Appendix 1

Aberdeenshire Council External Audit Plan

Financial year ending 31 March 2024

March 2024

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Contents

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 from 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; the Aberdeenshire Council Audit Committee and will be shared with Audit Scotland.

01 Materiality

We have calculated our planning materiality using prior year gross expenditure as per audited 2022/23 financial statements as our benchmark, resulting in the following:

- £18.000 million planning materiality (Group: £18.150 million). Trivial is no longer capped at £250,000 as per Audit Scotland guidance, and we have set this at £900,000 (Group: £907,500).
- 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 2023/24.

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

(continued overleaf)

Plan overview - continued (1)

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.

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 significant wider scope risks on the following audit dimensions as part of our planning work to date:

- Financial sustainability

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 2023/24 we are required to carry out work and report on the Best Value thematic 'workforce innovation – how councils are responding to workforce challenges'.

We will also perform specific work as requested by the Accounts Commission on the council's statutory performance reporting and follow up on all recommendations made by previous Best Value reporting and our 2022/23 Annual Audit Report.

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.

06 Our Audit Fee

The overall audit fee for 2023/24 is £499,620. Of this external auditor remuneration is £318,180. The remainder includes a contribution to Audit Scotland for £98,820 for Performance Audit and Best Value (PABV) costs, a contribution of £11,600 to Pooled Costs and £60,420 for the 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.

An additional fee of £10,600 +VAT will be charged for the audit of the 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

(continued overleaf)

Plan overview - continued (2)

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.

08 Planning status

To date, we have completed the majority of our planning phase audit work. However, we have not been able to complete our assessment of the processes and controls surrounding the property, plant and equipment valuations as the Council has not yet confirmed their approach for the 31 March 2024 valuations.

Audit approach

Kick off Audit Planning
Acceptance and Continuance and risk management considerations
(Jan 2024)

Audit planning
Including management inquires, materiality, risk assessment
(Jan - Mar 2024)

Walkthrough of controls relevant to areas of significant audit risk and early transaction testing
(Feb - Mar 2024)

Interim testing
Early testing of interim samples
(Mar - May 2024)

Draft Audit Plan
Submitted to Aberdeenshire Council management and Audit Scotland
(by 31 Mar 2024)

Final Audit Plan
Presented to Aberdeenshire Council Audit Committee
(17 Apr 2024)

Wider Scope and Best Value work focused on wider scope risks and Best Value themes identified in planning
(May/Jun 2024)

Final audit scoping
Setting testing approach for financial statement line items including significant audit risks
(Jun 2024)

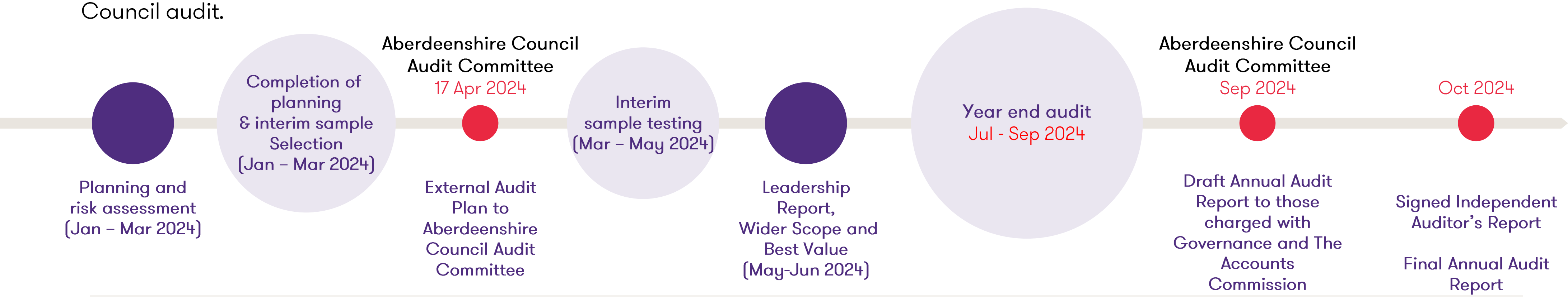
Financial statement audit
substantive testing of unaudited financial statements
(Jul to Sep 2024)

Concluding audit procedures including reporting, drafting of auditor's report and letter of representation
(Sep 2024)

Reporting to the Aberdeenshire Council Audit Committee
(Oct 2024)

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 2024, and it is anticipated that we will submit audited accounts and the Annual Audit Report by 30 September 2024. 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.

