

REPORT TO AUDIT COMMITTEE – 25 MARCH 2021

EXTERNAL AUDIT - ANNUAL AUDIT PLAN FOR THE 2020/21 AUDIT

1 Reason for Report / Summary

- 1.1 The external auditor's audit plan for the 2020/21 audit is included at Appendix 1. This is the fifth year of Audit Scotland's audit appointment. Normally, this would be the final year of the audit appointment but due to the impact of the Covid-19 pandemic, all public sector audit appointments have been extended by one year. Audit Scotland's current appointment will therefore now include financial year 2021/22.
- 1.2 The programme of work within the plan is set in accordance with Audit Scotland's Code of Audit Practice and provides for the necessary assurances required to support their opinions on the Council's financial statements, the Council's charitable trusts' financial statements, and the wider scope audit responsibilities.

2 Recommendations

2.1 The Committee is recommended to:

- **discuss and note the external auditor's annual audit plan which covers the 2020/21 audit.**

3 Purpose and Decision-Making Route

- 3.1 The report sets out the auditor's plan in respect of the 2020/21 audit and covers the audit of the council's financial statements, the council's charitable trusts' financial statements, and the auditors' wider scope responsibilities.
- 3.2 The report was shared with the Director of Business Services and the Head of Finance for comment and feedback.
- 3.3 The external auditor's engagement with the council is through the Audit Committee.

4 Discussion

- 4.1 The report includes the auditor's assessment of the significant risks impacting on the 2020/21 audit.
- 4.2 The plan also applies to the audit of the council's registered charities where the local authority is the sole trustee. The auditor highlights that the charities should increase their annual spend if they are to meet their charitable aims and provide public benefit.

5 Council Priorities, Implications and Risk

- 5.1 The work of external audit is relevant to all of the Council's Priorities. It aims to provide assurance over the appropriateness and effectiveness of the council's arrangements in respect of four audit dimensions - financial sustainability, financial management, governance and transparency, and value for money.
- 5.2 The table below shows whether risks and implications apply if the recommendation is agreed.

| Subject | Yes | No | N/A |
|--|-----|----|-----|
| Financial | | X | |
| Staffing | | X | |
| Equalities | | X | |
| Fairer Scotland Duty | | X | |
| Town Centre First | | X | |
| Sustainability | | X | |
| Children and Young People's Rights and Wellbeing | | X | |

- 5.3 An equality impact assessment is not required because this report informs the Committee of the planned scrutiny activity to be carried out by external audit and does not have a differential impact on any of the protected groups.
- 5.4 The external audit process considers financial statement risks and wider audit dimension risks. Any audit risks identified are detailed in the external auditor's interim management report each July and annual audit report (normally) each September. Recommendations are made to address the identified risks and follow up work is undertaken to assess progress against agreed management actions. Follow up activity and progress against actions is reported to the Audit Committee.

6 Scheme of Governance

- 6.1 The Head of Finance and Monitoring Officer within Business Services have been consulted in the preparation of this report and their comments are incorporated within the report and are satisfied that the report complies with the Scheme of Governance and relevant legislation.
- 6.2 The Committee is able to consider/comment on this item in terms of Section G.1.5 of the List of Committee Powers in Part 2A of the Scheme of Governance as the report relates to the Council's relationship with its external auditors

Ritchie Johnson
Director of Business Services

Report by Anne MacDonald, Senior Audit Manager, Audit Scotland
Date: 5 March 2021

