



Aberdeen City Integration Joint Board

Audit strategy

Year ending 31 March 2019

23 January 2019

For Audit and Performance Systems Committee consideration on 12 February 2019

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About this report

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

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

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

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

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

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to Aberdeen City Integration Joint Board, telephone 0131 527 6673 email: andrew.shaw@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Hugh Harvie, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6682 or email to hugh.harvie@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Fiona Kordiak, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Introduction

2018-19 is the third year of our external audit appointment to Aberdeen City Integration Joint Board ("the Board"), having been appointed by the Accounts Commission as auditor of the Board under the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2016-17 to 2020-21, inclusive.

Our planned work in 2018-19 will include:

- an audit of the financial statements and provision of an opinion on whether the financial statements:
 - give a true and fair view in accordance with the applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom ("the 2018-19 Code") of the state of the affairs of the Board as at 31 March 2019 and of the income and expenditure of the Board for the year then ended; and
 - have been prepared in accordance with IFRS as adopted by the European Union, as interpreted and adapted by the 2018-19 Code, the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003.
- completion of returns to Audit Scotland;
- a review and assessment of the Board's governance arrangements and review of the governance statement;
- a review of arrangements for preparing and publishing statutory performance information; and
- contributing to the audit of wider scope and Best Value through performance of risk assessed work.

Adding value

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

- our experience, which brings insight and challenge;
- our tools and approach, which contribute to audit quality; and
- transparency and efficiency, which improves value for money.

Our team

The senior team involved in the external audit benefits from continuity in the engagement leader. The team has significant experience in the audit of local authorities and integration joint boards. It is supported by specialists, all of whom work with a variety of local government and public sector bodies. All members of the team are part of our wider local government and health network. Contact details for senior members of the audit team are provided on the back page of this report.

Our work will be completed in three phases from January 2019 to September 2019. Our key deliverables are this audit strategy document, an International Standards on Auditing (UK) ("ISA") 260 *Communication of audit matters with those charged with governance* report and an annual audit report.

Acknowledgements

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit work.

Headlines



Materiality

Materiality for planning purposes has been based on 2017-18 gross expenditure and set at £3.1 million (1% of gross expenditure).

In line with the Code of Audit Practice, we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this threshold has been set at £0.155 million.

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Audit risks

We have identified management override of controls as a default fraud risk which requires specific audit attention, in line with the International Standards on Auditing.

The risks with less likelihood of giving rise to a material error, but which are nevertheless worthy of audit understanding, relate to:

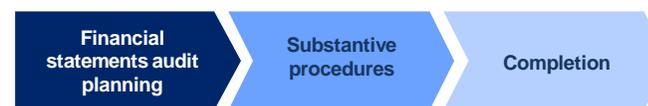
- completeness and accuracy of expenditure; and
- financial sustainability.

We will report on each of these areas in our ISA 260 report which we plan to issue in September 2019.

Pages seven and eight

Financial statement audit

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



There are no significant changes to the 2018-19 Code, which means for this year there is consistency in terms of accounting standards the Board needs to apply.

Wider scope

Auditors are required to assess and provide conclusions in the annual audit report in respect of four wider scope dimensions:

- financial sustainability;
- financial management;
- governance and transparency; and
- value for money.

We test wider scope areas where there are identified risks. We consider that there are wider scope risks in respect of demand pressures and the transformation programme. We have identified financial sustainability as a wider scope financial statement level focus area as set out opposite.