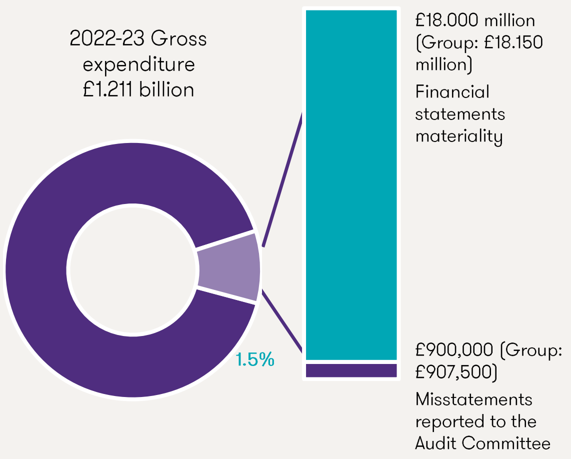
Our requirements

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 £18.000 million (Group: £18.150 million), which equates to approximately 1.5% of gross expenditure as per the 2022-23 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: £11.700 million, Group: £11.800 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. Audit Scotland have removed the requirement to cap this at £250,000, and we have determined triviality to be 5% of planning materiality (Council: £900,000, Group: £907,500).

We will update our materiality based on the unaudited 2023/24 financial statements when received in June 2024. 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:

Subsidiaries

- 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 2023/24 from 2022/23.

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 significant risks we identified for Aberdeenshire Council are set out on pages 11 to 15 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 there to be an inherent risk of fraud in expenditure recognition. Aberdeenshire's expenditure includes both payroll and non-payroll costs. We consider payroll costs to be well forecast and we are able to agree these costs to underlying payroll systems. As such we believe there is less opportunity for a material misstatement as a result of fraud to occur in this area. We therefore focus our risk on the other, non-payroll, service expenditure. Our testing will include a specific focus on year-end cut-off arrangements, including consideration of the existence of accruals in relation to non-payroll/non-finance expenditure. We will: • Evaluate your accounting policy for recognition of expenditure for appropriateness and compliance with the CIPFA/LASAAC Code of Practice 2023/24; • Perform detail testing of expenditure transactions at and around year end to verify the accounting period transactions relate to and confirm that transactions have been recognised in the correct accounting period; • Review the judgements and estimates made by management when recognising accruals at year end within the financial statements, and where appropriate challenge management accordingly.

Significant audit risks - continued (2)

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. It has been proposed that for the council dwellings, the Council may seek to employ an external valuer for the 31 March 2024 valuation. This is yet to be confirmed. As at 31 March 2024, Aberdeenshire Council held PPE of £2.433 billion including land and buildings of £1.314 billion and council dwellings of £572 million. 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

Significant audit risks - continued (3)

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.

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;
- 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 (4)

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 2023 the Council had pension fund liabilities of £29.566 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