Appendix 1 – External Auditor's Annual Report on the 2020/21 Audit

Aberdeenshire Council

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

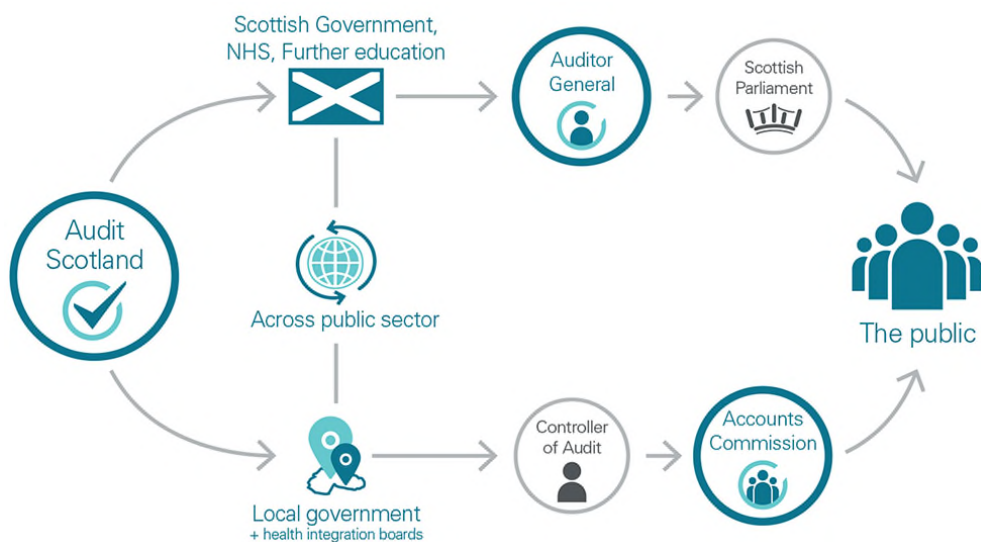
Prepared for by Aberdeenshire Council
March 2021



Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish Ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit including the audit of Best Value.
2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.
3. The public health crisis caused by the coronavirus (Covid-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
4. Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. In view of the ongoing lockdown restrictions, we will maintain a pragmatic and flexible approach which may result in changes to plans at short notice as we respond to emerging issues and ongoing risks.

Adding value

5. We aim to add value to Aberdeenshire Council through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

6. We generally categorise risks into financial statement risks and wider dimension risks. Based on our discussions with officers, attendance at committee meetings and a review of supporting information we have identified the risks in [Exhibit 1](#) as the main risk areas for the 2020/21 audit of Aberdeenshire Council.
7. Our consideration of management sources of assurance and findings from our planned audit work will assist us in reaching conclusions on each of these risk areas.
8. The risks identified have all been classed as financial statement risks. Aberdeenshire Council's Best Value Assurance Report (BVAR) was published in October 2020. As a matter of routine, our work this year will include follow up activity to assess the council's progress and pace of change in response to the recommendations made in the report. Our 2020/21 planning work has not identified any new wider scope significant risks not already covered by the BVAR action plan.

Charitable trusts administered by Aberdeenshire Council


9. The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing requirements for Scottish registered charities. Irrespective of the size of a charity, because of the interaction of section 106 of the Local Government (Scotland) Act 1973 with the regulations, a full audit is required of all registered charities where the local authority is the sole trustee.


10. The council administers Educational Trusts (net assets of £3.7m), Aberdeenshire Charities Trust (ACT2) (net assets of £0.5m) and two smaller charitable trusts (net assets of £0.1m). We will perform the audit of the charitable trusts in parallel with the audit of the council's annual accounts. Other than a risk of management override of controls and a risk of fraud over income and expenditure ([Exhibit 1](#) Risks 1 and 2) which have also been identified as risks in respect of the council's annual accounts, no specific planning risks were identified in respect of the audits of the charities' accounts.


11. As previously reported, due to the low level of spend by the charities, there is a risk that the charitable aims are not being met and, in some cases, the charities are therefore failing to provide public benefit. As part of our wider responsibilities, this matter may require to be referred to the Scottish Charity Regulator (OSCR).