In addition, due to ongoing uncertainty related to EU withdrawal, we will consider Brexit as part of our risk assessment procedures and wider scope responsibilities

Pages 10 to 15

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Headlines (continued)

Independence

In accordance with ISA 260 and the APB Ethical Standards, we are required to communicate to you all relationships between KPMG and the Board that may be reasonably thought to have bearing on our independence both:

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

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

Total fees charged by us for the period ended 31 March 2018 were communicated in our Annual Audit Report issued in September 2018. Total fees for 2018-19 will be presented in our ISA 260 report issued on completion of the audit. The proposed audit fee for 2018-19 is £29,400 as set out below:

Total fee	Pooled costs	Contribution to PABV (Audit Scotland)	Contribution to Audit Scotland	Auditor remuneration (including VAT)
£29,400	£1,670	£5,050	£1,080	£21,600

Quality

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

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

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

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

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

Regularity

We consider the risk of fraud and error over income and expenditure recognition, in line with *Practice Note 10 Audit of financial statements of public sector bodies in the United Kingdom*. As the Board is a net spending body, we consider it appropriate to extend our consideration to cover expenditure as well as income. We do not consider there to be a significant risk over income or expenditure, see page seven. We have identified the completeness and accuracy of expenditure as an other focus area, see page eight.

Financial statements audit planning

Materiality

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

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

Materiality for planning purposes has been set at £3.1 million, which equates to 1% of 2017-18 gross expenditure. Materiality will be revised once draft financial statements for 2018-19 are received.

We design our procedures to detect errors in specific accounts at a lower level of precision, being £2.3 million (75% materiality).

Reporting to the Audit and Performance Systems committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Performance Systems Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

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

In the context of the Board, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.155 million.

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



Financial statements audit planning (continued)



Significant risks and other focus areas

Risk assessment: Our planning work takes place during January 2019 and February 2019. This involves: risk assessment; determining the materiality level; and issuing this audit plan to communicate our audit strategy. We use our knowledge of the Board, discussions with management and review of Board papers to identify areas of risk and audit focus categorised into financial risks and wider dimension risks as set out in the Code.

Significant risk	Why	Audit approach
Financial statement risks		
Fraud risk from management override of controls	Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	<ul style="list-style-type: none"> — Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the Board. — Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls. — In line with our methodology, we will carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the organisation's normal course of business, or are otherwise unusual.
Fraud risk from income revenue recognition and expenditure	Professional standards, as interpreted by Practice Note 10, require us to make a rebuttable presumption that the fraud risk from revenue recognition and expenditure are significant risks.	<ul style="list-style-type: none"> — The Board receives funding requisitions from Aberdeen City Council and NHS Grampian. These are agreed in advance of the financial year, with any changes arising from changes in need, requiring approval from each body. There is no estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant. — The Board issues directions to Aberdeen City Council and NHS Grampian in order to direct those bodies to deliver services delegated by the Board. The Board make these directions based on its budget agreed in advance of the financial year. There is no estimation or judgement in recognising expenditure to these bodies, and we do not regard the risk of fraud to be significant.

Financial statements audit planning (continued)



Other focus area	Why	Audit approach
Financial statement focus area		
Completeness and accuracy of expenditure	The Board receives expenditure forecasts from Aberdeen City Council and NHS Grampian as part of the annual budgeting process. There is a risk that actual expenditure and resulting funding requisition income is not correctly captured.	<ul style="list-style-type: none"> — Our substantive audit will obtain support for gross expenditure included in Aberdeen City Council and NHS Grampian's accounting records. We will obtain confirmations of expenditure from each of these bodies.
Financial sustainability	Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered. This is inherently a risk to the Board given the challenging environment where funding is reduced and efficiency savings are required	<ul style="list-style-type: none"> — The Board receives funding from NHS Grampian and Aberdeen City Council, and as part of an Integration Scheme, has a risk sharing agreement with both bodies. This agreement stipulates overspends should be met through the use of reserves where possible, otherwise these bodies must make an additional one-off payment on the basis of each body's proportionate share of baseline contributions to the Board. This gives the Board comfort with regards to overspends, however, there is a risk going forward regarding ongoing budget balance, specifically in the context of challenging NHS and Council budgets. — We will consider the Board's financial planning, reserves strategy, and Board's use of reserves, concluding on the appropriateness of these in our annual audit report. — See page 13 for further information regarding the financial sustainability wider scope.

