Grant Thornton

Aberdeenshire Council

Year ending 31 March 2025

26 March 2025

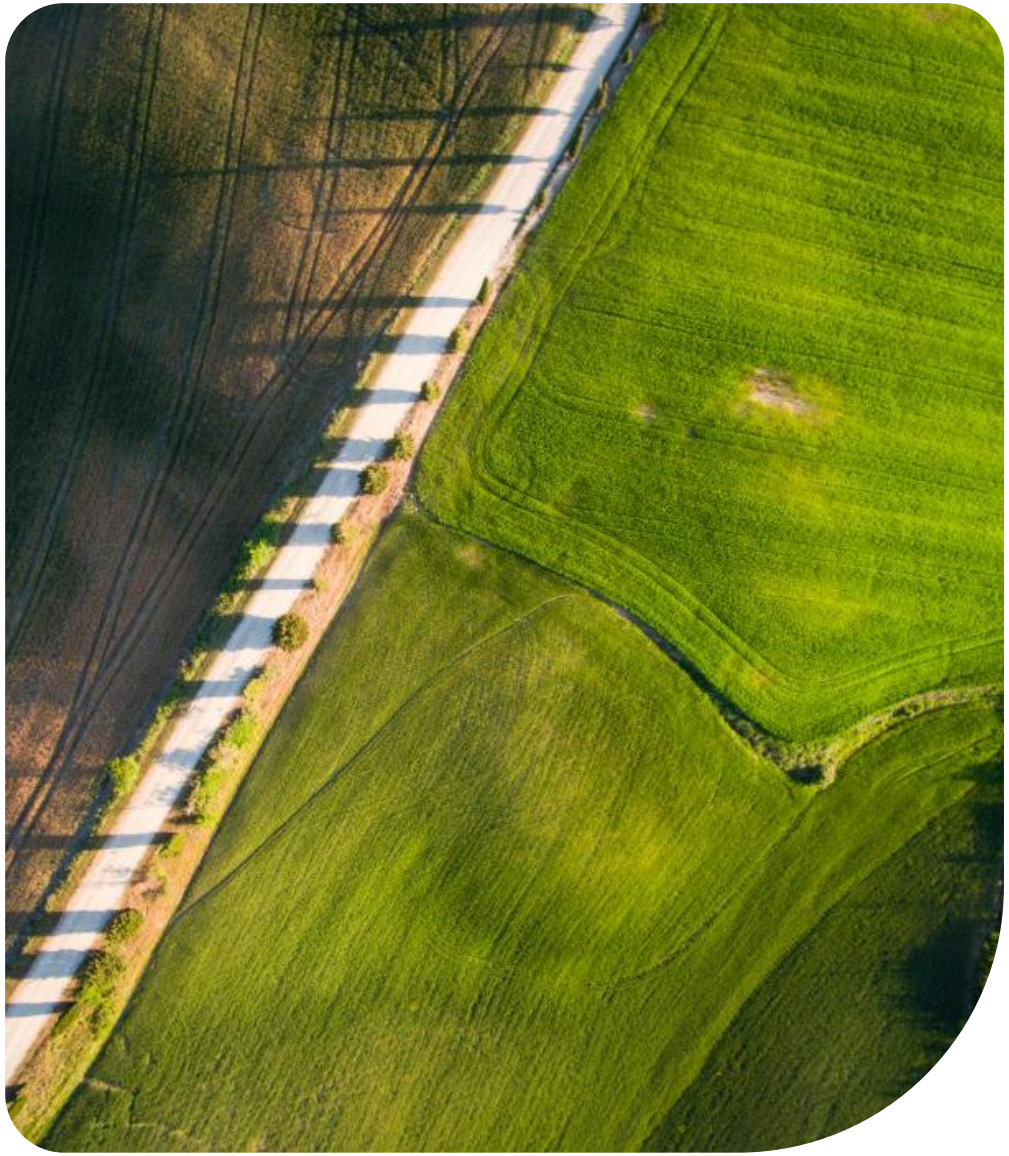


Table of contents

Section

01 Key developments impacting our audit approach

Health and Social Care Partnerships

The Aberdeenshire Health and Social Care Partnership (AH&SCP) is overseen by the Integration Joint Board (IJB) of which Aberdeenshire is a partner, alongside NHS Grampian. The AH&SCP is responsible for managing adult Social Care and Health services in Aberdeenshire.

