

Aberdeenshire Council External Audit Plan

Financial year ending 31 March 2023

28 March 2023



Contents

Your key Grant Thornton team members are:

Mark Stocks

Engagement Lead

T +44 (0)121 232 5437

E mark.c.stocks@uk.gt.com

Cathy Smith

Audit Manager

T +44 (0)141 223 0657

E cathy.smith@uk.gt.com

Rajat Malik

In-charge

T +44 (0)131 229 9181

E rajat.malik@uk.gt.com

Section	Page
Introduction	03
Plan overview	04
Audit approach	07
Audit timeline	08
Materiality	09
Group audit scope and risk assessment	10
Significant audit risks	11
Accounting Estimates and Related Disclosures	15
Other matters	18
Wider scope risks identified in planning	25
Audit Scotland deliverables	31
Audit Fees	34
Adding value through the audit	36
Appendices	37

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the organisation or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2021). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

Purpose

This document provides an overview of the planned scope and timing of the external audit of Aberdeenshire Council for those charged with governance.

We are appointed by the Accounts Commission as the external auditors of Aberdeenshire Council for the five year period 2022/23 to 2026/27.

Respective responsibilities

Audit Scotland has issued an updated Code of Audit Practice ('the Code') covering this audit appointment period. There are no significant changes in the scope of our work compared to the previous 2016 Code. However, the 2021 Code applies the requirement to communicate key audit matters to all bodies, but requires them to be reported in the Annual Audit Report.

The Code summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of the Aberdeenshire Council are summarised in Appendix 1 of this Audit Plan. We draw your attention to this and the Code.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on Aberdeenshire Council's financial statements, which have been prepared by management with the oversight of those charged with governance (the Aberdeenshire Council Audit Committee). Our audit of the financial statements does not relieve management or the Aberdeenshire Council Audit Committee of your responsibilities.

It is your responsibility to ensure that proper arrangements are in place for the conduct of your business, and that public money is safeguarded and properly accounted for. As part of our wider scope and Best Value work, we will consider how you are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of Aberdeenshire Council and is risk based.



Plan overview

The audit plan sets out our risk based audit approach for Aberdeenshire Council. This plan outlines our initial risk assessment and is reported to those charged with governance Aberdeenshire Council Committee and will be shared with Audit Scotland.

01 Materiality

We have calculated our planning materiality using prior year gross expenditure as per audited 2021-22 financial statements as our benchmark, resulting in the following:

- £16.800 million planning materiality (Group: £16.850m). Trivial is capped at £250,000 in line with Audit Scotland guidance.
- A lower materiality of £25,000 will be used on senior officer salaries.
- We will revisit our materiality throughout our audit including updating to reflect the draft unaudited financial statements for 2022/23.

02 Financial statement audit

At planning, in accordance with the ISA's (UK) and Practice Note 10 (Revised 2020) 'The Audit of Public Sector Financial Statements' issued by the Public Audit Forum we have identified the following significant financial statement audit risks:

- Management override of controls (ISA (UK) 240);
- Valuation of land, buildings and Council dwellings (valuation);
- Valuation of defined benefit pension scheme (valuation).

Two revised Auditing Standards (ISA (UK) 315 (Revised July 2020) ISA (UK) 240 (Revised May 2021)) will be applicable to your audit for the first time in 2022/23. Further detail on the impact of these revised standards is set out in the appendices.

03 Group audit scope and risk assessment

In accordance with ISA (UK) 600, as Group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process in order to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Through our audit planning procedures we consider Aberdeenshire Council as the only component to be "individually financially significant" to the Aberdeenshire Council Group, with Aberdeenshire IJB considered to be "not significant but material". We therefore plan a full scope audit of the Council using a component specific materiality, and will apply group materiality when performing specific audit procedures over material balances recognised and held by Aberdeenshire IJB. Analytical procedures will be performed using group materiality on all other consolidated balances.

Plan overview (continued (1))

04 Wider Scope and Best Value Audit

In accordance with the Code, our planning considers the wider scope and Best Value areas of audit.

We have identified the following wider scope risks and will conclude on these during the audit:

- Financial Management- no significant risks identified. We will continue to review your arrangements in this area and report findings and conclusions as part of the Annual Audit Report.
- Financial Sustainability- significant risk identified relating to ability to deliver significant savings and transformation plans in short to medium term to address significant future funding gaps, further detail can be found within page 22 of this report.
- Vision, Leadership and Governance - no significant risks identified. We will continue to review your arrangements in this area and report findings and conclusions as part of the Annual Audit Report.

- Use of Resources to Improve Outcomes – no significant risks identified. We will continue to review your arrangements in this area and report findings and conclusions as part of the Annual Audit Report.

As part of our integrated wider-scope work we also use a risk based approach to assess and report on whether Aberdeenshire Council has made proper arrangements for securing Best Value and is complying with its community planning duties. For 2022/23 we are required by Audit Scotland to carry out work and report on the Best Value thematic ‘Leadership of the development of new local strategic priorities’.

05 Other audit matters

We summarise other audit matters for Aberdeenshire Council Committee awareness. This includes:

- Consideration of going concern in accordance with Practice Note 10.
- Certification of the Housing Benefit and NDR grant claims and returns.
- Completing Assurance Statements on Whole of Government .
- In accordance with the Code and planning guidance we also required to complete and submit a number of information returns and other deliverables to Audit Scotland during the year.

Plan overview (continued (2))

06 Our Audit Fee

Audit fees were shared by Audit Scotland with Aberdeenshire Council in December 2022. Our fee agreed with Aberdeenshire Council is £461,360. This fee includes a contribution of £95,580 for PABV costs, a contribution of £11,380 to Audit Scotland costs and £55,230 for sectoral cap adjustment.

We anticipate there may be additional costs in relation to employment of an auditor expert to assist with the audit of the valuation of land and buildings. We will discuss any additional costs with management and confirm the final audit fee within our Annual Audit Report.

Additional fees may be charged for the audit of any trust funds falling within section 106 of the Local Government (Scotland) Act 1973 that are registered as charities with the Office of the Scottish Charities Regulator (OSCR).