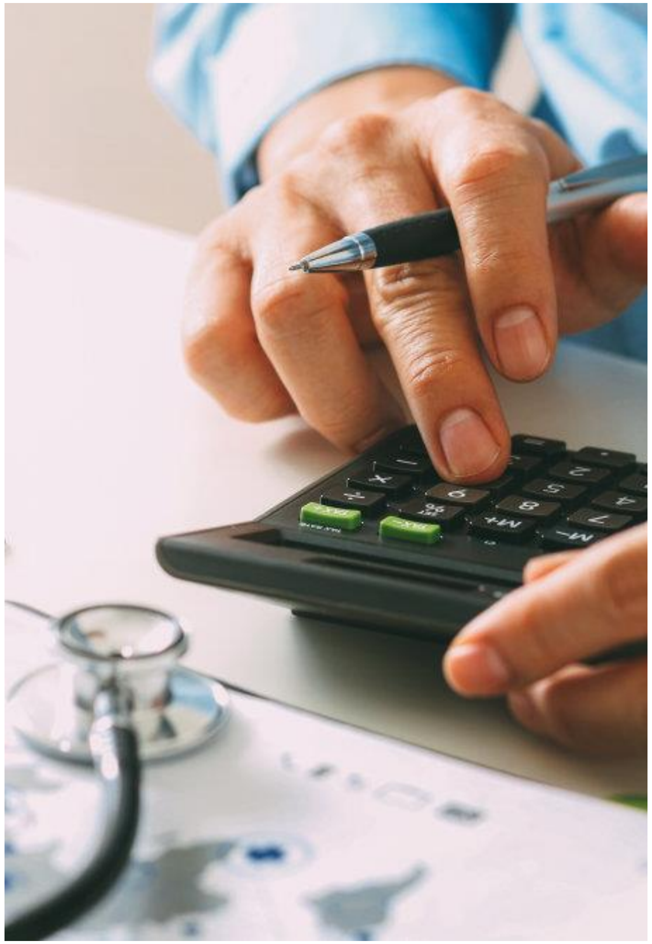
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- 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 2024.

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 uncertainly 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

Other matters

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and Planning Guidance 2023/24 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 (2023/24), 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.

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 2023/24 WGA returns for bodies over a prescribed threshold determined by NAO.

While we do not expect to be informed of the threshold before July 2024, we anticipate that we will be required to provide a partial assurance statement for Aberdeenshire Council for 2023/24.

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.

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 2023/24.

Other matters - continued (2)

Progress against prior year audit recommendations

We identified the following issues in the 2022/23 audit of Aberdeenshire Council's financial statements, which resulted in 9 recommendations being reported in the 2022/23 Annual Audit Report.

We have followed up on the implementation of their recommendations and 9 are currently ongoing.

Assessment	Issue and risk previously communicated	Recommendation and update on actions taken to address the issue
Ongoing	1. Bank reconciliations Issue – Formal bank reconciliations are not being prepared for all of the Council's bank accounts. Furthermore, the year end bank reconciliations show some £1.626m of reconciling items. This appears to be excessively high. Risk – There is a risk that the cash and bank position could be misstated. Additionally, there is a risk that the Council will not have accurate information to inform appropriate cash management.	Recommendation - Bank reconciliations should be performed for all bank accounts, and the Council should make progress towards more accurate reconciliations with fewer reconciling items. Management update: Meeting has been set up with relevant officers to discuss the reconciliation process and agree a way forward in order to identify and reduce reconciling items. Bank Reconciliations will be performed for all accounts. Responsible officer: Head of Finance/ Revenues Manager Target date: 31 March 2024

Other matters - continued (3)

Assessment	Issue and risk previously communicated	Recommendation and update on actions taken to address the issue
Ongoing	**2. Internal recharges** Issue – A total of £118.700m of internal recharges have been removed from the income and expenditure of the accounts (after adjusted audit misstatement 4, detailed in Appendix 1). Of these, only £118.407m of the income and only £49.451m of the expenditure was identifiable. Therefore, we have been unable to test the remaining £0.294m of income and £69.249m of expenditure. The untested expenditure recharges are substantial in value, and we have had to place reliance on our testing of the income leg of the internal recharges to gain sufficient assurance over them. Additionally, we have had to perform additional testing over the 'other expenditure' due to not being able to remove the recharges from our testing population, which has taken additional time. Risk - Inability to identify internal recharge transactions presents a risk that they have been incorrectly removed from the financial statements and inhibits our ability to audit them.	Recommendation - The Council should ensure that all recharges are identifiable and should work to reduce the quantity of internal recharges. Management update: Work ongoing. Where identifiable internal recharges have been removed from data provided for sampling purposes. The finance team are currently working to ensure all internal income is coded correctly to an internal income code. A process is to be agreed on how we can do the same on the expenditure side – Meeting to be held with wider finance team to discuss options (set for 22/03) Responsible officer: Head of Finance/ Strategic Finance Manager Target date: 31 March 2024