Key developments in health and social care

In July 2024, Audit Scotland published their 'Integration Joint Boards Finance and performance 2024' report, looking at the challenges being faced by IJBs across Scotland. Key findings noted from the report were as follows:

- IJBs face a complex landscape of unprecedented pressures, challenges and uncertainties. These are not easy to resolve and are worsening, despite a driven and committed workforce. The health inequality gap is widening, there is an increased demand for services and a growing level of unmet and more complex needs.
- An initial analysis of 2024/25 budget setting reveals that the projected funding gap for IJBs has increased again to £456 million. This increase underlines the importance of IJB board members having clear and necessary conversations not only at the board level, but with partners, providers and the wider public, about the decisions that will be required to achieve future savings and the likely implication these decisions will have on the services.

Aberdeenshire Council, like all Scottish local authorities, is facing increasing financial pressures. We have explored this issue more as part of our wider scope planning work, and our conclusions regarding the risks facing Aberdeenshire Council can be found on page 41-52.

National issues

Local governments face many challenges; the pandemic along with the cost-of-living crisis has left local authorities with economic, social, and health challenges to address.

Staffing: A key challenge facing councils in maintaining service sustainability is the growing difficulties in relation to workforce recruitment and retention. Councils struggle to attract and retain qualified staff, especially younger talent. Many councils have outdated recruitment processes and are heavily reliant on agency staff.

Climate change: As the impacts of climate change become increasingly evident, local government plays a pivotal role in mitigating and adapting to these changes. The UK's targets for achieving net zero carbon emissions and local authority pledges must align into cohesive policies with common goals. This includes ongoing local economy investment in renewable energy, promoting sustainable transportation and implementing measures to enhance resilience against extreme weather events.

Housing crisis: The shortage of affordable housing continues to be an issue. There aren't enough social rented homes to meet demand and it's difficult to find land for new housing developments. New requirements around net zero and other environmental considerations make it more complex to get planning permission. Local authorities therefore face the challenge of providing adequate housing while balancing environmental sustainability and statutory planning requirements.

Funding : Local governments face many challenges in securing funding, including declining grant income, slow tax revenue growth, and rising demand for services. These challenges can make it difficult for local government to balance their budgets, assess their revenue base, enforce taxes, and prevent tax evasion. Social care costs, maintaining aging infrastructure, the cost of additional support needs (ASN) and homelessness are driving up council spending and cuts to discretionary services impact local communities. Strained budgets are making it challenging to fund essential services and infrastructure projects.

Digital Transformation: The fast pace of technological advancement poses both opportunities and challenges for local government. The adoption of digital tools and platforms is crucial for improving service delivery, enhancing communication and streamlining administrative processes. However, many communities still lack access or ability to navigate essential technology which creates a digital divide. Local government needs to ensure inclusivity in its digital strategies, addressing disparities and ensuring all residents can benefit from the opportunities technology offers.

Cybersecurity: Local government needs to protect against malware and ransomware attacks. They also need to navigate central government policy shifts and constraints. With increased reliance on digital platforms, they become more vulnerable to cyber threats. Safeguarding sensitive data and ensuring the integrity of critical systems are paramount and local authorities must invest in robust cybersecurity measures, employee training and contingency plans to protect themselves.

Our Response

Building and maintaining public trust is arguably the cornerstone of effective governance. Local government must prioritise transparency, open communication and meaningful public engagement to foster positivity within communities.

Despite councils' best efforts, financial pressures are affecting the scale, range and quality of council services provided to local residents. The clearest evidence of this is that councils' service spending is increasingly focused on adult and children's social care, ASN and homelessness. Ultimately spending is increasingly concentrated on fewer people, so councils are less able to support local and national agendas on key issues such as housing, economic growth, and climate change

Sound strategic financial management, collaboration with other levels of government and exploring alternative funding sources are vital for local authorities to overcome financial constraints and deliver quality services.

Our wider scope and best value audit work continues to identify significant weaknesses. This shows that local authorities are facing increasing pressure to provide services while managing change and reducing costs. We understand that the environment in which our audited bodies operate is dynamic and challenging and this understanding allows us to have insightful conversations and adapt our approach to delivering our audit work accordingly.

We know the difficulties and challenges faced within our Local Authority bodies and know there is a focus on improving quality and reducing costs. We will work with you as you strive to deliver these aims.