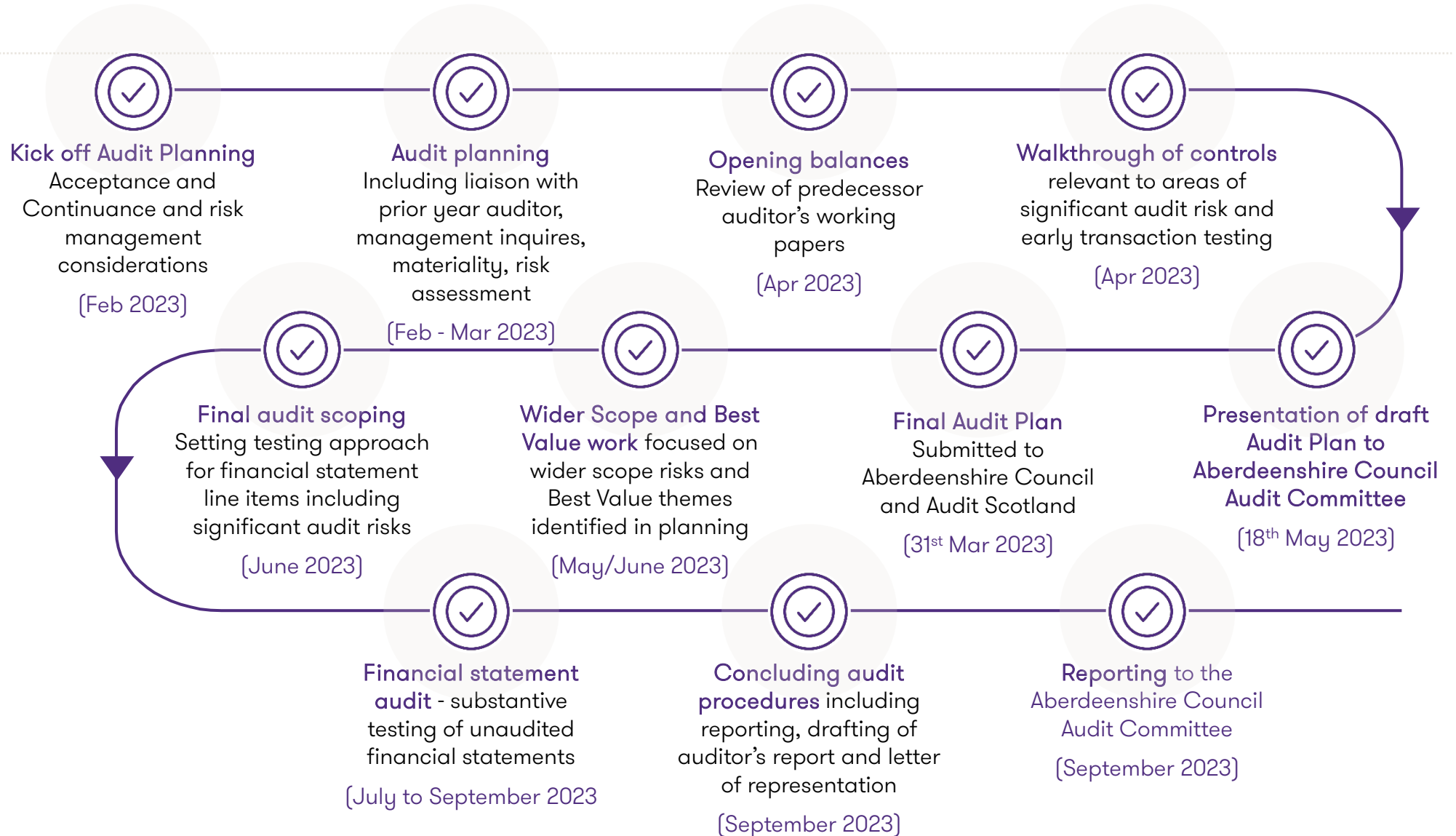
Audit fees are paid to Audit Scotland who in turn pay Grant Thornton UK LLP.

We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

07 Adding Value Through the Audit

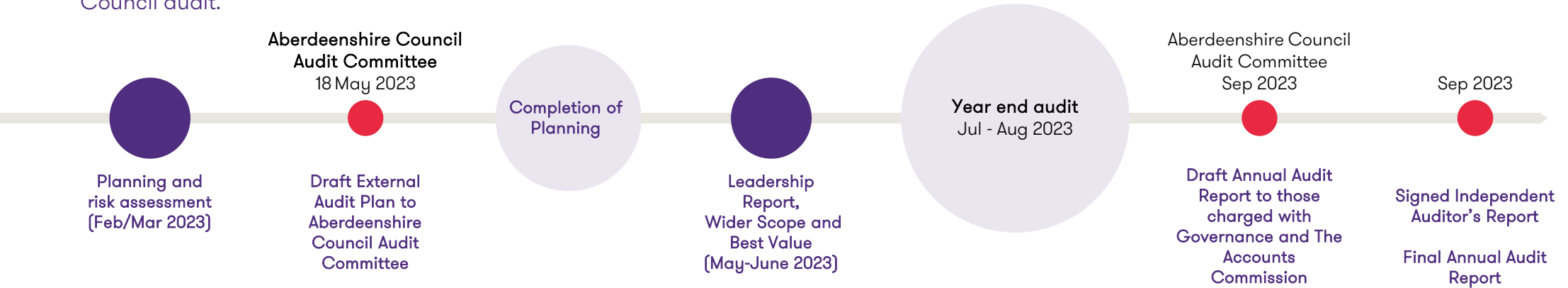
Our overall approach to adding value through the audit is clear and upfront communication, founded on our public sector credentials. We use our LEAP audit methodology and data analytics to ensure delivery of a quality audit.

Audit approach



Audit timeline

The target dates specified by Audit Scotland for submission of audit Plans, audited accounts and the Annual Audit Report have been brought forward in the 2021 Code. We are required to submit audit plans to Audit Scotland by 31 March 2023, and it is anticipated that we will submit audited accounts and the Annual Audit Report by 30 September 2023. We have set out below our planned timescales for the Aberdeenshire Council audit.



Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging our other audit engagements. Where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

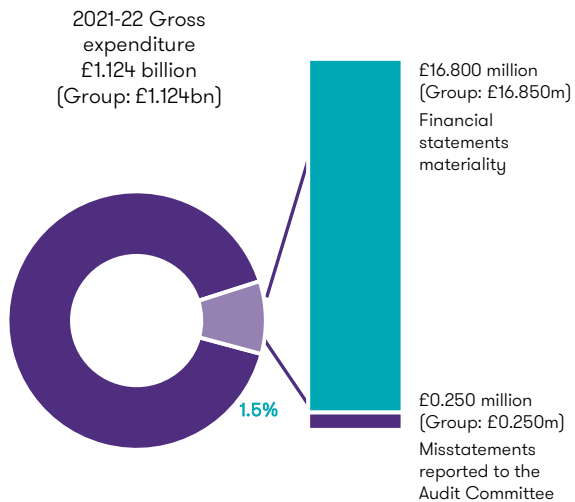
Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft accounts, comprising financial statements and related reports, of good quality, by the deadline you have agreed with us
- prepare good quality working papers which support the figures included in the financial statements, in line with the working paper requirements schedule that we have shared with you, and make these available to us at the start of the year end audit visit
- provide all agreed data reports to us at the start of the audit, which are fully cleansed and reconciled to the figures in the financial statements
- ensure that all appropriate staff are available to us for queries over the planned period of the audit, or as otherwise agreed
- respond promptly and appropriately to all audit queries, within agreed timescales.

Materiality

Financial statement materiality is determined based on a proportion of gross expenditure. We have determined **planning materiality** to be £16.800 million (Group: £16.850m), which equates to approximately 1.5% of gross expenditure as per the 2021-22 audited financial statements.



Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. We use this to determine our testing approach to the financial statements. We have set this at 65% of planning materiality (Council: £16.800 million, Group: £16.850 million). This is based on our understanding of Aberdeenshire Council and our overall risk assessment procedures.

Materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

We apply a separate **lower materiality level of £25,000** to the senior manager salaries set out in the remuneration report.

Under ISA 260 (UK) ‘Communication with those charged with governance’, we are required by auditing standards to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. We have determined this threshold to be £250,000, being the maximum threshold prescribed by Audit Scotland.

We will update our materiality based on the unaudited 2022/23 financial statements when received in June 2023. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.