Other matters - continued (4)

Assessment	Issue and risk previously communicated	Recommendation and update on actions taken to address the issue
Ongoing	**3. Market review for council dwellings** Issue – The Council's valuer performs a market review each year to assess the risk of material movement in the value of the Council's assets. For the council dwellings this review was largely directed towards a small portfolio of acquisitions made by the Council. Risk – It is our view that this presents a risk that the research is not representative of the wider housing market, and therefore presents a risk of material misstatement in the value of assets.	Recommendation - The Council should incorporate wider market data into their research when assessing market movements. Management update: The proposal for 2023/24 council dwellings valuations is that a full valuation exercise will be undertaken. This is currently been considered by Head of Property & Facilities Management. Responsible officer: Head of Finance/ Head of Property and Facilities Target date: 31 March 2024
Ongoing	**4. Review of assets not revalued in year** Issue – The Council did not produce a quantified assessment of the potential change in value of those assets which were not revalued at 31 March 2023. The Council is permitted, under the Code, to revalue assets on a rolling 5-year basis, only if the impact of doing so is not material. Without performing a quantified assessment, the Council is unable to determine if this is the case. Risk – PPE values could be materially misstated.	Recommendation - The Council should perform a quantified assessment of the potential change in value of asset which they do not intend to value at 31 March, based on market research as appropriate. Management update: A quantified assessment of the potential change in value of assets will be performed as part of the current year valuation work. Responsible officer: Head of Finance/ Head of Property and Facilities Target date: 31 March 2024

Other matters - continued (5)

Assessment	Issue and risk previously communicated	Recommendation and update on actions taken to address the issue
Ongoing	**5. Fixed Asset Register, valuations and reconciliations** Issue – Numerous issues and errors were identified with regard to PPE. These included: • The Council has a single fixed asset register but is not able to produce a single report that reconciles directly to the financial statements. • The Valuation report did not agree with the FAR or the disclosures in the financial statements. • Errors were identified with regard to PFI and depreciation. Risk – PPE values could be materially misstated.	Recommendation - In preparation for the 2023/24 financial statement audit the Council should reviews its: • Accounting procedures and quality control over PPE • Valuation procedures and quality control over PPE. Management update: CIPFA Asset Manager is a hosted system and the reports that it produces are configured by the supplier. A request will be made to try and obtain reports in the format requested by Grant Thornton, but it is not guaranteed. Quality control arrangements in terms of the accounting and valuation procedures will be reviewed as part of the current year end process. Responsible officer: Head of Finance/ Head of Property and Facilities Target date: 31 March 2024

Other matters - continued (6)

Assessment	Issue and risk previously communicated	Recommendation and update on actions taken to address the issue
Ongoing	**6. Aged creditor balances** Issue – There are some £68.671m of debits and £76.478m of credits included in the short-term creditors balance which date from 2019/20 or older. The net balance of £7.807m is made up of 12,623 individual transactions, with some dating back as far as 1999/2000. Risk – There is a risk that these creditor balances are not genuine and therefore that creditors is overstated.	Recommendation - The Council should seek to reduce this balance, either by identifying and paying the creditors, or writing them off. Management update: Management has completed a full review of this balances and concluded that all creditors balances are genuine and not overstated. A working paper setting out management's review will be provided to the external auditors as part of the 2023/24 audit process In addition, a process is being set up for the monitoring of all Balance Sheet codes with an aim to fully understand all balances and identify any issues as they arise. Balance Sheet to be standing item on Finance Operations Group Responsible officer: Head of Finance/ Strategic Finance Manager Target date: 31 March 2024

Other matters - continued (7)