Other matters

Accounting framework update

From 2018-19, IFRS 15 *Revenue from Contracts with Customers* replaces IAS 18 *Revenue* and IAS 11 *Construction contracts* and their associated interpretations. The core principle in IFRS 15 for local authorities is that they should recognise revenue to depict the transfer of promised goods or services to the service recipient or customer in an amount that reflects the consideration to which the authority expects to be entitled in exchange for those goods or services.

In addition, the adapted requirements for IFRS 9 *Financial Instruments*, which replaces IAS 39 *Financial instruments: recognition and measurement* have been introduced in 2018-19. The changes included:

- a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed;
- a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model under IAS 39; and
- new provisions on hedge accounting.

Expected from 2019-20, IFRS 16 *Leases* supersedes IAS 17 *Leases*. IFRS 16 introduces a single lessee accounting model. Public body lessees will be more likely to account for operating leases in a similar way to the current IAS 17 treatment for finance leases.

Given the nature of the Board we do not consider that these changes will have a significant impact on the financial statements.

Controls testing

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

In 2017-18 we identified one minor recommendation in relation to value for money (workforce planning). We will follow-up progress in implementing this recommendation and report any new recommendations arising from our work in 2018-19 and report our view of progress. [Appendix three](#) summarises our approach across each phase of the audit.

Internal audit

ISA 610 *Considering the work of internal audit* requires us to:

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

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

Wider scope and Best Value

Approach

We are required to assess and provide conclusions in the Annual Audit Report in respect of four wider scope dimensions: financial sustainability; financial management; governance and transparency; and value for money. We set out below an overview of our approach to wider scope and Best Value requirements of our annual audit. We provide on pages 13 to 15 our risk assessment in respect of these areas. We will provide narrative on these and other areas in the Annual Audit Report where relevant.

Risk assessment

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

In doing so we consider:

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

The LAN brings together local scrutiny representatives in a systematic way to agree a shared risk assessment. Andy Shaw is the LAN lead for the shared risk assessment process for Aberdeen City Council. For 2018-19 there is no additional scrutiny required by external audit.

The shared risk assessment process across Scotland has changed for 2019-20 and no local scrutiny plans are prepared. We use the shared risk assessment process to consider if there are wider scope risks relevant to the Annual Audit Report.



Linkages with other audit work

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

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



Wider scope and Best Value (continued)

Approach (continued)

Identification of significant risks

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

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

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



Concluding on wider scope and Best Value

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

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



Reporting

We have completed our initial wider scope risk assessment and have not identified any significant risks, as noted on the pages 13-15. We will update our assessment throughout the year and should any issues present themselves we will report them in our Annual Audit Report.