Group audit scope and risk assessment

In accordance with ISA (UK) 600 (Revised November 2019) ‘Audits of Group Financial Statements (including the Work of Component Auditors)’, as Group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process in order to express an opinion on whether the group financial statements present a true and fair view and have been prepared, in all material respects, in accordance with the applicable financial reporting framework.

The Aberdeenshire Council group consists of the following bodies:

Subsidiary

- Common Good Funds
- Create Homes Aberdeenshire LLP
- Trusts and endowments for which the Council is the sole trustee

Associates

- Aberdeenshire IJB
- North East of Scotland Transport Partnership (NESTRANS)
- Grampian VJB

There were no key changes in the group in 2022/23 from 2021/22.

We consider Aberdeenshire Council to be the only “individually financially significant” component of the group. We will therefore carry out a full scope audit of Aberdeenshire Council, using Aberdeenshire Council’s materiality, and apply group materiality when performing specific audit procedures over material balances recognised and held by Aberdeenshire IJB.

Analytical procedures will be performed using group materiality on all other consolidated balances, including those in relation to Create Homes Aberdeenshire LLP.

We are the external auditor for Aberdeenshire Integration Joint Board, Grampian Valuation Joint Board and NESTRANS. However we are not the external auditor of Create Homes Aberdeenshire LLP.

The risks significant risks we identified for Aberdeenshire Council are set out on pages 10 to 14 of this Audit Plan. No other risks were identified in respect of the other components of the group.

During the course of our audit engagement, we will continue to assess the appropriateness of our planned approach in relation to the group audit scope.

Significant audit risks

Significant risks are defined by ISAs(UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Management Override of Controls (as required by Auditing Standards – ISA (UK) 240)

As set out in ISA (UK) 240 (Revised May 2021) ‘The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements’ there is a presumed risk that management override of controls is present in all entities. Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override the entity’s internal controls, related to individual transactions. Our work focuses on journals, critical estimates and judgements, including accounting policies, and unusual transactions.

We will:

- Document our understanding of and evaluate the design effectiveness of management’s key controls over journals;
- Analyse your full journal listing for the year and use this to determine our criteria for selecting high risk journals;
- Test the high risk journals we have identified;
- Gain an understanding of the critical judgements applied by management in the preparation of the financial statements and consider their reasonableness;
- Gain an understanding of the key accounting estimates made by management and carry out substantive testing on in scope estimates.
- Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK) 315)

Significant audit risks (continued (1))

Risk of Fraud in Revenue (as required within Auditing Standards- ISA (UK) 240)

As set out in ISA (UK) 240 (Revised May 2021) there is a presumed risk that revenue may be misstated due to improper recognition of revenue in all entities. Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at Aberdeenshire Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted as there is deemed to be little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are deemed to be limited.

Risk of Fraud in Expenditure (as recommended in Practice Note 10)

As set out in practice note 10 (Revised 2020) 'The Audit of Public sector Financial Statements', issued by the Public Audit Forum, which applies to all public sector entities, we consider whether there was an inherent risk of fraud in expenditure recognition.

Having considered the risk factors and the nature of the expenditure streams at Aberdeenshire Council, we have determined that the risk of fraud arising from expenditure recognition can be rebutted as the Council has sufficient unrestricted reserves to utilise against and overspend and opportunities to manipulate expenditure recognition are deemed to be limited.

Valuation of land, buildings and council dwellings

This significant risk is one of the most significant assessed risks of material misstatement for the audit and a key audit matter.

In accordance with the CIPFA/LASAAC Code of Practice, subsequent to initial recognition, Aberdeenshire Council is required to hold property, plant and equipment (PPE) on a valuation basis. The valuation basis used will depend on the nature and use of the assets. Specialised land, buildings, equipment, installations and fittings are held at depreciated replacement costs, as a proxy for fair value. Non-specialised land and buildings, such as offices, are held at fair value.

Aberdeenshire Council employ an internal valuer to undertake a rolling programme of valuations across their asset base, valuing land, buildings and council dwellings at least once every five years. As at 31 March 2022, Aberdeenshire Council held PPE of £2,303 million including land and buildings of £1,279 million and council dwellings of £526 million.

Significant audit risks (continued (2))

Valuation of land, buildings and council dwellings (Continued)

This significant risk is one of the most significant assessed risks of material misstatement for the audit and a key audit matter.

Given the significant value of the land, and non specialised buildings and the council dwellings held by Aberdeenshire Council, and the level of complexity and judgement involved in their estimation process, there is an inherent risk of material misstatement in the year end valuation of some of these assets. However, the risk is less prevalent in other assets as these are generally held at depreciated historical costs, as a proxy of fair value and therefore less likely to be materially misstated. We will therefore focus our audit attention on assets that have large and unusual changes in valuations compared to last year and / or unusual approaches to their valuations; as a significant risk requiring special audit consideration. The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued. We will report an updated risk assessment for valuation of land and buildings in our Annual Audit Report

Our testing will include:

- Evaluating management's processes and controls for the calculation of the valuation estimates, the instructions issued to their management experts and the scope of their work; OR
- Engaging our own valuations expert to assess the instructions issued by Aberdeenshire Council to their valuers, the final valuers' report and the assumptions used that underpin the final valuations;
- Evaluating the valuer's report to identify assets that have large and unusual changes and/or approaches to the valuation – these assets will be substantively tested to ensure the valuations are reasonable;
- Challenging the key data and assumptions used by management's experts in the valuation process for these assets;
- Testing a selection of other asset revaluations made during the year to ensure they have been input accurately into the entity's asset register, and the revaluations have been correctly reflected in the financial statements;
- Evaluating the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Significant audit risks (continued (3))

Defined benefit pension scheme

This significant risk is one of the most significant assessed risks of material misstatement for the audit and a key audit matter.

The Council participates in the North East Scotland Pension Fund, a Local Government pension scheme. The scheme is a defined benefit pension scheme and in accordance with IAS 19: Pensions, Aberdeenshire Council is required to recognise its share of the scheme assets and liabilities in its Statement of Financial Position. As at 31 March 2022 the Council had pension fund liabilities of £174.612 million.

The Council's actuary, Mercer Limited, provide an annual IAS 19 actuarial valuation of Aberdeenshire Council's net liabilities in the pension scheme. There are a number of assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and, future salary projections. Given the material value of the scheme's gross assets and gross liabilities and the level of estimation in the valuation, there is an inherent risk that the defined benefit pension scheme net liability could be materially misstated within the financial statements. This risk is focussed on the appropriateness and reasonableness of the underlying assumptions adopted by the actuary and the suitability of these for the Council.

Under the Audit Scotland Pensions protocol we will be provided with assurance by the Pension Fund auditor with regard to the disclosures in the Council's financial statements. We use PWC as an Auditor Expert to support our work on pensions.

We will:

- Evaluating management's processes and controls for the calculation of the gross asset and gross liability and estimates, the instructions issued to the actuarial expert and the scope of their work
- Evaluate the assumptions made by Mercer Limited in the calculation of the estimate, using work performed by an auditor's expert commissioned on behalf of Audit Scotland and additional follow up procedures (where required)
- Evaluating the data used by management's experts in the calculation of the estimates
- Performing substantive analytical procedures over the gross assets, gross liabilities and in year pension fund movements, investigating any deviations from audit expectations;
- Assessing the accuracy and completeness of the IAS 19 estimates and related disclosures made within the Council's financial statements.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically does Aberdeenshire Council:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures (continued (1))

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting information from management and those charged with governance during our audits for the year ended 31 March 2023.