Assessment	Issue and risk previously communicated	Recommendation and update on actions taken to address the issue
Ongoing	7. Aged debtor balances Issue – Included within short term debtors of £78.240m was £1.384m of 'opening balances' for which no breakdown was provided. Risk – There is a risk that these debtor balances are not genuine and therefore that debtors is overstated.	Recommendation - The Council should seek to reduce this balance, either by identifying and collecting the debtors, or writing them off. Management update: £274,000 was identified as irrecoverable payroll overpayments from pre 2017/18 and have now been written off as agreed at Business Services Committee in January 2024 Remaining values under review with meetings being held across finance. As above, Balance Sheet Monitoring process to be set up with Balance Sheet as a standing item on Finance Operations Group. Responsible officer: Head of Finance/ Strategic Finance Manager Target date: 31 March 2024

Other matters - continued (8)

Assessment	Issue and risk previously communicated	Recommendation and update on actions taken to address the issue
Ongoing	**8. Nil NBV assets** Issue – The Council's asset register includes 1,177 assets which are being held at £nil net book value as they have been fully depreciated. The gross book value of these assets is £102.736m. Risk – There is a risk that the gross cost and accumulated depreciation are overstated, or that UELs are inappropriate.	Recommendation - The Council should perform a review of assets with £nil net book value to ensure that they remaining in use and, if they do, the Council should assess the appropriateness of the UELs applied. The Council should embed a formal process for reviewing assets which have outlived their useful economic lives on an annual basis, to ensure the assets are still in existence. **Management update:** A review of expired assets and nil net book assets will be undertaken during the 2023/24 year end process. Responsible officer: Head of Finance/ Estates Manager –Property and Facilities Target date: 31 March 2024

Other matters - continued (9)

Assessment	Issue and risk previously communicated	Recommendation and update on actions taken to address the issue
Ongoing	9. Ledger mapping Issue – As part of our journals testing, we import the Council's general ledger transactions into our data analytics software, which enables us to run a number ofroutines to identify those transactions which might be most likely to be at risk from management override of controls. In order to run these routines effectively, we need to know where in the accounts a transaction has been posted to, or where the transactions are 'mapped' to. The Council were only able to provide a mapping document at a relatively high level. For example, showing transactions as being posted to Unusable Reserves, rather than those posted to the Revaluation Reserve, as opposed to the Capital Adjustment Account. Risk – There is a risk that instances of management override of controls which would otherwise have been detected by our testing could have gone unfound because our testing was inhibited by a lack of detailed mapping information.	Recommendation - The Council should work to provide a more detailed mapping document (subjective level) for the 2023/24 audit. Management update: 2022/23 Working Paper has now been provided. 2023/24 Months 1-9 has now also been provided. Full year will be provided as part of our working papers for 2023/24. Responsible officer: Head of Finance/ Strategic Finance Manager Target date: 31 March 2024

Other matters - continued (10)

Progress against prior year IT audit recommendations

For the 2022/23 audit we engaged a specialist IT audit team to carrying out a review of the Council's main financial statement relevant IT systems.

We have followed up on the implementation of their recommendations; progress is being made and 3 are still to be fully addressed.

Assessment	Issue and risk previously communicated	Recommendation and update on actions taken to address the issue
Partly addressed	**1. Lack of segregation of duties between CIPFA system administrators and business users** Issue – We noted that administrative access rights has been granted to business users (Accountant and Assistant Accountant), who also have financial responsibilities. Risk – A combination of administration and financial privileges creates a risk that system-enforced internal controls can be bypassed. This could lead to • unauthorised changes being made to system parameters • creation of unauthorised accounts, • unauthorised updates to their own account privileges • deletion of audit logs or disabling logging mechanisms.	Recommendation - Segregate system administrative responsibilities from users with operational or financial duties and assign the system administrative work to an independent team/ position. Non-IT users (such as users identified in Appendix A) should be strictly segregated and should not have such levels of administrative access due to the risk it could create in conflicting duties and the users being able to circumvent controls. Review the access rights assigned to all users in CIPFA and assess whether this level of access is required for their current roles and responsibilities. For those users not requiring their current level of access, any excessive access rights should be revoked with immediate effect. It is good practice to always try and assign access rights to any application / database on the principle of least privilege and commensurate with job responsibilities. Where due to organisational size constraints, segregation of duty conflicts cannot be avoided, management should proactively review the activities performed by user accounts with administrative privileges to detect any inappropriate usage. Management update: Segregation of duties is limited due to size of capital team and licenses available. User accounts will be reviewed on a quarterly basis going forward.

