

Aberdeenshire Council

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Aberdeenshire Council
March 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Aberdeenshire Council and its charities. The main elements of our work include:

- assessing the risk of material misstatement in the council's financial statements and evaluation of the key controls operating within the main accounting systems
- undertake audits of the council's annual accounts and the statements of accounts of its charities and provision of independent auditors' reports
- an audit opinion on other statutory information published within the annual accounts including the Management Commentary, the Annual Governance Statement and the Remuneration Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements
- providing audit assurance on specified claims and returns ie housing benefit subsidy, non-domestic rates income and Whole of Government Accounts
- review of the council's arrangements for preparing and publishing statutory performance information
- review of the council's participation in the National Fraud Initiative.

Impact of Covid-19

2. The coronavirus (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our 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. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. 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 will help the council

promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the audit committee and actively participate in discussions.

Respective responsibilities of the auditor and Aberdeenshire Council

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and Aberdeenshire Council. Key responsibilities are summarised below.

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

7. 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 and use of resources. In doing this, we aim to support improvement and accountability.

Aberdeenshire Council responsibilities

8. Aberdeenshire Council is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, the council has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance that enable them to deliver their objectives.

Managing the transition to 2022/23 audits

10. Public sector audit appointments are usually for five years but were extended to six years due to Covid-19. Financial year 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a smooth transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in [Exhibit 1](#) which sets out the 2021/22 materiality values for Aberdeenshire Council.

Exhibit 1

2021/22 Materiality levels for Aberdeenshire Council

Materiality	Amount
Planning materiality – This is the figure we calculate to assess 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 2020/21 audited accounts.	£17m
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, we have assessed performance materiality at 60% of planning materiality.	£10m
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 subject to a maximum limit of £250,000.	£250,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of Aberdeenshire Council over the audit appointment, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of management assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> <p>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"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries, and focus on significant risk areas. Consider the need to test journal entries and other adjustments during the period. Evaluate significant transactions outside the normal course of business. Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. Assess any changes to the methods and underlying

Significant risk of material misstatement	Sources of management assurance	Planned audit response
		<p>assumptions used to prepare accounting estimates compared to the prior year.</p> <ul style="list-style-type: none"> • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focused testing of accounting accruals and prepayments.
<p>2. Estimation in the valuation of land and buildings</p> <p>The value of the council's land and buildings at 31 March 2021 was approx. £1.9 billion. Valuations are carried out by an in-house valuer on a five year rolling programme basis.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings due to the assumptions made by the valuer.</p> <p>Due to the rolling programme basis of valuation, there is a risk that the carrying value of assets not revalued in the year do not reflect their current value. Where the differences in value are likely to be significant, this increases the risk of material misstatement in the financial statement.</p>	<ul style="list-style-type: none"> • Use of clearly defined methodologies and procedures including experts, as appropriate, when making significant estimations and judgements. • Enhancement/impairment reviews undertaken by the valuer. • Finance/Property officers will review the values of assets not subject to revaluation in 2021/22 to ensure they are still relevant and that there have been no significant changes that would require a change in valuation in an asset class. 	<ul style="list-style-type: none"> • Evaluate the competence, capabilities, and objectivity of the professional valuer as a management expert. • Assess the adequacy of management's involvement in the valuation process e.g. completeness of the instruction to the valuer, adequacy of management oversight of the process. • Review valuation opinions and supporting evidence, and ensure that the updated amounts are correctly reflected in the financial statements, asset register and other relevant supporting records. • Challenge the carrying values of assets not subject to revaluation in the year, management's view on the robustness of those valuations and confirm to what extent indices are used between formal valuations. • Review the adequacy of the council's disclosures regarding the underlying assumptions which support valuation activities.

15. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. The majority of the council's income comes from Scottish Government grant funding which can be confirmed with correspondence. Other key revenue streams include council tax, non-domestic rates and housing rents which are verifiable in total terms. We have rebutted this risk because while the possibility of fraud exists, there are limited opportunities and incentives for management to manipulate the way income is recognised due to the nature of the above income streams.

16. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have also rebutted this risk as there are limited opportunities and incentives for management to manipulate the way expenditure is recognised. A significant level of expenditure is verifiable in total terms by third party confirmation and/or reconciliations. Although there is a material residual balance, it is made up of a high volume of low value transactions. As a result they are unlikely to result in a material misstatement in the financial statements

17. While we undertake standard audit procedures in respect of the council's income and expenditure, our rebuttal of the auditing standard's presumed risk of fraud means that it has not been necessary to incorporate additional specific work into our audit plan in these areas.

Other areas of audit focus

18. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

19. The areas of specific audit focus are:

- **The value of the net pension liability:** There is a degree of subjectivity in the measurement and valuation of the pension liability due to the specialist and management assumptions adopted. Changes in the assumptions could result in material changes in the valuation. Our work in this area includes using the work of an expert. In this case, we draw assurances from the work of actuaries.
- **Completeness of Common Good assets:** Work is ongoing by the council to review its estate to identify any further assets held by the council but which are properly owned by the Common Good.

- **Management Commentary:** The Management Commentary included in the 2020/21 unaudited accounts needed significant revision to comply with the requirements set out in statutory guidance. There is a risk that the Management Commentary does not meet the minimum requirements leading to a modified audit opinion. The shortfall is recognised by management and improvements are expected in 2021/22.
- **Manual authorisation of supplier invoices:** 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 were approving invoices for amounts which exceeded approved authorisation limits. The council's opinion is that the key control takes place when the purchase order or overall contract commitment is approved. In our view however, there is a potential risk of misstatement because of the delay between approving, for example, a contract and authorising the individual invoices for expenditure arising in connection with that contract. No issues were identified from our focused substantive testing in previous years but we will keep this matter under review during this year's audit.

Group Consideration

20. As group auditors, we are required under International Standard on Auditing (UK) 600: *Audits of group financial statements* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

21. Aberdeenshire Council's group comprises only one component entity, Aberdeenshire Integration Joint Board (IJB) and because it had minimal impact on group accounts in prior years, we did not consider it necessary to set separate materiality values for the group accounts. In order to provide our audit opinion, our audit evidence will include review of the group consolidation process and year end reconciliations of transactions with the IJB.

Audit of trusts registered as Scottish charities

22. Elected members of Aberdeenshire Council are sole trustees for four trusts registered as Scottish charities, with total assets of some £5m. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

23. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all elected members of a council are the sole trustees. In such cases, a separate audit and independent auditor's report is required for each registered charity, irrespective of the size of the charity.

Materiality levels for the 2021/22 audit of the council's charities

24. Materiality levels for the various trusts are set out in [Exhibit 3](#). In each case, 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

2021/22 Materiality levels for 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	£140 / £7,100	£10 / £500
Aberdeenshire Educational Trust	£3,000 / £85,700	£2,300 / £64,300	£150 / £4,300
Anderson and Woodman Library Trust	£50 / £2,000	£35 / £1,500	£5 / £100
McDonald Public Park Endowment	£25 / £175	£15 / £130	£1 / £10

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

Source: Audit Scotland

Audit risk assessment process

25. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

26. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

27. The four dimensions that frame our audit work are shown in [Exhibit 4](#).

Exhibit 4

Audit dimensions



Source: Code of Audit Practice

28. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – 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).

- **Governance and transparency** – governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership, and decision-making and transparent reporting of financial and performance information.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

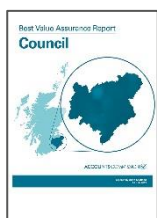
Best Value

29. Over the six years of this audit appointment round, Best Value audit work has been integrated within the annual audit. Conclusions and judgements on Best Value have been reported through:

- the Annual Audit Report for each council
- an Annual Assurance and Risks Report provided by the Controller of Audit to the Accounts Commission and highlighting issues from across all 32 council annual audit reports
- a Best Value Assurance Report (BVAR) for each council considered by the Accounts Commission at least once over the period of the audit appointment.

30. Between February and September 2022, the Accounts Commission will consider BVARs in respect of the councils listed in [Exhibit 5](#).

Exhibit 5 2022 Best Value Assurance Reports



Comhairle nan Eilean Siar

Angus Council

Shetland Island Council

Moray Council follow-up

Source: Audit Scotland

31. Aberdeenshire Council’s BVAR was published in October 2020 and a Best Value action plan was endorsed by the council in November 2020 to address the recommendations.