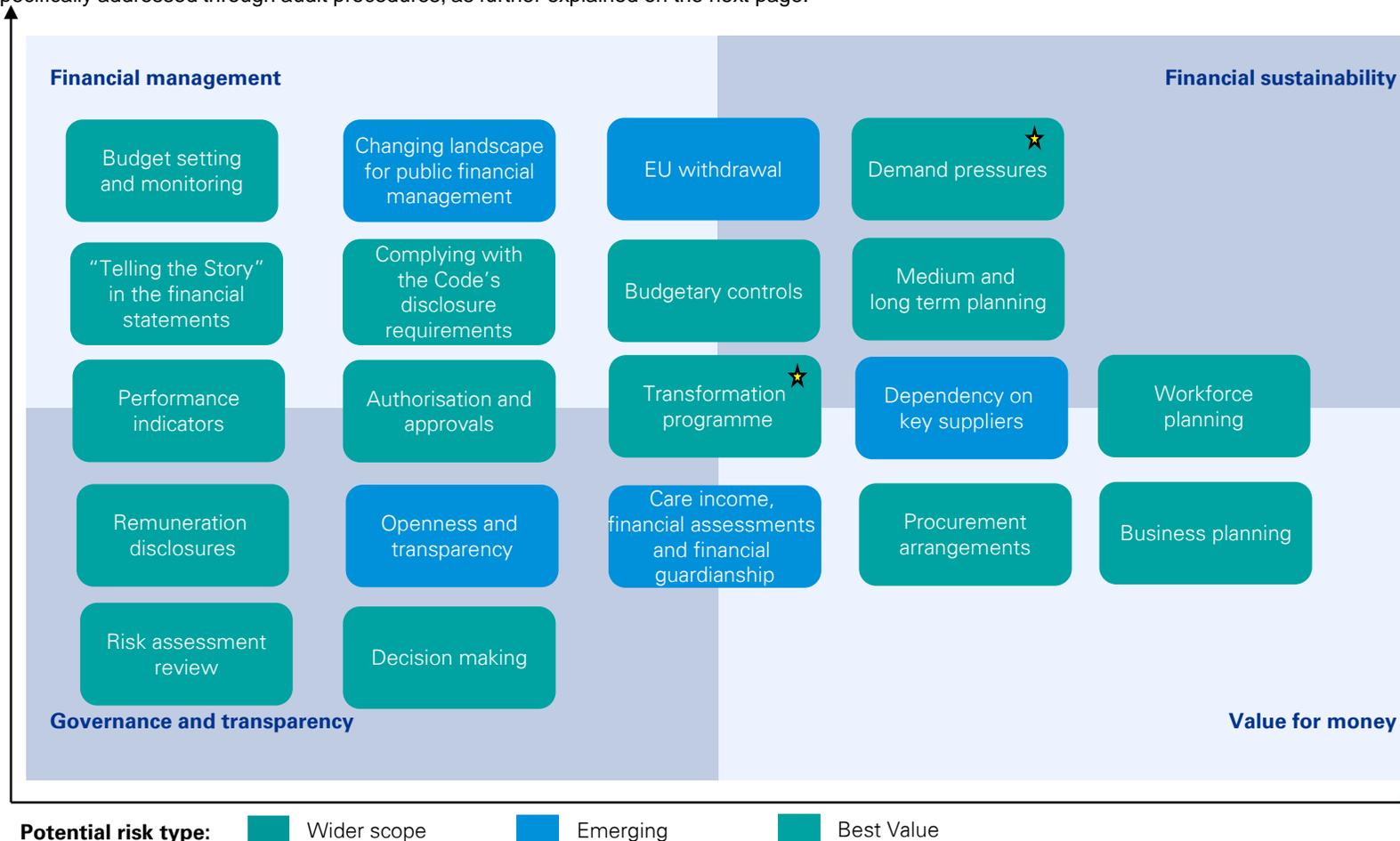
We will report on the results of the wider scope and Best Value work through our Annual Audit Report. This will summarise any specific matters arising, and the basis for our overall conclusion.



Wider scope and Best Value (continued)

Risk assessment

We have not identified any financial statement significant risks in relation to wider scope and Best Value. ★ relates to an identified Wider Scope focus areas to be specifically addressed through audit procedures, as further explained on the next page.



Wider scope and Best Value (continued)

Risk assessment (continued)

Wider scope area	Why	Audit approach
<p>Financial sustainability and financial management</p>	<p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered.</p> <p>Specific identified focus areas:</p> <p><u>Demand pressures and the transformation programme</u></p> <p>This is inherently a risk to the Board given the challenging environment, where funding is unlikely to increase in real terms and efficiency savings are required to meet the demand pressures for services. These pressures include in respect of learning disabilities, GP prescribing and cost pressures such as the Scottish Living Wage and national drug costs.</p>	<ul style="list-style-type: none"> — We will obtain an understanding of the Board's financial position and year end outturn position through review of board reports and other management information. We will assess management's progress with implementation of efficiency savings. Commentary and analysis on these areas will be provided within the annual audit report. — We will perform substantive procedures, including substantive analytical procedures, over income and expenditure comparing the final position to budget. — The Board receives funding requisitions from NHS Grampian and Aberdeen City Council, and has a risk sharing agreement in place with both bodies. This gives the Board comfort with regards to any overspends in 2018-19, however, there is a risk going forward regarding ongoing budget balance, specifically in the context of the challenging NHS Grampian and Aberdeen City Council budgets, see page eight. — We will consider the Board's financial planning and reserves strategy and conclude on the appropriateness of these in our annual audit report.