Exhibit 1


2020/21 Significant audit risks

|  Audit Risk | Source of assurance | Planned audit work |
|--|---|--|
| Financial statements risks | | |
| <p>1 Risk of material misstatement due to fraud caused by the management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p> <p>This risk also applies to the charities. Similar planned work will be carried out.</p> | <ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. | <ul style="list-style-type: none"> Detailed testing of journal entries Review of accounting estimates Focused testing of accruals and prepayments Evaluation of significant transactions that are outside the normal course of business. |

|  | Audit Risk | Source of assurance | Planned audit work |
|---|---|--|--|
| 2 | <p>Risk of fraud over income and expenditure</p> <p>In addition to Scottish Government funding, the council receives a significant amount of income.</p> <p>The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud. Potential areas of concern include council tax and business rates particularly in relation to discounts and exemptions, charges in respect of care packages provided and sundry debtor fees and charges.</p> <p>Financial Reporting Council Practice Note 10* expands the ISA assumption to advise there is also a risk of fraud over aspects of expenditure for public sector bodies which tend to have an overall net expenditure outturn. The council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.</p> <p>The response to Covid-19 has seen changes to the normal pattern of income and expenditure and staff are now working from home. Although there have been no major changes in the controls over income and expenditure, the rapid change to homeworking would increase the potential risk of fraud and error.</p> <p>Risk of fraud over expenditure also applies to the charities. Similar planned work will be carried out.</p> <p>*Practice Note 10 relates to the audit of financial statements of public sector bodies in the UK.</p> | <ul style="list-style-type: none"> • Schemes of delegation in place • No history of significant fraud • Appropriate processes for the authorisation, separation of duties and workflow associated with income and expenditure • Compliance with procurement regulations • Budgetary control arrangements • Regular financial monitoring by management and improved scrutiny by elected members through each cycle of committee reporting • Regular review of financial systems and internal controls by internal audit. | <ul style="list-style-type: none"> • Analytical procedures on income and expenditure streams • Establishing and testing the operation of key controls • Detailed testing of revenue transactions focusing on the areas of greatest risk • Considering the council's work on National Fraud Initiative recommended matches • Assessing the overarching controls in grant and welfare schemes including benefit transactions. |

|  Audit Risk | Source of assurance | Planned audit work |
|--|--|--|
| <p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of a number of material account areas including non-current assets, accruals, pensions and provisions.</p> <p>As the council will close the financial ledger in early April 2021, this will require tight management of the year end process, identification of commitments and appropriate processes for estimating accruals.</p> <p>In summer 2020, the new Inverurie Community Campus came into operational use and will require to be brought onto the council's Balance Sheet as a service concession arrangement.</p> <p>Subjectivity in the above matters represents an increased risk of misstatement in the financial statements.</p> | <ul style="list-style-type: none"> • Use of clearly defined methodologies and procedures including experts, as appropriate, when making significant estimations and judgements • Financial modelling and advice in connection with the accounting treatment and required disclosures for Inverurie Community Campus • Management review by qualified finance staff. | <ul style="list-style-type: none"> • Completion of 'review of the work of an expert' in accordance with ISA 500 for the professional valuer and actuary. This requires assessment of the scope, independence and competence of the professionals engaged • Review of financial modelling and agreements supporting the service concession disclosures • Follow up work in respect of prior year recommendations relating to property valuations • Review council's arrangements for identifying potential provisions and contingent liabilities e.g. its cognisance of case law, national events etc • Review basis and calculation of provisions for bias and subjectivity • Focused substantive testing of key areas for completeness. |
| <p>4 Management Commentary</p> <p>The Local Authority Accounts (Scotland) Regulations 2014 require the annual accounts to include a management commentary prepared in accordance with statutory guidance.</p> <p>The management commentary included in the 2019/20 unaudited accounts needed significant revision to ensure it complied with the requirements set out in statutory guidance.</p> <p>With new narrative required to tell the 'Covid story' and the changes in responsibility in the finance team, there is a risk that the management commentary does not meet the requirements and could result in a modified audit opinion.</p> | <ul style="list-style-type: none"> • Plans for improvement will form part of the annual accounts timetable. | <ul style="list-style-type: none"> • Ongoing discussion with the finance team as the audit progresses. |