New accounting standards and reporting developments

- Local authorities will need to implement IFRS 16 Leases from 1 April 2024. The main difference from IAS 17 will be that leases previously assessed as operating leases by lessees will need to be accounted for on balance sheet as a liability and associated right of use asset. More information can be found on the next slide.
- The FRC issued revisions to ISA (UK) 600 'Audits of group financial statements (including the work of component auditors)'. The revised standard includes new and revised requirements that better aligns the standard with recently revised standards such as ISQM 1, ISA 220 (Revised) and ISA 315 (Revised 2019). The new and revised requirements strengthen the auditor's responsibilities related to professional scepticism, planning and performing a group audit, two-way communications between the group auditor and component auditor, and documentation. The changes are to keep the standard fit for purpose in a wide range of circumstances and the developing environment.

Our Response

Detailed review of the authority's implementation of IFRS 16. More information can be found on the upcoming slide.

Enhanced procedures in respect of audits of group financial statements

IFRS 16 Leases

IFRS 16 Leases is now mandatory for all Local Government (LG) bodies from 1 April 2024. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17.

Summary

The objective of IFRS 16 is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Introduction

IFRS 16 updates the definition of a lease to:

- "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration." In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

This means that arrangements for the use of assets for little or no consideration (sometimes referred to as peppercorn rentals) are now included within the definition of a lease.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major change from the requirements of IAS 17 in respect of operating leases.

There are however the following exceptions:

- leases of low value assets (optional for LG)
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating). However, if an LG body is an intermediary lessor, there is a change in that the judgement, as to whether the lease out is an operating or finance lease, is made with reference to the right of use asset rather than the underlying asset. The principles of IFRS 16 will also apply to the accounting for PFI assets and liabilities.

Systems and processes

We believe that most LG Bodies will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance
- accounting for what were operating leases
- identification of peppercorn rentals and recognising these as leases under IFRS 16 as appropriate

Planning enquiries

As part of our planning risk assessment procedures, we have made enquiries of management and those charged with governance. The responses we received have aided us in our risk assessment and planning for this area.

Our commitments

- As a firm, we are absolutely committed to audit quality and financial reporting in local government.
- To ensure close work with audited bodies and an efficient audit process, our preference as a firm is either for our UK based staff to work on site with you and your staff or to develop a hybrid approach of on-site and remote working. Please confirm in writing if this is acceptable to you, and that your staff will make themselves available to our audit team.
- We would like to offer a formal meeting with the Chief Executive twice a year, and with the Head of Finance quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Audit Committee, to brief them on the status and progress of the audit work to date.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources via our updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other clients to support consistent and accurate financial reporting across the sector.

02 Introduction and Headlines

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 on Page 30 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 (1)

Group Audit

As Group auditor under ISA (UK) 600 Revised, we must obtain adequate audit evidence for components and the consolidation process to form an opinion on the group financial statements' compliance with the financial reporting framework. The Council is required to consolidate the financial information of:

- Create Homes Aberdeenshire LLP
- Aberdeenshire Council Common Good Funds
- Aberdeenshire Council Trust Funds
- Aberdeenshire IJB, on equity investment basis.

Significant risks

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).

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £20.000 million (PY: £18.150 million) for the Council, which equates to 1.5% of your prior year gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'trivial' to those charged with governance. The threshold for 'trivial' is now £1,000,000 (prior year: £900,000).

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 2024/25.

Audit logistics

Our audit planning will take place in Jan – Mar 2025 and our year end audit will take place in Jul – Oct 2025. Our key deliverables are Audit Plan, and Auditor's Annual Report.

To date, we have completed majority of our planning audit procedures. However, we have not been able to fully complete our assessment of the processes and controls surrounding the property, plant and equipment valuations, pensions liability valuations and application of IFRS 16 Leases as these processes will not be complete until later in the year.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2024) 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

Plan overview (2)

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 (significant risk)
- Financial management (potential risk)
- Vision, leadership & governance (potential risk)

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 2024/25 we are required to carry out work and report on the Best Value thematic '*Transformation: How councils are redesigning and delivering more efficient services to achieve planned outcomes*.'

We will follow up on all recommendations made by previous Best Value reporting and our 2023/24 Annual Audit Report.