Wider scope and Best Value (continued)

Risk assessment (continued)

Wider scope area	Why	Audit approach
<p>Financial sustainability and financial management (continued)</p>	<p>Specific identified focus areas (continued):</p> <p>Audit Scotland planning guidance requires us to consider the following matters which are potential risks to all Public Sector bodies.</p> <p>Changing landscape for public financial management</p> <p>Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for 11 social security benefits. Scottish Government published an initial five-year Medium Term Financial Strategy in May 2018. The Board and its partners need to consider the impact of the new powers on its operations and future budgets.</p> <p>EU withdrawal</p> <p>The nature and impact of withdrawal from the EU continues to be uncertain and changing.</p> <p>There is a risk that the Board fails to prepare for, or is impacted by changes to employees, citizens, funding or regulations. The Board has identified the cost of drugs as an area of risk, arising from unfavourable exchange rates.</p> <p>Dependency on key suppliers</p> <p>This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions. The risk exists where individual public sector bodies are dependent on key suppliers; and the Scottish public sector as a whole is subject to significant systemic risk.</p> <p>There is a risk that entities are overly dependent on a small number of key suppliers to provide services. For the Board external social care providers are key suppliers.</p>	<ul style="list-style-type: none"> — We will report on how the Board reports on its funding arrangements, responsibilities and performance through the audit of its management commentary and financial statements. — We will remain alert to the impact of the EU withdrawal on the Board's operations and the environment within which it operates as part of our risk assessment procedures and wider scope responsibilities. We will consider the appropriateness of management's risk assessment and planning for both matters with reference to guidance provided by Audit Scotland. — We will consider how the Board manages the risk of its partner bodies depending on key suppliers. This work will be primarily be informed by auditor's analysis and reporting on the two partner bodies.

Wider scope and Best Value (continued)

Risk assessment (continued)

Wider scope area	Why	Audit approach
<p>Governance and transparency</p>	<p>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.</p> <p>Specific identified focus area:</p> <p>Audit Scotland planning guidance requires us to consider the following matters which are potential risks to all Public Sector bodies.</p> <p>Openness and transparency</p> <p>There are signals of changing and more challenging expectations for openness and transparency in public business. This is an area the Board is expected to keep under review and consider where there is scope to enhance transparency.</p>	<ul style="list-style-type: none"> — We will consider the effectiveness of scrutiny and governance arrangements, by evaluating the challenge and transparency of the reporting of financial and performance information. — We will discuss with officers the key changes in governance since the prior year audit, considering their appropriateness to the Board. There has been significant changes in senior management over the year, including in the chief operating officer post, and we will consider the refreshed structure. — We will update our understanding of the controls and processes around capturing officers' and Board members' interests. — We will obtain and review minutes of meetings of the various committees to assess the level of transparency, and consider the Board's plan for enhancing transparency.
<p>Value for money</p>	<p>Value for money is concerned with how effectively resources are used to provide services.</p> <p>Specific identified focus area:</p> <p>Audit Scotland planning guidance requires us to consider the following matters which are potential risks to all Public Sector bodies.</p> <p>Care income, financial assessments and financial guardianship</p> <p>In some councils, responsibility for financial assessments on those receiving care has transferred from social care to finance, and this has revealed issues with backlogs of financial assessment and under-recovery of care charges over long periods (more than five years). Audit Scotland identified that officers within some councils may be operating as financial guardians for individuals with a lack of capacity to act in their own interests. This may give rise to a potential conflict of interest when finance officers are in a senior position and the council is issuing invoices to a person for their care.</p>	<ul style="list-style-type: none"> — We will specifically consider statutory performance indicators, performance reporting and arrangements to provide for continuous improvement. — Across the audit of the Board and the audit of Aberdeen City Council, we will undertake a review of the arrangements for financial assessment of those requiring care and assess whether these are subject to delays, and how this is reported. — We will complete a questionnaire return to Audit Scotland providing intelligence on the extent to which officers undertake financial guardianship roles and the reasons for this. — We will feed into our Aberdeen City Council audit work on Best Value. In 2018-19 they will be focussing on Performance and Outcomes. We will provide narrative as appropriate in our Annual Audit Report.