|  Audit Risk | Source of assurance | Planned audit work |
|--|---|---|
| <p>5 Capacity of Finance team</p> <p>Due to interim management arrangements implemented by the council in January 2021, there have been significant changes in the finance team:</p> <ul style="list-style-type: none"> the Head of Finance has been appointed Interim Director of Infrastructure the Strategic Finance Manager has been appointed interim Head of Finance (Section 95 Officer) changes in two out of the four Business Partner roles which support other services. <p>The changes were initially implemented for three months but may be subject to extension.</p> <p>With significant change and uncertainty in the finance team, at a time when there are increased pressures due to the impact of the pandemic, there is a risk that the service will experience capacity issues and/or reduced performance.</p> | <ul style="list-style-type: none"> Ongoing review by Senior Leadership Team. | <ul style="list-style-type: none"> Discussions with chief officers. |
| <p>6 Manual authorisation of invoices for payment</p> <p>In previous years, we identified payment of invoices which are not initiated by an electronic purchase order as an area of audit risk because officers are approving invoices which exceed their approved authorisation limits.</p> <p>The council view is that the key control takes place when the purchase order or overall contract commitment is approved. However, as payments are initiated by invoices, in our opinion, a potential risk of fraud over expenditure remains because of the delay between approving, for example, a contract and authorising the individual invoices for expenditure arising in connection with that contract.</p> | <ul style="list-style-type: none"> Budgetary control arrangements. | <ul style="list-style-type: none"> Focused substantive testing of manually authorised invoices will be extended to provide a sufficient level of assurance on the validity of expenditure Confirm if there are appropriate arrangements in place to match expenditure against approved commitments. |

|  Audit Risk | Source of assurance | Planned audit work |
|---|--|---|
| <p>7 Presentation and disclosure of Covid-19 transactions</p> <p>As part of the Scottish Government's Covid-19 response, councils have distributed significant amounts of stimulus and sustainability funding. In this regard, Aberdeenshire Council has distributed approximately £60m to support the local economy.</p> <p>Depending on the nature of the arrangement, the council acts as either a principle or an agent and consequently, different accounting treatment applies:</p> <ul style="list-style-type: none"> • as principal – funds should be recorded through the primary financial statements on an accruals basis • on an agency basis – material cash receipts and payments should be disclosed as a note to the accounts with an appropriate audit trail (ie such payments are not included in the primary financial statements). <p>There is a risk that the correct accounting treatment is not applied resulting in a material misstatement in the financial statements.</p> | <ul style="list-style-type: none"> • Arrangements were put in place for each funding stream in consultation with peers from other councils • Local controls were designed and implemented for the payment and recording of transactions • Lessons were learnt and processes improved as officers became aware of national fraud cases • Transactions will be reflected in the annual accounts in line with professional guidance. | <ul style="list-style-type: none"> • Confirm the arrangements put in place to implement Scottish Government guidance, assess applications and distribute payments • Develop a testing plan for stimulus packages (details have yet to be confirmed) • Consider the council's response and lessons learnt from potential fraud cases in this area • Review and confirm the accounting treatment for stimulus transactions. |
| <p>8 Integration Joint Board</p> <p>Aberdeenshire Integration Joint Board (IJB) is a joint venture between Aberdeenshire Council and NHS Grampian. IJB financial transactions rely on the council's ledger and other financial systems.</p> <p>There is a risk that the council does not have proper arrangements in place to ensure the completeness and correct classification of IJB related transactions in its ledger. As a result, there is a risk that income and expenditure is misstated in the council's and IJB's accounts.</p> | <ul style="list-style-type: none"> • The financial ledger coding structure identifies all IJB transactions • Regular monitoring of financial information • Treatment of over- and underspends set out in the Integration Scheme • Council, NHS Grampian and IJB finance staff liaise to resolve any financial challenges being experienced • Subject to the above, early agreement of balances between the council and IJB. | <ul style="list-style-type: none"> • Review the council's arrangements for completeness of the IJB's ledger and transactions • Sample test income and expenditure relating to health and social care services provided to the IJB • Confirm whether any IJB overspends or underspends are accounted for in accordance with the integration scheme. |

Reporting arrangements

12. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

13. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy. We will also undertake follow up audit activity to report progress on our recommendations made in previous years.