Other matters - continued (11)

Assessment	Issue and risk previously communicated	Recommendation and update on actions taken to address the issue
Complete	**2. User access was not terminated on timely basis in Oracle EBS and its database** Issue – During our audit, we noted that the termination process of Oracle EBS user access depends on a notification from the user teams via ServiceNow ticketing system or emails. A monthly procedure was in place to identify and terminate obsolete users bases on the HR leaver report. We noted that for a sample leaver, their access was active after their last employment date. Additional procedures have been performed to verify that the user had not accessed the system since their termination date. We also noted that a database administrator account belonging to an ex IT team member remained enabled in the database during the audit period. Additional procedures have been performed to verify that the account has not been logged into the database since creation. Risk – Where system access for leavers is not disabled in a timely manner, there is a risk that former employees will continue to have access and can process erroneous or unauthorised access transactions. There is also a risk that these accounts may be misused by current system users to circumvent internal controls	Recommendation - It is recommended that for all leavers, logical access to Oracle EBS and corresponding IT infrastructure is disabled on their leave date. Where this is not possible, access should be disabled no later than the next working day. This will help prevent unauthorised access to the network, applications and underlying data. Initial response – When a member of staff leaves the Council completely their IT account is disabled and they have to hand back their IT equipment. This means that as soon as their IT account is disabled they no longer have access to Oracle EBS. The risk, as identified in the audit, would apply only where the leaver was going to a new position within the Council where Oracle EBS is not required. Internal Audit are currently undertaking an audit on the Leavers Procedure across the Council. The Service proposes to consider the recommendation arising from this audit in conjunction with the Internal Audit recommendations and make any proportionate adjustments where required. For the database administrator, the account identified has been disabled and Data & Server IT team will remove any member of IT that has Oracle DBA access when they leave. Management update: We have implemented a new procedure, a report called Daily Oracle User Check is sent every afternoon from iTrent to the financial systems team to make them aware of any staff leaving the council or changing job position so Oracle access can be closed within a 24hr period.

Other matters - continued (12)

Assessment	Issue and risk previously communicated	Recommendation and update on actions taken to address the issue
Partly addressed	**3. Lack of review of information security/audit logs in CIPFA** Issue – We noted that information security event logs, which capture the monitoring of activities such as failed logins and use of privileged user accounts within CIPFA are limited to a retention period of 90 days. The logs are not reviewed on a regular basis. Risk – Without formal and routine reviews of security event logs, inappropriate and anomalous activity may not be detected and resolved in a timely manner. Additionally, unauthorised system configuration and data changes made using privileged accounts will not be detected by management.	Recommendation - Considering the criticality of CIPFA, information security events such as those mentioned below should be reviewed on a regular basis for example daily or weekly, ideally by an IT security personnel / team who are independent of those administrating CIPFA and its underlying database: • repeated invalid/ unauthorised login attempts to access systems, data or applications • privileged user activities • privileged generic accounts • changes to system configurations, tables and standing data • should be logged and formally reviewed. Any issues identified within these logs should be investigated and mitigating controls implemented to reduce the risk of reoccurrence. Management update: Audit logs will be reviewed on a regular basis but due to limited licenses this will be undertaken by a member of the Capital team.