32. Following an interim review of progress, we reported in November 2021 that significant work has been undertaken by the council in responding to recommendations made in the 2020 BVAR. The work undertaken at that point provided a good foundation to go forward but it was important the momentum was not lost. The new arrangements needed to be refined and embedded to enable a culture of continuous improvement to be demonstrated and supported.

33. This year, we will assess the council's progress in implementing the recommendations made in the BVAR and report our judgements and conclusions in the Annual Audit Report on the pace and depth of improvement made.

Audit dimension risks

34. We have identified audit risks in the areas set out in [Exhibit 6](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 6

2021/22 Audit dimension risks

Description of risk	Sources of management assurance	Planned audit response
<p>1. Capacity of Finance function</p> <p>With changing roles, a loss of experience and ongoing pressures as a result of Covid-19 responses, there is a risk that the service will experience capacity issues and/or reduced performance.</p>	<ul style="list-style-type: none"> • Service review being undertaken by the Head of Finance. • Ongoing oversight by Strategic Leadership Team. 	<ul style="list-style-type: none"> • Discussions with officers. • Consider the outcome of the service review. • Review reports to management and the Audit Committee.

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

35. Audit reporting is the visible output for the annual audit. The Annual Audit Plan, the outputs detailed in [Exhibit 7](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

36. 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 officers to confirm factual accuracy.

37. 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 also provide an annual report on the audit containing judgements and recommendations on significant matters arising from the audit.

38. [Exhibit 7](#) outlines the target dates for our audit outputs. We aim to issue the independent auditor's report around 31 October 2022. There is an appetite to conclude the 2021/22 audit earlier than the previous year as explained at paragraph 39. This will be challenging due to audit resourcing pressures and ongoing demands caused by Covid-19.

Exhibit 7 2021/22 Audit outputs

Audit Output	Audit Committee Target Date
Governance	
Interim Report including progress with External Audit Outstanding Recommendations	29 June 2022
Financial statements	
Communication of audit matters to those charged with governance - Annual Report on the 2021/22 audit	10 November 2022
Independent auditor's report on the financial statements	10 November 2022
Audit opinions on charitable trusts accounts	10 November 2022

Grants and returns	Submission date to Audit Scotland / other bodies
Non-domestic rates income return to Scottish Government	submission date to be advised
Housing benefit subsidy to Department of Work and Pensions	submission date to be advised
Audit opinion on Whole of Government Accounts	submission date to be advised



Source: Audit Scotland

Timetable

39. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to return the reporting of audited accounts to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

40. We have included a proposed timetable for the audit at [Exhibit 8](#) that has been discussed with the Head of Finance. We will continue to work in close partnership with the finance team over the course of the audit with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers.

Exhibit 8 Proposed annual accounts timetable

 Key stage	 Provisional Date
Submission of unaudited annual accounts with complete working papers package	By 30 June 2022
Consideration of unaudited annual accounts by those charged with governance (i.e. the Audit Committee)	29 June 2022
Latest date for final clearance meeting with Head of Finance	14 October 2022
Agreement of unsigned annual accounts and issue of Annual Audit Report for pre-meeting of the Audit Committee	31 October 2022

**Key stage****Provisional Date**

Planned approval of audited financial statements for signature, and consideration of Annual Audit Report by those charged with governance (i.e. the Audit Committee)

10 November 2022

Independent auditor's report signed

10 November 2022

Source: Audit Scotland

Audit fee

41. The audit fee agreed with the Head of Finance for the 2021/22 audit of Aberdeenshire Council is £416,450 (2020/21 £411,220). This is split between the council £409,950 (2020/21 £404,720) and the charitable trusts £6,500 (2019/20 £6,500). 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.

42. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual accounts or the absence of adequate supporting working papers, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Other matters

Internal audit

43. International standards on Auditing (UK) 610: *Using the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements responsibilities and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

44. We intend to use the work of internal audit to support our wider dimension audit responsibilities and in considering the council's Annual Governance Statement. In respect of our financial statements' responsibilities, we do not plan to use internal audit's work in our 2021/22 testing programmes.

External auditor assurances for council systems and functions provided to other bodies

45. 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).

46. 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.

47. In addition, the 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.

Independence and objectivity

48. 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.

49. 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

50. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

51. 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.

52. 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 lead.

Aberdeenshire Council

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