14. We will provide an independent auditor's report to Aberdeenshire Council and the Accounts Commission setting out our opinions on the annual accounts. We will provide an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2 2020/21 Audit outputs

| Audit Output | Audit Committee target date |
|--|--|
| Governance | |
| External Audit Outstanding Recommendations | 20 May 2021 |
| Interim Report | 1 July 2021 |
| Financial statements | |
| Communication of audit matters to those charged with governance - Annual Report on the 2020/21 audit | 4 November 2021 |
| Independent auditor's report on the financial statements | 4 November 2021 |
| Audit opinions on charitable trusts accounts | 4 November 2021 |
| Grants and returns | Submission date to Audit Scotland / other bodies |
| Fraud Returns | Quarterly (if applicable) |
| Overview Report – Data Return | 8 May 2021 |
| Education Maintenance Allowance Grant to Scottish Government | 31 July 2021 |
| Non-Domestic Rates Income return to Scottish Government | 6 October 2021 |
| Housing Benefit Subsidy to Department of Work and Pensions | 31 January 2022 |
| Audit opinion on Whole of Government Accounts | submission date to be advised |

The impact of lockdown restrictions on the capacity of the audit team and the council's finance team will be kept under review. As a result, target dates may be subject to change and if so, the Audit Committee will be kept informed.

Source: Audit Scotland

Audit fee

15. The proposed audit fee for the 2020/21 audit of Aberdeenshire Council is £411,220 (2019/20 £400,480). This is split between the council £404,720 (2019/20 £392,730) and the charitable trusts £6,500 (2019/20 £7,750). In determining the audit fee, we have taken account of the council's risk exposure, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes that the unaudited annual accounts will be supported by a complete working papers package.

16. A supplementary fee may be levied if any additional work is required, for example, inadequate working papers or other significant work outwith our planned audit activity is considered necessary.

Responsibilities

Audit Committee and Section 95 Officer

17. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

18. The audit of the annual accounts does not relieve management or the Audit Committee as those charged with governance, of their responsibilities.

19. The Local Authority Accounts (Scotland) Regulations 2014 (2014 Regulations) set out significant statutory responsibilities for councils and their audit committees in respect of their annual accounts and governance arrangements including:

- a local authority must conduct an annual review of the effectiveness of its internal controls. The findings from such a review must be considered by the audit committee before approving an annual governance statement
- the local authority must assess the efficiency and effectiveness of its internal audit service and the findings should be considered as part of the review of internal controls
- by 31 August, the audit committee should consider the unaudited accounts
- no later than 30 November*, the audit committee should aim to consider the audited accounts and approve them for signature. Regulations require signature by the Council's Leader, Chief Executive and Section 95 Officer.

(*extended date permitted by the Coronavirus regulations)

Appointed auditor

20. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice and guided by the Financial Reporting Council's Ethical Standards.

21. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial Statements

22. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the council's business and associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

23. We will give an opinion on the financial statements as to:

- whether they give a true and fair view in accordance with applicable law and the 2020/21 Code of Practice on local authority accounting in the UK (the accounting code) of the state of the affairs of the council and its group as at 31 March 2021 and of the income and expenditure of the council and its group for the year then ended
- whether they have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as interpreted and adapted by the 2020/21 accounting code; and
- whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Statutory other information in the financial statements

24. We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report, and carry out the following work:

- we give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks .
- the content of the annual report is reviewed for consistency with the financial statements and with our knowledge
- we report any uncorrected material misstatements in statutory other information.