Based on our knowledge of Aberdeenshire Council we have identified the following accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Depreciation
- Year end provisions
- Valuation of pension liabilities
- PFI liabilities
- Fair Value of Assets and Liabilities (Financial Instruments)

Aberdeenshire Council's information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the bodies use management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the bodies (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Accounting estimates and related disclosures (continued (2))

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have included inquiries within our management letters shared with Aberdeenshire Council.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)



Other matters

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and Planning Guidance 2022-23 issued by Audit Scotland:

- We audit parts of your Remuneration Report, as required under the Code, and check whether these sections have been properly prepared (opinion).
- We read the sections of your Statement of Accounts which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion).
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set out in Delivering Good Governance in Local Government: Framework (2016) (opinion).
- We consider our other duties under the Code and planning guidance (2022/23), as and when required, including:
 - Supporting Audit Scotland’s reporting to the Accounts Commission
 - Contributing to Audit Scotland Performance Reports and providing regular updates to Audit Scotland to share awareness of current issues
 - Contributing to the National Fraud Initiative (NFI) report
 - Notifying the Controller of the Audit when circumstances indicate a statutory report may be required

- Completing mandated information requests and returns and notifying Audit Scotland of any cases of money laundering or fraud
- Review of Technical guidance prior to issue by Audit Scotland.. Further detail is set out on pages 22 to 24 of this report.

Whole of government accounts (WGA)

The Code of Audit Practice requires appointed external auditors to review and report on WGA returns prepared by audited bodies. External auditors of local authorities are required to provide an assurance statement on 2022/23 WGA returns for bodies over a prescribed threshold determined by NAO.

While we do not expect to be informed of the threshold before July 2023, we anticipate that we will be required to provide an assurance statement for Aberdeenshire Council for 2022/23.

Going concern assessment

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management’s use of the going concern basis of accounting in the preparation of the financial statements.

Other matters (continued (1))

Going concern assessment (Continued)

The Public Audit Forum has been designated by the Financial Reporting Council as a “SORP-making body” for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 was updated in 2020 to take account of revisions to ISAs (UK), including ISA (UK) 570 (Revised September 2019) on going concern. PN 10 allows auditors to apply a ‘continued provision of service approach’ when auditing going concern in the public sector, where appropriate. Audit Scotland’s also issued further guidance in a Going Concern publication in December 2020).

Within our wider scope work we will conclude on Aberdeenshire Council’s arrangements to ensure financial sustainability.

Other material balances and transactions

Under International Standards on Auditing, “irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure”. All other material balances and transaction streams will therefore be considered as part of our audit. However, the procedures will not be as extensive as the procedures adopted for the significant risks we have identified and highlighted in this Audit Plan.

Internal control environment

During our initial audit planning we will develop our understanding of your control environment (design) as it relates to the preparation of your financial statements. In particular we will:

- Consider key business processes and related controls
- Assess the design of key controls over all significant risks we have identified. This will include key controls over: journal entries, valuation of land , buildings and council dwellings, valuation of defined benefit pension liabilities and other material areas of management estimate and judgement.

Our focus is on design and implementation of controls only. We do not intend to assess, or place any reliance on the operating effectiveness of your controls during our audit.

Audit handover

To facilitate effective audit planning and deliver an efficient audit we gain a detailed understanding of Aberdeenshire Council from discussions with key personnel at the entity, internal audit and the prior year auditor, attendance at Aberdeenshire Council Audit Committee meetings and review of key documents.

In line with Audit Scotland’s Handover guidance we seek to place as much assurance as possible on your previous auditor’s work on your opening balances. We have undertaken initial handover discussions and we are currently liaising to agree a date to visit your predecessor offices in Aberdeenshire. We will review their prior year audit working paper files. It is anticipated that this visit will be scheduled for April.

Other matters (continued (2))

Grant claims

Local government auditors are required to review and report on approved grant claims prepared by local authorities. We will work with officers to ensure the timely completion and audit inspection of your Housing Benefit return and Non-Domestic Rates claim.

Financial reporting developments

During our audit we will actively discuss emerging financial reporting developments with you. At present there are no significant financial reporting development for 2022/23.

Other matters (continued (3))

Progress against prior year audit recommendations

The predecessor auditor identified the following issues in their 2021/22 audit of Aberdeenshire Council's financial statements, which resulted in 5 recommendations being reported in their 2021/22 Annual Audit Report.

We have followed up on the implementation of their recommendations and 5 are still to be addressed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Ongoing	Arrangements for the preparation of the management commentary need to be improved to ensure compliance with relevant statutory guidance and a co-ordinated approach to reporting the council's performance. Similar comments can be made in respect of the performance reporting arrangements which apply to the council's annual performance report.	Work has commenced on the Management Commentary for 22/23 and will take account of the relevant guidance and audit recommendations
Ongoing	The council should strengthen capacity within the finance team. Due to recruitment difficulties across the public sector, the council may need to consider alternative innovative solutions instead of standard recruitment processes.	Two accountants have recently taken up posts within the Strategic Finance team along with an Assistant Accountant on secondment. Permanent recruitment to the post of Strategic Finance Manager was unsuccessful, this will be readvertised in due course. The creation of apprenticeship and/or graduate posts is currently being explored.

Other matters (continued (4))

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Ongoing	The council should be more transparent in reporting on the capital plan both in setting out a more achievable capital plan with a clear ranking of those projects which can be added if there is slippage and inclusion of the capital and revenue financial implications of slippage and delays.	<p>Slippage has continued to be experienced during 22/23, with considerable market volatility existing in the construction sector at present. Increasing energy prices; labour shortages, construction boom; material shortages, the war in Ukraine, economic uncertainty, inflation; significant material prices increase, risk allocation; an element of opportunism; legislative change in fuel duty has resulted in substantial tender prices increases and contractor claims, coupled with contractors unwilling to tender or hold prices for any length of time. Over the last year, there has been a 23% average increase in construction materials with some components e.g., steel rising 25% in a month. Tender cost returns have increased in the region of 40% over the past year with some of the projects more than that figure. In addition, at the post contract stage, the economic conditions have seen an increase in contractor claims, whereby contractors attempt to mitigate their costs increases incurred by them at the construction stage.</p> <p>As a result, the programme has not been delivered as anticipated albeit in hindsight there is a recognition that the programme was not deliverable and that has informed the recently approved capital plan.</p> <p>The recently approved Capital Plan for 23/24 presented a programme of works that was considerably lower than previously anticipated acknowledging the need for the plan to be affordable and deliverable. A detailed review of the capital plan will also be undertaken during 23/24 to develop a comprehensive, affordable and achievable capital plan for 24/25 onwards.</p>

Other matters (continued (5))