Other matters - continued (13)

Assessment	Issue and risk previously communicated	Recommendation and update on actions taken to address the issue
Partly addressed	**4. Password policy configured in Oracle EBS and CIPFA were not aligned to Council's standard** Issue – During our audit period, we noted that Mandatory Code of Practice: Passwords & Biometrics specifies the Council's security standards regarding password setting. We noted that the sign on password no reuse in Oracle EBS was not configured, whereas the Mandatory Code of Practice (MCOP) recommends 24 prior passwords should not be reused. We noted that the following password settings in CIPFA were not in line with the council's policy: Password length (6) Password history (not specified) Mixed case (Not specified) Alpha numeric (not specified) Risk – A lack of robust password settings may allow financial information to be compromised by unauthorised users. In particular: Short passwords can easily be guessed. If password complexity is not configured, users will tend to choose simple, guessable words as their passwords. If password history is not maintained, a user may recycle the same password over a long period.	Recommendation - Management should ensure that password settings configured CIPFA are in line with Council security policies or industry best standards, such as • User accounts should be automatically locked out after a maximum of 5 unsuccessful attempts. • Account lockout duration should be set to 15 minutes • Password length should be set at a minimum of 8 characters. • Account lockout threshold should be set to 3 invalid logon attempts • Reset account lockout counter after should be set to 15 minutes • Password history set to the council's policy • A combination of numeric / upper- and lower-case letters and special characters. Where configuration settings cannot be strengthened due to system limitations, management should undertake a risk assessment and implement additional compensating controls. Initial response – The "password no reuse in Oracle EBS" is currently not configured and subject to satisfactory testing the intention would be to configure this functionality. Management update: CIPFA Asset Manager – password settings have been changed to be in line with Council policy and two factor authentication applied. *(continued overleaf)*

Other matters - continued (14)

Assessment	Issue and risk previously communicated	Recommendation and update on actions taken to address the issue
		Oracle EBS – Our Mandatory Code of Practice (MCOP) makes provisions for legacy systems or systems which can't fully meet the standard requirements. We meet all MCOP standard requirements except for sign on password no reuse as this cannot be configured within Oracle. We have consulted with our Oracle Consultants and Legal on this and due to us being a legacy system the legacy clause of the MCOP keeps us compliant.

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 are shown in the table below.

Wider Scope Audit Dimensions	Our risk considerations and focus
Financial Sustainability	The projected financial position of the council in the medium to longer term and the relevance and appropriateness of assumptions applied to financial plans that will allow the council to effectively deliver services in the future
Financial Management	The arrangements in place at the council to ensure sound financial management, accountability and the arrangements to prevent and detect fraud, error and other irregularities
Vison, Leadership and Governance	The effectiveness of the council's governance arrangements and the arrangements in place to deliver the vision, strategy and priorities set by the council
Use of Resources to Improve Outcomes	How the council demonstrates economy, efficiency and effectiveness through its use of financial and other resources

Our initial planning work has identified significant risks in one dimension - Financial Sustainability. We will continue to review the Council's arrangements during the course of the year, including follow up of the prior year action plan agreed with Officers. Should we identify any further significant risks in our Wider Scope work, these will be reported to those charged with governance, in our Annual Auditors Report.

Wider scope risks identified in planning – continued (1)

Financial sustainability	Aberdeenshire Council, like all Scottish local authorities, is facing increasing financial pressures. The council have estimated, in their 2024/25 budget setting that there could be a cumulative funding gap of £113million from 2025/26 to 2028/29. At this point the Council has no plans to rely on transfers from reserves to alleviate the funding gap. The level of savings required to manage this funding gap is significant and beyond the scale that has previously been achieved by the council. 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: Our audit work will include: Reviewing how the council identifies significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans Reviewing how the council plans to bridge its funding gap and identify achievable savings and future transformation Reviewing how the council plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities Reviewing how the council identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans

Best Value

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. The Accounts Commission's approach to Best Value involves reporting on individual local government bodies and thematically across the local government sector through performance reports.

Best Value thematic

Local government appointed auditors are also required to report locally on any Best Value thematic work prescribed by the Accounts Commission. For 2023/24 we are required to report on the following thematic:

'Workforce innovation – how councils are responding to workforce challenges'.