Materiality

25. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit approach, and in considering the level of uncorrected error which might be permitted in the financial statements without an adverse impact on our opinions in the independent auditor's report

26. We calculate materiality at different levels as described below. The calculated materiality values for Aberdeenshire Council and the charitable trusts are set out in **Exhibit 3**. For the charitable trusts, different levels of materiality have been set in respect of transactions in the Statement of Financial Activities (i.e. the income and expenditure account) and balances in the Balance Sheet due to the disparity in values between the two.

Exhibit 3 Materiality values – Aberdeenshire Council

| Materiality | Amount |
|---|----------|
| Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. Based on our professional judgement, it has been set at 1.5% of gross expenditure on provision of services as set out in the 2019/20 audited accounts. | £17.0m |
| Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, performance materiality has been calculated at 60% of planning materiality. | £10.2m |
| Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been set at 1.5% of planning materiality (and rounded accordingly). | £250,000 |

Materiality values – charitable trusts

| Charitable Trust | Planning materiality (Set at 2% of gross income/net assets*) | Performance materiality (Set at 75% of Planning materiality) | Reporting threshold (Set at 5% of planning materiality) |
|----------------------------------|---|---|--|
| | Transactions / Balances | Transactions / Balances | Transactions / Balances |
| Aberdeenshire Charities Trust 2 | £200 / £9,500 | £150 / £7,000 | £10 / £500 |
| Aberdeenshire Educational Trust | £3,600 / £73,100 | £2,700 / £54,800 | £180 / £3,600 |
| Anderson & Woodman Library Trust | £50 / £1,900 | £40 / £1,400 | £5 / £100 |
| McDonald Public Park Endowment | £25 / £250 | £20 / £190 | £1 / £10 |



* planning materiality has been set at 2% of gross income/net assets based on the latest audited accounts

Source: Audit Scotland

Timetable

27. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us. Based on current discussions with the Interim Head of Finance, [Exhibit 4](#) sets out the proposed timetable for preparation and audit of Aberdeenshire Council's 2020/21 annual accounts.

Exhibit 4 2020/21 Annual accounts timetable

|  Key stage |  Date |
|--|--|
| Submission of unaudited annual accounts with complete working papers package | By 30 June 2021 |
| Consideration of unaudited annual accounts by those charged with governance (i.e. the Audit Committee) | 1 July 2021 |
| Latest date for final clearance meeting with Head of Finance | w/c 8 October 2021 |
| Agreement of unsigned annual accounts and issue of Annual Audit Report for pre-meeting of the Audit Committee | 25 October 2021 |
| Planned approval of audited financial statements for signature, and consideration of Annual Audit Report by those charged with governance (i.e. the Audit Committee) | 4 November 2021 |
| Independent auditor's report signed | 4 November 2021 |

The impact of lockdown restrictions on the capacity of the audit team and the council's finance team will be kept under review. As a result, target dates may be subject to change and if so, the Audit Committee will be kept informed.

Source: Audit Scotland

Internal audit

28. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible. Internal audit is provided by an in-house team overseen by the Interim Chief Internal Auditor.

29. ISA (UK) 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This assessment routinely includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of internal audit
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

30. We carry out an assessment of the internal audit function to confirm whether it complies with the relevant Public Sector Internal Audit Standards (PSIAS). Our review in respect of Aberdeenshire Council internal audit is ongoing and we will report our findings to management in due course.

External auditor assurances for systems and functions provided to other bodies

31. Aberdeenshire Council provides financial services for the following bodies:

- Aberdeenshire Integration Joint Board (social care services)
- Aberdeenshire Council charities
- North East of Scotland Transport Authority (NESTRANS).

32. In order to provide efficiencies and avoid duplication of effort, we provide financial assurances to the external auditors of these bodies. Such assurances generally cover the operation of key financial controls including internal audit, verification of samples of transactions and other relevant functions carried out by the council.