Fees

Our proposed fee for the audit will be £498,360 (2023/24 : £574,420 including fee variations) for the council and £12,960 (2023/24: £12,700) for the audit of the charitable trusts, subject to the council delivering a good set of financial statements and working papers. We are proposing to charge an additional £15,000 for additional work on the wider scope risks identified around the H&SCP and the Council's involvement in the North East Scotland Investment Zone. More detail on the fee is provided on page 60.

Audit fees are paid to Audit Scotland who in turn pay Grant Thornton UK LLP. We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

03 Identified risks

Significant risks (1)

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 risk	Risk Relates to	Audit team's assessment	Planned audit procedures
Management override of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.	We have identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	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.

"In determining significant risks, the auditor may first identify those assessed risks of material misstatement that have been assessed higher on the spectrum of inherent risk to form the basis for considering which risks may be close to the upper end. Being close to the upper end of the spectrum of inherent risk will differ from entity to entity and will not necessarily be the same for an entity period on period. It may depend on the nature and circumstances of the entity for which the risk is being assessed. The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgment, unless the risk is of a type specified to be treated as a significant risk in accordance with the requirements of another ISA (UK)." (ISA (UK) 315).

In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK) 550).

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks (2)

Significant risk	Risk Relates to	Audit team’s assessment	Planned audit procedures
Fraud in revenue recognition	Under ISA (UK) 240, we have considered the rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	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. This is due to the low fraud risk in the nature of the underlying transactions.	We plan to rebut the risk of fraud arising from revenue recognition and as such not deeming this area as significant risk however other audit procedures will still be performed as part of the year end audit.

Significant risks (3)

Significant risk	Risk Relates to	Audit team's assessment	Planned audit procedures
Fraud in expenditure recognition	As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition.	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.	For non-payroll, service expenditure we will: • Evaluate your accounting policy for recognition of expenditure for appropriateness and compliance with the CIPFA/LASAAC Code of Practice 2024/25; • Update our understanding of the system for accounting for the expenditure and evaluate the design of associated processes and controls; • 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 risks (4)

Significant risk	Risk Relates to	Audit team's assessment	Planned audit procedures
Closing Valuation of Land, Buildings and Council Dwellings	Given the significant value of the specialised & non-specialised land, 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 focus our audit attention on assets that have large and unusual changes in valuations compared to last year and/or unusual approaches to their valuations, as a significant risk requiring special audit consideration. The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued. We will report an updated risk assessment for valuation of land and buildings in our Annual Audit Report.	Our testing will include: • Evaluating management's processes and controls for the calculation of the valuation estimates, the instructions issued to their management experts and the scope of their work; • 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.

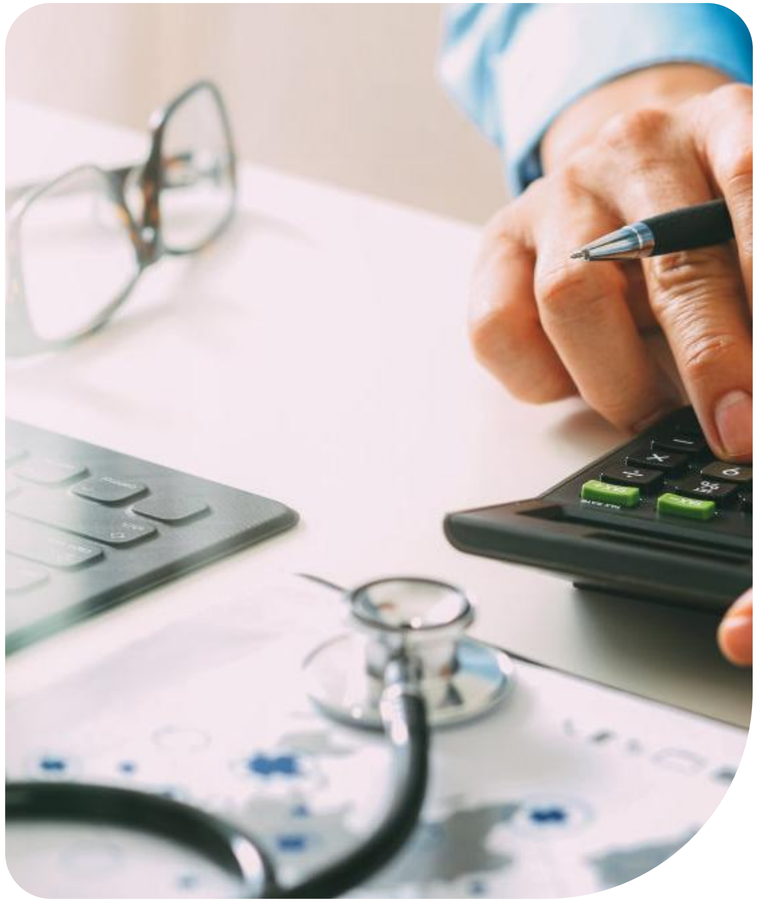
Significant risks (5)