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Ongoing	<p>Previous audit recommendations agreed with management covering a refresh of the counter fraud policy, a communication strategy for raising awareness of the revised policy with staff and the potential for an annual counter fraud report have not been progressed.</p> <p>2021-22 recommendation that previously agreed recommendations should be implemented.</p>	<p>The Council's most recent Counter Fraud Policy was reviewed by the Chief Internal Auditor in early 2022 and in consultation with Strategic Leadership Team, it was agreed that a new approach to Counter Fraud would be rolled out, and this has been taken forward by the Fraud Working Group. A new policy is in development and where the current strategy is deemed still relevant it will be replaced by the work of the group and a new Policy and Procedure (currently in draft).</p> <p>Each Service will consider the risk of fraud as part of their own assessment of risk and will capture the impact and likelihood, as well as any potential mitigations, within their risk registers. These risk registers are currently being transferred to Pentana.</p> <p>A Fraud Working Group under the leadership of Jamie Dale, Chief Internal Auditor has been established to look at the Council's process for assessing and prioritizing fraud referrals and any subsequent investigations. The procedure document setting out around how this process will work is currently in draft. The intention is for this to be presented to the Council's Integrity Group and then Strategic Leadership Team in the coming months.</p>

Other matters (continued (6))

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Ongoing	Services should do more to demonstrate workforce needs, challenges and potential solutions.	<p>In February and March Heads of services were asked to complete a survey to determine their workforce planning support needs from the HR team this has now been completed and services have been categorized into three categories:</p> <ol style="list-style-type: none"> 1. Requiring support to co-produce a workforce plan with HR partners. 2. Requires touch base points and access to all data and tools in order to independently produce a workforce plan. 3. Has the tools and can independently produce a workforce plan. <p>In addition, Strategic Leadership Team took the decision in February to move away from Directorate plans and agreed a template annual business plan for all services to produce, this includes a 3-year workforce plan..</p> <p>So, the HR support methodology outlined above will now be used to support the development of workforce planning within service business plans.</p> <p>A SharePoint page (linked below) of workforce planning resources has been developed and circulated. Examples of good practice have been developed in Legal and People, Customer and Digital service, Environment and Planning and Children's services, this will be added to the SharePoint page once approved. Initial plans will be ratified at services committees during April and May. HR will continue to work with services to improve data, analysis, strengthen outcomes and deliver real workforce transformation through the 3-year workforce planning elements of the business plans.</p> <p>https://aberdeenshire.sharepoint.com/sites/ResourcingTeamSharepoint/SitePages/Aberdeenshire-Council-Workforce-Plan.aspx?CT=1679432893477&OR=OWA-NT&CID=14235973-ae1b-8c7f-6a5d-ae9b53f59f87</p>

Wider scope risks identified in planning

Our responsibilities under the Code extend beyond the audit of the financial statements. The Code sets out four audit dimensions that frame wider scope into identifiable areas. These four dimensions have been slightly amended in the 2021 Code as shown in the table below.

2016 Code	2021 Code
Financial Sustainability	Financial Sustainability
Financial Management	Financial Management
Governance and transparency	Vision, Leadership and Governance
Value for Money	Use of Resources to Improve Outcomes

We consider each of these areas through our audit planning process and have set out overleaf the identified areas of risk for our wider scope work.

The Code also requires that auditors assess and report on audited bodies' performance in meeting their Best Value and community planning duties, as part of their annual audit. We consider risks and any improvement areas identified in the seven Best Value themes specified in the Audit Scotland supplementary guidance as part of our wider scope work and carry out annual work on service performance and reporting arrangements as specified in the guidance.

From our initial planning work, we have identified one significant risk in relation to Financial Sustainability. We have not identified risks in relation to Financial Management, Vision, Leadership and Governance and Use of Resources from our initial planning work. We will continue to review your arrangements before we issue our Annual Report.

Our findings and recommendations of wider scope work performed will be communicated through the Annual Audit Report, which will be issued in line with the national statutory deadline of 30th September 2023.

Wider scope risks identified in planning (continued (1))

Financial sustainability

While the Council reported strong financial performance in 2021/22, there are significant funding gaps identified from 2023/24 and beyond. The revenue budget from 2022/23 to 2026/27 identifies a £48million cumulative funding gap over the next five years.

The Council faces significant challenges in dealing with future funding gaps where funding is not matched by the Scottish Government. In order to achieve financial sustainability and reduce reliance on useable reserves to bridge funding gaps, the Council will need to identify and deliver significant savings and transformation in order to reduce funding gaps, deliver a balanced budget and continue to deliver key services and council priorities.

Significant risk identified:

There is a risk that where savings and transformation plans are not identified and delivered in the short to medium term this could provide financial sustainability challenges for the council.

Response to significant risk:

In undertaking our audit work in response to this significant risk we will:

- Review how the council identifies significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- Review how the council plans to bridge its funding gaps and identify achievable savings and future transformation
- Review how the council plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- Review how the council identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans

Findings and conclusion drawn from procedures undertaken on this significant risk area will be reported within the Annual Audit Report.

Wider scope risks identified in planning (continued (2))

Financial management

The Council has processes in place which detail the responsibilities of Policy Committee members and senior management for planning and managing the Council's finances in their respective service lines. These are set out in the Council's Scheme of Governance. We have not identified any evidence of Aberdeenshire Council not complying with these processes at the risk assessment and planning stage. The Council identifies future cost pressures as part of its initial budget setting process, which involves meetings between budget holders and members of the finance team, on an ongoing basis throughout the year, usually through budget monitoring meetings.

Policy Committee's are formal committees where the purpose is to provide scrutiny, challenge and gain assurance with regard to performance as well as reviewing aspects of significant financial and budgetary matters within the respective policy area in order to provide assurance to Aberdeenshire Council in line with the principles and values of Best Value. We have not identified a significant risk in relation to Aberdeenshire Council's arrangements for financial management from our initial planning work. We will continue to review your arrangements before we issue our Annual Audit Report.

We will seek to understand the effectiveness of Aberdeenshire Council's budgetary control system in communicating accurate and timely financial performance, including the arrangements for identifying, monitoring and reporting of savings. We will consider the overall financial position reached by the Council during 2022/23 and we will seek to understand the future financial implications of this.

Wider scope risks identified in planning (continued (3))

Vision, Leadership and Governance

Following the local government elections in May 2022 there has been some change in the leadership of the Council and members of the four policy committees. Out of 70 members elected over half of the members are new to the council. There is a best value thematic review being undertaken in 2022/23 as part of our wider scope and best value work to review the leadership of the development of new local strategic priorities as a result of changes in governance across Scottish local authorities.

As part of our audit work on the area of vision, leadership and governance we also review the strategic plans adopted by the council, how these reflect the needs of the community and the arrangements the council has in place to govern the council and deliver on the Council's priorities through monitoring and tracking of performance.

We have not identified a significant risk in relation to Aberdeenshire Council's arrangements for vision, leadership and governance from our initial planning work. We will continue to review your arrangements before we issue our Annual Audit Report.

We will review the effectiveness of your scrutiny and governance arrangements, leadership and decision making, and transparency of reporting of financial and performance information. Our work will also include reviewing the consistency of your Governance Assurance Statement with the key findings from audit, scrutiny, and inspection.

Use of Resources to Improve Outcomes

Local authorities need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.

We have not identified a significant risk in relation to Aberdeenshire Council's arrangements for use of resources to improve outcomes from our initial planning work. We will continue to review your arrangements before we issue our Annual Audit Report.

In undertaking our work we will consider the clarity of the arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvements in priority services. We will do this by reviewing the arrangements that Aberdeenshire Council has developed to address workforce challenges and improve performance, including performance against standards/targets. We will also consider the arrangements Aberdeenshire Council has in place to meet outcomes and improvement objectives, for working with strategic partners and communities and reporting performance against outcomes, financial and other resources.

