Audit checks and extrapolation for 2010/11 were positive and show improvement from the previous year. 	<ul style="list-style-type: none"> Early reporting to officers of findings from substantive testing of Housing and Council Tax Benefit cases as part of the HBCount methodology.

Risk	Source of Assurance	Planned audit action
Accounts presentation and disclosure		
<p>2011 Code Changes introduced by the 2011 Code include a new section on Heritage Assets, amended reporting requirements for investment properties held for sale and other disclosure requirements. There is a risk that the changes required are not correctly implemented.</p>	<ul style="list-style-type: none"> • Council final accounts closure timetable and procedures issued to relevant staff • Review by corporate accounting and action taken to ensure disclosures achieved • Guidance note issued to all accounting staff on changes. 	<ul style="list-style-type: none"> • Regular progress meetings with key finance staff.
<p>Delivery of Financial Statements With the earlier deadline for certification of pension fund accounts, there may be risks around the council's capacity to deliver quality working papers and respond to audit queries associated with the financial statements (council and pension funds).</p>	<ul style="list-style-type: none"> • Council final accounts closure timetable and procedures issued to relevant staff. 	<ul style="list-style-type: none"> • Regular progress meetings with key council staff.
Group Arrangements		
<p>Governance arrangements Weaknesses in governance arrangements across the group may result in financial loss, service failure or reputational damage.</p>	<ul style="list-style-type: none"> • Review of group governance arrangements as part of annual review of internal controls. • Relevant report to management / council. 	<ul style="list-style-type: none"> • From knowledge of group companies e.g. board minutes, reports to council etc., assess the robustness of governance arrangements and completeness of governance statement.

Risk	Source of Assurance	Planned audit action
<p>Group transactions</p> <p>The impact of group transactions need to be carefully considered to ensure correct accounting and relevant disclosure in the financial statements.</p>	<ul style="list-style-type: none"> • Review and identification of organisations included in the group arrangement • Relevant reports to management team/council. • Year end group accounts processes and data requests from group entities. 	<ul style="list-style-type: none"> • Review of proposals as they arise.

Appendix B - Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	March to May 2012
Provision of closedown procedures to audit	February 2012
Meetings with officers to clarify expectations of detailed working papers and financial system reports	February 2012
Planned committee approval of unaudited financial statements	27 June 2012
Latest submission of unaudited financial statements with working papers package	30 June 2012
Progress meetings with lead officers on emerging issues	Ongoing
Latest date for final clearance meeting with Head of Finance	tbc - September 2012
Agreement of unsigned financial statements for audit committee agenda, and issue of report to the audit committee on the audit of financial statements (ISA 260)	tbc - September 2012
Audit & Risk Committee date	tbc - September 2012
Independent Auditors Report signed	By 30 September 2012
Latest date for signing of WGA return	1 October 2012
Certified accounts and annual report presented to Council	November 2012

Appendix C - Audit team

A summarised curriculum vitae for each core team member is set out below:

Stephen O'Hagan CPFA, Assistant Director

Stephen has over 15 years experience of public sector audit with Audit Scotland, covering local government, central government, health and the education sector. Prior to joining Audit Scotland, Stephen worked in local government finance for 5 years.

Anne MacDonald CA, Senior Audit Manager

Anne has many years public sector experience mainly in local government financial audit. During this time she been responsible for delivering the audits of several councils and has also worked on joint inspections with HMIE and HMIC. In 2008, she also led the Best Value Audit of Perth & Kinross Council.

Mark Johnstone CPFA, Senior Auditor

Mark has 15 years public sector audit experience with Audit Scotland, across the health, central government and local government sectors.

Edward Stansfeld, Senior ICT Auditor

Edward trained as an auditor in private practice in the early 90s, and then worked in industry for five years. He joined Audit Scotland in 2001 as an IT audit specialist. Edward contributes to the international ISM3 information security standard which provides a process-based view of ISO27001/BS7799.

Deirdre Sim, Auditor

Deirdre has 15 years public sector audit experience in a wide range of clients in the local government and health sectors.

Appendix D - Reliance on internal audit

Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. Internal audit for the council is provided by PricewaterhouseCoopers. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Our review of the internal audit service concluded that the internal audit service provided by PricewaterhouseCoopers operates in accordance with the CIPFA code of practice for internal audit in local government.

International Standards on Auditing (ISAs) require evaluation of critical financial systems and testing of key controls on an annual basis. In reaching conclusions, audit work should be based on controls and transactions across the financial year. For 2011/12, the following reviews of financial systems by internal audit were largely completed in the early part of the financial year and while this will provide assurance, we will need to undertake additional testing to ensure the operation of key controls throughout the financial year.

- Financial Ledger
- Payroll
- Housing Benefits
- Pension payments
- Treasury
- Creditors (Payables)
- Debt Management
- Council Tax Discounts & Rebates
- Housing Rents (Implementation)

Our Code of Audit Practice sets out our wider governance and performance audit responsibilities. In connection with these wider duties, we also plan to take assurance from internal audit in the following areas:

- Information Management (Data Centre)
- IT Control Environment
- Performance Management
- Risk Management
- Fraud Governance
- Sport Aberdeen - Governance.

Appendix E - Independence and Objectivity

Auditors appointed by the Auditor General for Scotland are required to comply with the Code of Audit Practice and standing guidance for auditors, which defines the terms of appointment. When auditing the financial statements auditors are also required to comply with the auditing and ethical standards issued by the Auditing Practices Board (APB). The main requirements of the Code of Audit Practice, standing guidance for auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication with those charged with governance) requires that the appointed auditor communicates:

- A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with the APB's Ethical Standards for auditors;
- All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and
- The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

The standard defines "those charged with governance" as "the person(s) or organisation(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process." In this case, the appropriate addressees of communications from the auditor to those charged with governance are the Head of Finance as s95 officer and the Audit & Risk Committee. The auditor reserves the right to communicate directly with members on matters which are considered to be of sufficient importance.

Audit Scotland's Code of Audit Practice requires appointed auditors to carry out their work independently and objectively, and ensure they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. Appointed auditors and their staff should avoid entering in to any official, professional or personal relationships which may impair their independence, or might lead to a reasonable perception that their independence could be impaired.

The standing guidance for auditors includes a number of specific requirements. The key requirements relevant to this audit appointment are as follows:

- during the currency of an appointment, auditors should not perform non-audit work for an audited body, consultancy or otherwise, without the prior approval of Audit Scotland
- the appointed auditor and key staff should, in all but exceptional circumstances, be changed at least once every five years in line with Audit Scotland's rotation policy
- the appointed auditor and audit team are required to carry out their duties in a politically neutral way, and should not engage in high profile public party political activity
- the appointed auditor and audit team must abide by Audit Scotland's policy on gifts and hospitality, as set out in the Audit Scotland Staff Code of Conduct.