Significant risk	Risk Relates to	Audit team's assessment	Planned audit procedures
Closing Valuation of defined benefit pension liability/asset	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, Council is required to recognise its share of the scheme assets and liabilities in its Statement of Financial Position. The Council's actuary provides an annual IAS 19 actuarial valuation of Council's net liabilities in the pension scheme. There are several assumptions contained within the valuation, including: discount rate; future return on scheme assets, mortality rates etc.	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. 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 Pension 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 actuary 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.

04 Accounting estimates and related disclosures

Accounting estimates and related disclosures (1)

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 (2)

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.

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 2025.

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
- Valuation of Council Dwellings

Accounting estimates and related disclosures (3)

Additional information that will be required *(continued)*

- Depreciation
- Year end provisions
- Valuation of pension liabilities
- PFI liabilities
- Yearend Accruals
- IFRS 16 Leases and Right of Use assets
- Fair Value of Assets and Liabilities (Financial Instruments)

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. 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.

Accounting estimates and related disclosures (4)

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

05 Group Audit

Group audit scope and risk assessment

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

Component	Risk of material misstatement to the group	Planned audit approach and level of response required under ISA (UK) 600 Revised	Response performed by	Risks identified	Auditor
Aberdeenshire Council - Parent	Yes	Audit of the entire financial information of the component	Group auditor	• Management Override of Controls • Valuation of Land, Buildings and Council Dwellings • Valuation of IAS 19 Pension Liability • Completeness of expenditure • Implementation of new accounting standard (IFRS 16)	Grant Thornton UK LLP
Aberdeenshire Integration Joint Board – Joint Venture	No	Analytical procedures at group level	Group auditor	N/A	Grant Thornton UK LLP
Create Homes Aberdeenshire LLP - Subsidiary	No	Analytical procedures at group level	Group auditor	N/A	Grant Thornton UK LLP
Aberdeenshire Council Common Good Funds - Subsidiary	No	Analytical procedures at group level	Group auditor	N/A	Grant Thornton UK LLP
Aberdeenshire Council Trust Funds - Subsidiary	No	Analytical procedures at group level	Group auditor	N/A	Grant Thornton UK LLP

Changes to the group

Key changes within the group

New joint operations initiated in 2024/25:

- North East Scotland Investment Zone is being formed with a joint committee, this will be considered as a joint working arrangement rather than an independent entity for accounting purposes.

Since the above is categorized as joint working arrangements, it will not be consolidated as part of the group.

Involvement in the work of component auditors

Based on the information obtained through understanding the group and its environment and group's system of internal control, we do not intend to rely on component auditors for 2024/25. All required procedures for the group components will be performed by group.

Fraud and litigation

We have not been made aware of any actual or attempted frauds in the year during our planning procedures performed to date. Should any factors arise in relation to fraud risk or actual or attempted fraud we ask that you inform us of this at the earliest possible opportunity.

06 Our approach to materiality

Our approach to materiality (1)

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
01	**Determination** We have determined planning materiality (financial statement materiality for the planning stage of the audit) based on professional judgement in the context of our knowledge of the Council and Group, including consideration of factors such as stakeholder expectations, industry developments, financial stability and reporting requirements for the financial statements	• We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
02	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements	• An item may be considered to be material by nature when it relates to: – instances where greater precision is required
03	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process	• We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality
04	**Matters we will report to the Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	• We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. • In the context of the Council and Group, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1,000,000 (PY £900,000). • If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Our approach to materiality (2)