Wider scope risks identified in planning (continued (4))

Other wider scope areas

In addition to the wider scope risks set out above, Audit Scotland's Planning Guidance 2022/23 requires us to consider the following national risks as part of our wider scope work:

- Climate change – Auditors are required to provide answers to six specified questions in a mandated return to Audit Scotland and to include appropriate reference in their Annual Audit Report.
- Cyber security – Auditors are required to consider risks related to cyber security at audited bodies as part of their work on the financial statements audit in line with guidance issued by Audit Scotland's Digital Audit Team.

Best Value

Under the new Code of Audit Practice, the audit of Best Value in councils is fully integrated within the annual audit work performed by appointed auditors and their teams. Auditors are required to evaluate and report on the performance of councils in meeting their Best Value duties. As part of our integrated wider-scope annual audit work, we as appointed auditors use a risk based approach to assess and report whether the audited body has made proper arrangements for securing Best Value and is complying with its community planning duties, including reporting progress against previous Best Value findings and recommendations.

We have not identified any significant risks in relation to Aberdeenshire Council's Best Value arrangements however as part of our review of arrangements embedded within our wider scope work for Use of Resources to Improve Outcomes, we will look at the theme of partnership and collaborative working and the arrangements the Council has in place to meet outcomes and improvement objectives through partnerships and collaborative working.

Best Value thematic: Auditors are required to report on Best Value or related themes prescribed by the Accounts Commission. The thematic work for 2022/23 requires auditors to carry out an overview of the effectiveness of council leadership (officers and elected members) in developing new local strategic priorities following the elections in May 2022.

We will report on the arrangements in place over the effectiveness of leadership in the development of new local strategic priorities within our Annual Audit Report.

Wider scope risks identified in planning (continued (5))

Service improvement and reporting

As part of our Best Value audit work we will assess how effectively the Council demonstrates a trend of improvement over time in delivering their strategic priorities. We will review the following areas:

Service reporting (a): Determine the effectiveness of the Council's processes for reporting and scrutiny of performance against its priorities

Service reporting (b): Assess whether the Council has made proper arrangements for public performance reporting (PPRg) - SPI 1

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. This responsibility links with the Commission's Best Value audit responsibilities. In turn, councils have their own responsibilities, under their Best Value duty, to report performance to the public. The Accounts Commission issued a new Statutory Performance Information Direction in December 2021 which applies for the three years from 2022/23. It requires a council to report its performance in improving local public services (including those provided with its partners and communities), and progress against agreed desired outcomes (SPI 1). The Commission expects this reporting to allow comparison both over time and with other similar bodies (drawing on Local Government Benchmarking Framework and/or other benchmarking activities).

Service reporting (c): Assess whether the Council has made proper arrangements for public performance reporting (PPRg) - SPI 2
The Accounts Commission's Statutory Performance Information Direction in December 2021 requires a council to reports its own assessment and audit, scrutiny and inspection body assessments of how it is performing against its duty of Best Value, and how it has responded to these assessments (SPI 2).

Our findings and conclusions in respect of these areas will be reported within the Annual Audit Report.

Audit Scotland deliverables

As set out in the Code of Audit Practice, as appointed auditors we have a number of wider reporting responsibilities beyond the audit of the financial statements. Below we summarise the key areas of work for our 2022/23 audit, including expected reporting under Audit Scotland's Code of Audit Practice and audit planning guidance:

Requirement	How we will report our findings
Annual Accounts Perform an audit of the annual accounts and express an audit opinion.	<ul style="list-style-type: none"> Independent Auditor's Report on the financial statements Annual Audit Report detailing findings from our audit work on the financial statements.
Wider scope audit dimensions Conclude and report on our assessment of the wider scope audit dimensions.	<ul style="list-style-type: none"> Annual Audit Report
Audit Scotland area of focus – Climate change Providing specified information on Aberdeenshire Council's arrangements for responding to climate change.	<ul style="list-style-type: none"> Completion of Audit Scotland annual return Annual Audit Report
Audit Scotland area of focus – Cyber security We will consider risks related to cyber security during our financial statement audit.	<ul style="list-style-type: none"> We will report any significant incidents, issues or areas of good practice to Audit Scotland's Digital Audit team . Annual Audit Report (where necessary)
Best Value– Follow Up Follow up of the Aberdeenshire Council's progress in implementing the recommendations raised in previous Best Value Assurance Reports and Annual Audit Reports.	<ul style="list-style-type: none"> Annual Audit Report
Best Value thematic work for 2022/23 – We are required to report locally on any Best Value thematic work prescribed by the Accounts Commission. For 2022/23 the prescribed thematic is 'Leadership of the development of new local strategic priorities'.	<ul style="list-style-type: none"> Annual Audit Report Reporting in a separate management report is also required.

Audit Scotland deliverables (continued (1))

Requirement	How we will report our findings
Statutory Performance Information Consider and report on Statutory Performance Information arrangements.	<ul style="list-style-type: none"> Annual Audit Report
National Fraud Initiative (NFI) Contribute to NFI report.	<ul style="list-style-type: none"> Annual Audit Report Reporting participation to Audit Scotland including completion of NFI questionnaire
Statutory Objections Consider statutory objections to the annual accounts	<ul style="list-style-type: none"> Response to any objections received.
Whole of Government Accounts (WGA) Provide assurance over Aberdeenshire Council's WGA return.	<ul style="list-style-type: none"> Assurance Statement on WGA return (date to be confirmed as guidance not yet issued)
Housing Benefits Subsidiary Claim Independent certification on housing benefit subsidy claim to the Department for Works and Pensions (DWP).	<ul style="list-style-type: none"> Auditor certificate on Housing Benefit Subsidiary (date to be confirmed as guidance not yet issued)
Non-domestic rates (NDR) Certification of NDR claim.	<ul style="list-style-type: none"> Auditor certificate on Non-Domestic Rate Return (date to be confirmed as guidance not yet issued)
Current Issues Returns Prepare and submit quarterly Current Issues Returns.	<ul style="list-style-type: none"> Current Issues Returns

Audit Scotland deliverables (continued (2))

Requirement	How we will report our findings
<p>Correspondence queries Carry out preliminary enquiries into any correspondence relevant to Aberdeenshire Council that is referred to Audit Scotland.</p>	<ul style="list-style-type: none"> • Providing responses to any correspondence received based on our audit knowledge and understanding and the results of any review as agreed with Audit Scotland
<p>Emerging issues Communication of emerging issues to Audit Scotland and highlight any issues for potential statutory reports.</p>	<ul style="list-style-type: none"> • Communicating throughout our audit emerging issues identified throughout the year
<p>Performance, impact and overview reports Contribute to housing benefit performance audits, the Shared Risk Assessment, sector annual reports, shared intelligence on health and social care, and sector meetings.</p>	<ul style="list-style-type: none"> • Providing information returns to Audit Scotland
<p>Money laundering and fraud Provide information on cases of money laundering or fraud.</p>	<ul style="list-style-type: none"> • Completion of fraud returns for all frauds over £5,000 or involving misappropriation or theft of assets or cash which are facilitated by weaknesses in internal control • Reporting cases to the National Crime Agency of any instances of money laundering or fraud
<p>Technical Guidance Contribute to Technical Guidance Notes</p>	<ul style="list-style-type: none"> • Providing responses to Audit Scotland consultations on draft Technical Guidance Notes for Auditors

Audit Fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC on audit quality and public sector financial reporting. This includes, for Audit Scotland contracts, meeting the expectations of the Audit Scotland Quality Team and the Scottish quality framework.