Appendices

Appendix one

Mandated communications with the Audit and Performance Systems Committee

Matters to be communicated	Link to audit and performance systems committee papers
Independence and our quality procedures ISA 260 (UK and Ireland).	— See page 18.
The general approach and overall scope of the audit, including levels of materiality, fraud and engagement letter ISA 260 (UK and Ireland).	— Main body of this paper
— Disagreement with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report, and their resolution (AU 380).	<ul style="list-style-type: none"> — In the event of such matters of significance we would expect to communicate with the Audit and Performance Systems Committee throughout the year. — Formal reporting will be included in our ISA 260 report for the Audit and Performance Systems Committee meeting, which focuses on the financial statements.
— Significant difficulties we encountered during the audit.	
— Significant matters discussed, or subject to correspondence, with management (ISA 260).	
— Our views about the qualitative aspects of the entity's accounting and financial reporting.	
— The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements (ISA 260 and ISA 540).	
— Audit adjustments, whether or not recorded by the entity, that have, or could have, a material effect on its financial statements. We will request you to correct uncorrected misstatements (including disclosure misstatements) (ISA 450).	
— The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements (ISA 570).	
— Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570).	
— Expected modifications to the auditor's report (ISA 705).	
— Related party transactions that are not appropriately disclosed (ISA 550)	

Auditor Independence

Assessment of our objectivity and independence as auditor of the Aberdeen City Integration Joint Board (the Board)

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

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

General procedures to safeguard independence and objectivity;

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

Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

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

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit & Performance Systems Committee.