This work will include an assessment of and conclusion on:

- How effectively are the council's workforce plans integrated with its strategic plans and priorities?
- How effectively has digital technology been used to support workforce productivity and improve service quality and outcomes?
- How effectively is the council using hybrid and remote working and other innovative working practices such as a four-day week to achieve service and staff benefits?
- What innovative practice is the council using to develop its future workforce capacity and skills needs and manage staff reductions in line with its priorities
- What progress has the council made with sharing roles or functions across its services and/or with other councils and partners?
- How effectively is the council measuring the impact of its workforce planning approach?

Best Value – continued (1)

Performance reporting

Theme three in the Best Value statutory guidance is the effective use of resources, an element of which is performance reporting. We are required to undertake work on performance reporting annually. Below we set out the Audit Scotland requirements for 2023/24.

Area of work	What we will consider
Service performance reporting	• The council's assessment of progress against its service priority measures in 2023-24 and beyond • The council's reporting of relative performance, using the Local Government Benchmarking Framework
Continuous improvement	• The council's pace of improvement in delivering priority services • The council's depth of implementing improvement across council services
Statutory performance reporting	Whether the council has made proper arrangements for preparing and publishing statutory performance information: • Performance in improving local public services (including those provided with its partners and communities) and progress against agreed desired outcomes (SP1) • Its own assessment and audit, scrutiny and inspection body assessments of how it is performing against its duty of Best Value and how it as responded to these assessments (SP2).

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 2023/24 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.	• 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.	• Annual Audit Report
Audit Scotland area of focus – Climate change Providing specified information on Aberdeenshire Council's arrangements for responding to climate change.	• 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.	• 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.	• Annual Audit Report
Best Value thematic work for 2023/24 – We are required to report locally on any Best Value thematic work prescribed by the Accounts Commission. For 2023/24 the prescribed thematic is 'Workforce innovation – how councils are responding to workforce challenges'.	• 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.	• Annual Audit Report
National Fraud Initiative (NFI) Contribute to NFI report.	• Annual Audit Report • Reporting participation to Audit Scotland including completion of NFI questionnaire
Statutory Objections Consider statutory objections to the annual accounts	• Response to any objections received.
Whole of Government Accounts (WGA) Provide assurance over Aberdeenshire Council's WGA return.	• 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).	• Auditor certificate on Housing Benefit Subsidiary (date to be confirmed as guidance not yet issued)
Non-domestic rates (NDR) Certification of NDR claim.	• 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.	• Current Issues Returns

Audit Scotland deliverables – continued (2)

Requirement	How we will report our findings
Correspondence queries Carry out preliminary enquiries into any correspondence relevant to Aberdeenshire Council that is referred to Audit Scotland.	• Providing responses to any correspondence received based on our audit knowledge and understanding and the results of any review as agreed with Audit Scotland
Emerging issues Communication of emerging issues to Audit Scotland and highlight any issues for potential statutory reports.	• Communicating throughout our audit emerging issues identified throughout the year
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.	• Providing information returns to Audit Scotland
Money laundering and fraud Provide information on cases of money laundering or fraud.	• 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
Technical Guidance Contribute to Technical Guidance Notes	• 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.

The audit fee, as set by Audit Scotland, is set out on page 35 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 charities. The audit fee for this work is not covered in the fee set by Audit Scotland, and is expected to be £10,600 + VAT.

Audit Fees (continued (1))

Audit fees for 2023-24

Service	Fees £
External Auditor Remuneration	£318,180
Pooled Costs	£11,600
Contribution to Audit Scotland support costs	£nil
Contribution to Performance Audit and Best Value	£98,820
Sectoral cap adjustment	£60,420
Total 2022-23 Fee	**£499,620**
Audit of Trust Funds (inc. 20% VAT)	£12,720

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 2023-24 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

Our audit methodology is risk based and includes developing a good understanding of Aberdeenshire Council. The information 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 2022/23 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 work and 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 meetings and reports

Appendices

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 2023/24).

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 2023-24 ,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 2023-24) 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 was 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	
iTrent	Payroll	

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	• 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	• 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	• 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	• 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 (for example, 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.

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