Audit fees were shared by Audit Scotland with Aberdeenshire Council in December 2022. The audit fee, as set by Audit Scotland, is set out on page 31 of this Audit Plan. Audit fees are paid to Audit Scotland who in turn pay us. We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

Relevant professional standards

Audit Scotland set the baseline audit fee. We can increase the fee, from the baseline, for the inclusion of additional risks, new technical matters or specific client matters identified.

We are required to consider all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard [revised 2019] which state that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

We anticipate there may be additional costs in relation to employment of an auditor expert to assist with the audit of the valuation of land and buildings. We estimate that the cost will be £5,000. We will discuss any additional costs with management and confirm the final audit fee within our Annual Audit Report.

Our audit appointment includes the audit of any trust funds falling within section 106 of the Local Government (Scotland) Act 1973 that are registered as charities with the Office of the Scottish Charities Regulator (OSCR). Auditors, appointed under the Accounts Commission are eligible under the charities regulations to audit a charity's statement of accounts. As part of our audit work in the current year we will provide an opinion over the Council's registered charity. The audit fee for this work is not covered in the fee set by Audit Scotland, and we will agree a fee with you when we complete our planning processes.

Audit Fees (continued (1))

Audit fees for 2022-23

Service	Fees £
External Auditor Remuneration	£300,170
Pooled Costs	£nil
Contribution to Audit Scotland support costs	£11,380
Contribution to Performance Audit and Best Value	£95,580
Sectoral cap adjustment	£54,230
Audit of Trust Fund	£10,000
Total 2022-23 Fee	£471,360

Additional Fees (Non-Audit Services)

Service	Fees £
At planning stage we confirm there are no planned non-audit services	Nil

Fee assumptions

In setting the fee for 2022-23 we have assumed that you will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence for all critical and significant judgements and estimates made in preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

We anticipate there may be additional costs in relation to employment of an auditor expert to assist with the audit of the valuation of land and buildings. We will discuss any additional costs with management and confirm the final audit fee within our Annual Audit Report.

Adding value through the audit

Our overall approach to adding value through the audit is clear and upfront communication, founded on our public sector credentials and our LEAP audit methodology and use of data analytics to ensure delivery of a quality audit.

Our audit methodology is risk based and includes developing a good understanding of Aberdeenshire Council. The diagram opposite summarises how our methodology and use of data adds value to our audit.

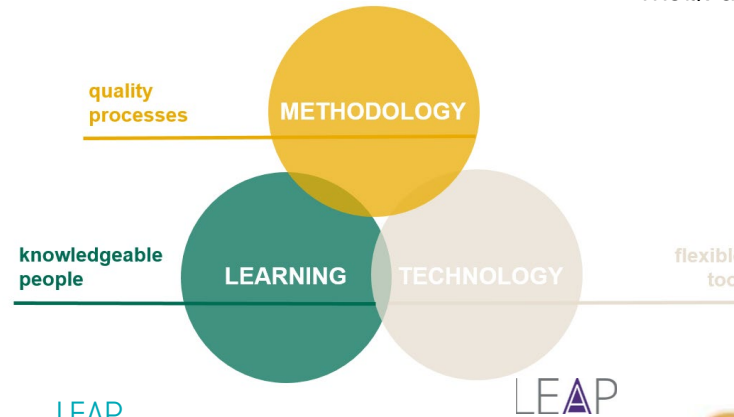
We comply with UK Auditing Standards and as a Firm we are regulated by the FRC. We take findings on audit quality seriously and continue to invest through our Audit Investment Plan, which is supported by a specific national Public Sector Investment Plan.

We comply with Audit Scotland's quality arrangements, including submitting an Annual Quality Report on our Audit Scotland portfolio. Audit Scotland's quality report for 2021/22 can be found on the [Audit Scotland website](#).

Our wider quality arrangements are set out in our annual transparency reports which are available on our website here:

[Annual report 2021](#).

Use of audit, data interrogation and analytics software



LEAP

- A globally developed ISA-aligned methodology that re-engineers our audit approach to focus on quality and effectiveness
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- The LEAP approach allows us to tailor the audit programme to help engagement teams respond quickly to any changes as they occur, keeping quality high through responsiveness and flexibility.

Inflo



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit and to share with clients.

REQUEST AND SHARE

- Communicate and transfer documents securely; Extract data directly from client systems; Work flow assignment and progress monitoring

ASSESS AND SCOPE

- Compare balances and visualise trends; Understand trends and perform more granular risk assessment



VERIFY AND REVIEW

- Automate sampling; Download automated work papers



INTERROGATE AND EVALUATE

- Analyse 100% of transactions quickly and easily; Identify high risk transactions for investigation and testing; Provide client reports and relevant benchmarking KPIs



FOCUS AND ASSURE

- Visualise relationships impacting core business cycles; Analyse 100% of transactions to focus audit on unusual items; Combine business process analytics with related testing to provide greater audit and process assurance



INSIGHTS

- Detailed visualisations to add value to

Appendices

Independence	38
Responsibilities	39
Communication	40
Fraud responsibilities	41
IT audit strategy	43
Future auditing developments	45

Independence

Auditor independence

Ethical Standards and ISA (UK) 260 'Communication with Those Charged With Governance' require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the Firm, or covered persons, relating to our independence.

We encourage you to contact us to discuss any independence issues, with us and will discuss the matter with you if we make any significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors of Aberdeenshire Council that we are required to report or wish to draw to your attention.

We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the 2019 Ethical Standard.

Our team complete annual fit and proper declarations, including independence confirmations, as well as confirming independence from individual audited bodies when completing timesheets. The work of our Ethics team is overseen by our Ethics partner and all staff undergo regular ethics training each year.

We confirm we are independent of Aberdeenshire Council.

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. **We did not provide any non-audit or additional services to Aberdeenshire Council prior to our appointment as auditors.**



Responsibilities

The Code sets out auditor responsibilities and responsibilities of the audited body. Key responsibilities are summarised below. Please refer to the Code for further detail.

Aberdeenshire Council

Your responsibilities include:

- Maintaining adequate accounting records and working papers
- Preparing accounts for audit, comprising financial statements, which give a true and fair view, and related reports
- Establishing and maintaining a sound system of internal control
- Establishing sound arrangements for proper conduct of affairs, including the regularity of transactions
- Maintaining standards of conduct for the prevention and detection of fraud and other irregularities
- Maintaining strong corporate governance arrangements and a financial position that is soundly based
- Establishing and maintaining an effective internal audit function.

External Audit

Our responsibilities include:

- Compliance with the FRC Ethical Standard
- Compliance with the Code and UK Auditing Standards (ISA's UK) in the conduct and reporting of our financial statements audit
- Compliance with the Code and guidance issued by Audit Scotland in the conduct and reporting of our wider scope and Best Value work
- Providing assurance on specified returns and other outputs (where required), as specified in guidance issued by Audit Scotland
- Liaison with and notifying Audit Scotland when circumstances indicate a statutory report may be required
- Notifying Audit Scotland of any known or suspected frauds greater than £5,000
- Contributing to relevant performance studies (as set out in Audit Scotland's Planning Guidance for 2022/23).