Confirmation of audit independence

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

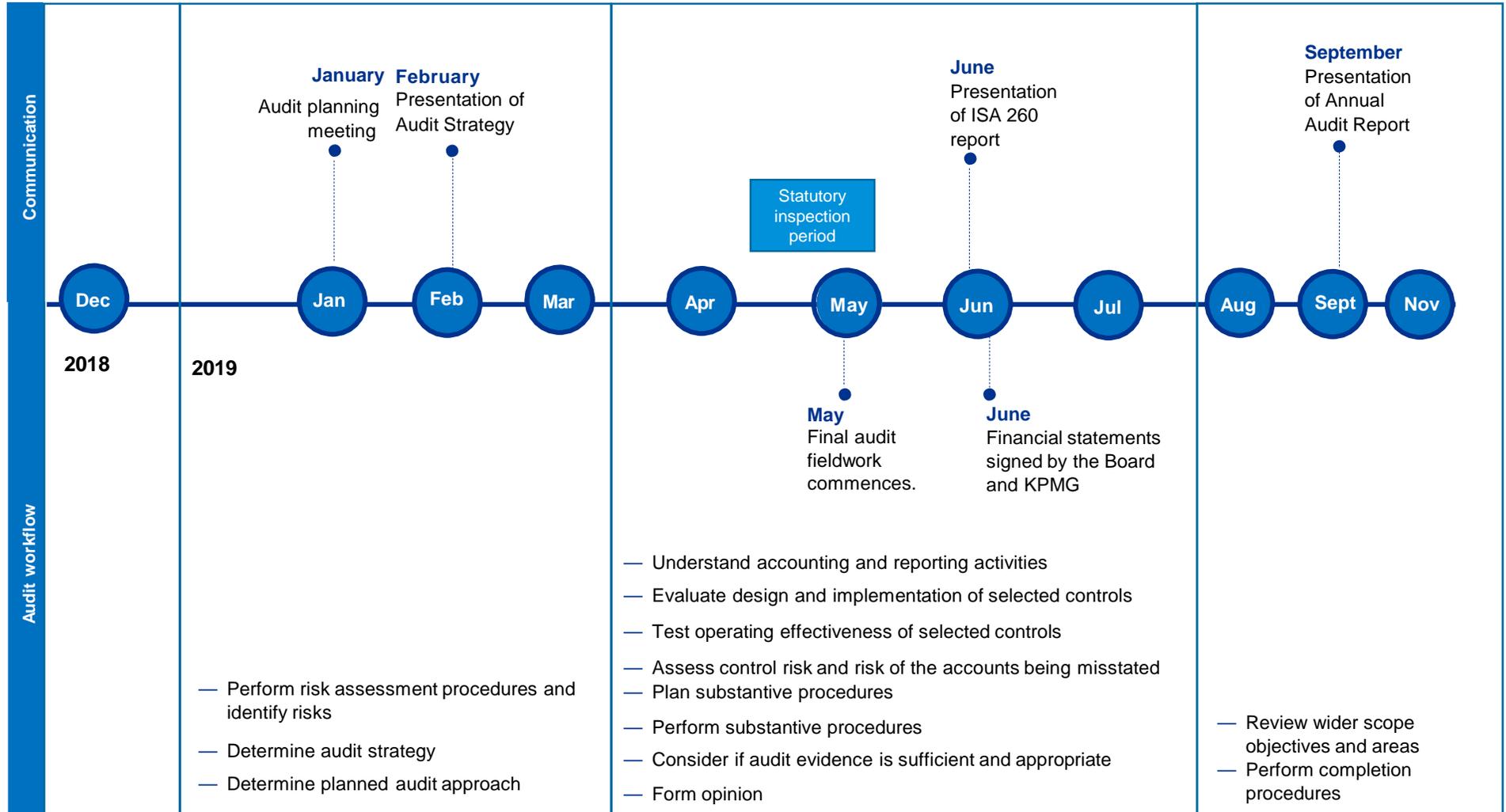
This report is intended solely for the information of the Audit & Performance Systems Committee and should not be used for any other purposes.

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

Yours faithfully

KPMG LLP

Timeline



Appendix four

Audit outputs

Output	Description	Report date
Audit strategy	Our strategy for the external audit of the Board, including significant risk and audit focus areas.	By 12 February 2019
Independent auditor's report	Our opinion on the Board's financial statements.	By 30 June 2019
ISA 260 report	Required communications with Those Charged With Governance	By 30 June 2019
Annual audit report	We summarise our findings from our work during the year.	By 30 September 2019
Audit reports on other returns	We will report on the following returns: <ul style="list-style-type: none"> — Current issues return — Technical database — Fraud returns 	January, March, July and October 2019 6 July 2019 November 2018, February, May and August 2019
Audit reports to support Audit Scotland's wider analysis	We will report on the following matters in conjunction with our Aberdeen City Council audit colleagues: <ul style="list-style-type: none"> — National Fraud Initiative questionnaire 	By 30 June 2019

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

Responsibilities of management

Financial statements

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

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

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

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

Prevention and detection of fraud and irregularities

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

Appendix five (continued)

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

Responsibilities of management
Corporate governance arrangements
Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including Audit and Performance Systems Committees or equivalent) in monitoring these arrangements.
Financial position
Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to: <ul style="list-style-type: none">— such financial monitoring and reporting arrangements as may be specified;— compliance with any statutory financial requirements and achievement of financial targets;— balances and reserves, including strategies about levels and their future use;— how they plan to deal with uncertainty in the medium and longer term; and— the impact of planned future policies and foreseeable developments on their financial position.
Best Value, use of resources and performance
The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

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

Responsibilities of auditors

Appointed auditor responsibilities

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

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

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

Appendix five (continued)

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

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

Appendix five (continued)

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

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



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