33. In addition, Aberdeenshire Council is a scheduled body of North East Scotland Pension Fund. We therefore also provide assurances to the external auditor of the pension fund in respect of the completeness and accuracy of the council's employee and employer pension contributions and its arrangements for making remittances to the pension fund.

Audit dimensions

34. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#). As part of the 2020/21 audit, follow up wider dimension audit activity will also be carried out to report progress on previous year recommendations.

35. In the local government sector, the appointed auditor's annual conclusions on these four dimensions, including follow up audit activity, will help contribute to an overall assessment on best value.

Exhibit 5 Audit dimensions



Financial sustainability

36. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

Financial management

37. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on whether the council:

- has arrangements in place to ensure systems of internal control are operating effectively
- can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance
- has assured itself that its financial capacity and skills are appropriate
- has effective arrangements for the prevention and detection of fraud and corruption including the council's approach to managing the risk of procurement fraud e.g. effective declaration of gifts and hospitality, appropriate training and awareness, and protection for whistle blowers.

Governance and transparency

38. 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. We will review, conclude and report on whether:

- the council can demonstrate that the governance arrangements in place are appropriate and operating effectively
- there is effective scrutiny, challenge and transparency on decision-making and finance and performance reports
- there is quality and timely financial and performance reporting
- there are robust arrangements in place to support the annual governance statement.

Value for money

39. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the council can demonstrate:

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

Best Value

40. In June 2016, the Accounts Commission agreed the current framework for auditing Best Value which includes integrating Best Value into the wider scope annual audit. Best Value is assessed comprehensively over the audit appointment, both through the ongoing annual audit work, and through discrete packages of work to look at specific issues.

41. Conclusions and judgements on Best Value are reported through:

- the Annual Audit Report for each council that will provide a rounded picture of the council overall
- an annual assurance and risks report that the Controller of Audit will provide to the Accounts Commission that will highlight issues from across all 32 council annual audit reports
- a Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five-year period.


42. [Aberdeenshire Council's BVAR](#) was published in October 2020. Our work this year will focus on the council's response to the recommendations contained in the report and progress made with the Best Value [action plan](#) which was approved by the council in November 2020.

43. In addition, we will be considering how well the council is meeting its fairness and equality duties. As part of this work, we will review the council's commitment to tackling poverty, reducing inequality and creating a culture which promotes fairness, respect and dignity throughout all of its arrangements with staff, service users and citizens, including its wider collaborative work with partners and communities. The results of this work will be reported in the Annual Audit Report.

44. The four councils on which a BVAR will be published during 2021 are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between June and November 2021.

Exhibit 6

2020/21 Best Value Assurance Reports

| | | |
|---|-----------------------------|------------------------|
|  | Aberdeen City Council | Falkirk Council |
| | East Dunbartonshire Council | South Ayrshire Council |

Source: Audit Scotland

Independence and objectivity

45. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

46. The engagement lead (appointed auditor) for Aberdeenshire Council is Gillian Woolman, Audit Director while Anne MacDonald, Senior Audit Manager, is the engagement lead for the council's charitable trusts. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audits of the council or its charitable trusts.

Quality control

47. 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.

48. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

49. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement leads.

Audit team

50. The local audit team will be led by Anne MacDonald, Senior Audit Manager, who will be responsible for day to day management of the audit and will be your primary contact. Details of the team are provided in [Exhibit 7](#). The audit team may be supplemented by additional staff during peak times.

Exhibit 7 Core Audit team

| Name | Position |
|--------------------------|--|
| Gillian Woolman FCA CPFA | Audit Director (and certifying auditor for Aberdeenshire Council) |
| Anne MacDonald CA | Senior Audit Manager (and certifying auditor for Aberdeenshire Council's registered charitable trusts) |
| Mark Johnstone CPFA | Senior Auditor |
| Adebayo Ladejobi CA | Auditor |
| Deirdre Sim | Auditor |

Source: Audit Scotland

Aberdeenshire Council

Annual Audit Plan 2020/21

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