Communication

ISA (UK) 260 'Communication with Those Charged With Governance', as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (the Aberdeenshire Council Audit Committee). Our reporting responsibilities are set out below. We communicate all matters affecting the audit on a timely basis, to management and/or the Aberdeenshire Council Audit Committee.

Our communication plan	Audit Plan	Annual Report (our ISA 260 Report)
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of Aberdeenshire Council's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report or emphasis of matter		•

Fraud responsibilities

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' came into force for accounting periods commencing on or after 15 December 2021. The first year this impacted on Aberdeenshire Council was the year ended 31 March 2023. Requirements in ISA (UK) 240 (Revised May 2021) have been enhanced for the identification and assessment of risks of material misstatement due to fraud and the response to those risks.

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at Aberdeenshire Council.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is Aberdeenshire Council's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

As auditors, we are required to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

Fraud responsibilities (continued (1))

As part of our risk assessment procedures we are required to:

- identify and assess the risks of material misstatement in the financial statements due to fraud, including financial misreporting and misappropriation of assets.
- hold separate discussions with management, those charged with governance and others (as appropriate) to gain insights on their views of fraud.

During our audit work we will:

- design and implement appropriate audit procedures to respond to the risks of misstatement we have identified and reported in this Audit Plan
- remain alert to new risks and amend our risk assessments accordingly
- respond appropriately to any risks identified.

Throughout the audit we work with you to consider the significant risks we identify, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control. We will report to you any significant deficiencies we identify.

In addition, as set out in the Audit Scotland Planning Guidance 2022-23 ,we are required to:

- provide information on fraud cases to Audit Scotland on a quarterly basis, and
- contribute to the National Fraud Initiative report.

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an (as set out in the Audit Scotland Planning Guidance for 2022-23) to inform the National Crime Agency if there is known or is suspected that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at Aberdeenshire Council we will report to the Accounts Commission as required by Audit Scotland.

IT audit strategy

ISA (UK) 315 (Revised July 2020): Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and its Environment' came into force for accounting periods commencing on or after 15 December 2021. The first year this impacted on Aberdeenshire Council was the year ended 31 March 2023.

We are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). The revised requirements in ISA (UK) 315 (Revised July 2020) include:

Key changes

- An emphasis has been added on the need for auditors to not bias their work toward obtaining corroborative evidence or excluding evidence that is contradictory.
- The concept of 'inherent risk factors' has been introduced to assist the auditor in identifying events or conditions that may affect the susceptibility of assertions about classes of transactions, account balances or disclosures to misstatement.
- A new concept of significant classes of transactions, account balances or disclosures refers to those classes for which there are assertions with an identified risk of material misstatement (referred to as relevant assertions).
- A new concept of spectrum of inherent risk applies to the extent to which inherent risk varies.
- Significant risk relates to an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the affect of inherent risk factors on the combination of the likelihood of a misstatement and the magnitude.
- A requirement for auditors to understand the entity's use of IT in its business, the related risks and the system of internal control addressing such risks. (Guidance is being provided from Audit Scotland's Digital Auditing team to assist auditors in this regard).

During our audit we will complete an assessment of the design and implementation of relate ITGCs.

IT audit strategy (continued (1))

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Oracle (on premises)	Financial reporting	A detailed review of the IT General Controls related to security management, development and maintenance and technology infrastructure will be carried out by our internal IT specialists team for the 2022/23 financial year on these in scope systems. We will look to gain assurance on the work performed in year in relation to the design effectiveness and implementation of IT General Controls for the current financial year and update our understanding of any changes in the system since the prior financial year. We will review any changes identified in key controls from the prior year and assess the impact of any changes on the planned audit approach.
CIPFA (host)	Fixed Asset Register	See above
iTrent	Payroll	See above

Future auditing developments

There are changes to the following ISAs (UK) which will impact on our LG audits for the first time in future years.

Revised standards applicable for audits of financial statement for periods commencing on or after 15 December 2022.:

- ISQM (UK) 2 (Issued July 2021) 'Engagement Quality Reviews'
- ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

Revised standards applicable for audits of financial statement for periods commencing on or after 15 December 2023.

- ISA (UK) 600 (Revised September 2022) 'Special Considerations- Audits of Group Financial Statements (including the work of component auditors)' - Applicable for audits of financial statement for periods commencing on or after 15 December 2023.

A summary of the impact of the key changes on various aspects of the audit is included below:

Area of change	Impact of changes
Quality control	<ul style="list-style-type: none"> • ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer (EQR) and the EQRs responsibilities relating to the performance and documentation of an engagement quality review. • The objective of the firm, through appointing an EQR, is to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon. • The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that the audit complies with professional standards and applicable legal and regulatory requirements; and the auditor's report issued is appropriate in the circumstances.
Direction, supervision and review of the engagement	<ul style="list-style-type: none"> • Greater responsibilities, audit procedures and actions are assigned directly to the engagement lead, resulting in increased involvement in the performance and review of audit procedures.

Future auditing developments (continued (1))

Area of change	Impact of changes
Definition of engagement team	<ul style="list-style-type: none"> The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The group auditor is required to determine the nature, timing and extent of involvement of component auditors in any group audit. Component auditors may increasingly be involved in all phases of the group audit. The group auditor should be sufficiently and appropriately involved in the work of component auditors throughout the group audit, including communicating clearly about the scope and timing of their work, and evaluating the results of that work.
Documentation	<ul style="list-style-type: none"> The amendment to these auditing standards will result in additional documentation requirements to demonstrate how these requirements of these revised standards have been addressed.

Future auditing developments (continued (2))

IFRS 16 Leases

Following further deferral of IFRS 16 Leases in Local Government, this accounting standard is now mandated for implementation by local government bodies from 1 April 2024 (although earlier adoption is permitted) .

The new standard brings significant changes for lessee accounting. Key points that Aberdeenshire Council will need to consider on transition include:

- The need to recognise the cumulative effects of initially applying IFRS 16 on the date of implementation as an adjustment to the opening balances of taxpayers' equity. (This means prior year comparators will not need to be restated).
- The need to recognise the right-of-use asset for leases previously classified as operating leases at an amount equal to the outstanding lease liability.
- No adjustments are needed for leases for which the underlying asset is of low value (less than £5,000 new) or where the lease term ends within 12 months.
- Assets where there is no or a below market rate peppercorn lease premium should be recognised as a right-of-use asset measured at current value in existing use or fair value as appropriate. Any difference between this and the lease liability will be recognised as part of the adjustment to the opening balances of taxpayers' equity.

- Irrecoverable VAT should not be included in the lease liability nor the value of the right of use asset.
- Existing finance lease and PFI liabilities that have an element based on an index or other rate will need to be reviewed and possibly amended as such variable payments are incorporated into the measurement of the lease liability under IFRS 16.
- In the year prior to implementation, the financial statements will need to disclose the anticipated impact of adopting IFRS 16 from 1 April of the following year.
- Systems will need to be in place to capture the relevant information for new leases entered into on or after implementation.

Aberdeenshire Council will need to ensure that controls are in place to identify all of its contracts and any other arrangements which might contain the use of an asset, in order to ensure that the disclosures made in 2023/24 and accounting balances included within the Council's/Group's 2024/25 financial statements are complete and accurate.



[grantthornton.co.uk](https://www.grantthornton.co.uk)

© 2023 Grant Thornton UK LLP. Confidential and information only.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.