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

	Group (£)	Council (£)	Qualitative factors considered
Materiality, Performance Materiality and Triviality for the group and council's financial statements	M: £20,050,000 PM: £14,035,000 T: £1,002,500	M: £20,000,000 PM: £14,000,000 T: £1,000,000	In the planning phase, we established materiality at approximately 1.82% (Group) and 1.81% (Council) of the gross cost of sales less IJB Expenditure for the 2023/24 financial year, considering factors such as ownership concentration, debt arrangements, the stable business environment, and the control environment. No significant impact on materiality was observed and based on our discussions with management and prior year misstatements, we found 1.81% to be an appropriate materiality level for this audit.
Remuneration and Staff report disclosures	M: £25,000	M: £25,000	We will apply a lower materiality threshold of £25,000 on review of the Remuneration and Staff report disclosures to ensure that our audit strategy contemplates the public interest vested in the sensitive and influential information stated as part of this report. It is therefore appropriate for this lower level to be applied to ensure greater precision in this area of the accounts.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK) 320)

07 Other matters

Other matters (1)

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and Planning Guidance 2024/25 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 (2024/25), 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 2024/25 WGA returns for bodies over a prescribed threshold determined by NAO.

While we do not expect to be informed of the threshold before July 2025, we anticipate that we will be required to provide a partial assurance statement for Aberdeenshire Council for 2024/25.

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.

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

(continued overleaf)

Other matters (2)

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. assess or 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.

08 Progress against prior year audit recommendations

Progress against prior year audit recommendations (1)

We identified the following issues in our 2023/24 audit, which resulted in 6 recommendations being reported. As the 2023/24 audit was concluded on 06th February 2025, we have followed up on the implementation of our recommendations and 5 are still to be addressed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
In progress	1. Valuation of property, plant and equipment **Issue** – The valuation of the Council's housing stock was received late, which caused significant delays to the completion of the audit, although we note that we did not identify any issues with the valuation itself once it was received. In contrast, the valuation of the Council's land and buildings was received on time, but extensive issues were identified with the floor and land areas used in the valuations leading to material adjustments to the accounts and significant additional audit time. Similar errors in floor areas were identified in the prior year audit, although the full extent was not uncovered. *(Continued overleaf)*	**Recommendation:** We recommend that the Council reviews it's controls and processes for reviewing the work of its valuer to ensure that the data and assumptions being used are both accurate and appropriate. Further, the Council should consider its timeline for 2025 to ensure that valuations can be performed in time for incorporation into the draft financial statements and so that evidence can be provided in time for audit. **Management response:** Agreed. Work has begun to progress the 2025 valuation exercise, which includes procuring external support to ensure that the timelines are met. As part of this, the Council will review its controls and processes for reviewing the work of the valuer to ensure that the data and assumptions being used are both accurate and appropriate. **Responsible Officer – Head of Property and Facilities/ Estates Manager.** **Timeline – 31 March 2025**

"The auditor determines whether there are any risks of material misstatement at the assertion level for which it is not possible to obtain sufficient appropriate audit evidence through substantive procedures alone. The auditor is required, in accordance with ISA (UK) 330 (Revised July 2017), to design and perform tests of controls that address such risks of material misstatement when substantive procedures alone do not provide sufficient appropriate audit evidence at the assertion level. As a result, when such controls exist that address these risks, they are required to be identified and evaluated." (ISA (UK) 315)

Progress against prior year audit recommendations (2)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
	1. Valuation of property, plant and equipment (continued) **Risk** – There is a risk that the Council's processes and controls will continue to be inadequate in identifying errors in the valuation process such that material issues continue to arise, putting the accounts at risk of material error and costing the Council time and money from delayed audits.	
In progress	2. Recognition of investment properties **Issue** – The Council is currently in the process of letting out parts of its office building with a view to generating rental income. At 31 March 2024, we have estimated the value of those assets currently being let, to be around £1.400 million. As this is immaterial, these assets are still being presented as property, plant and equipment instead of investment properties. **Risk** – There is a risk that as the Council lets more of its office space, the value of those assets may become material and there will then be a requirement to present them as investment properties, and to value them under a different basis.	**Recommendation:** We recommend that the Council continues to monitor its investment properties to ensure that a material error does not arise. **Management response:** The amount of office space currently let to external parties is currently considered immaterial and would not be capable of being sold separately, therefore have been correctly classified as Property, Plant and Equipment in 2023/24. Management will carry out a review as part of the 2024/25 valuation exercise to determine if there are changes in circumstances that would require the basis of valuation to be amended for future years. **Target date: 30 June 2025** **Responsible Officer – Estates Manager**

Progress against prior year audit recommendations (3)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
In progress	**3. £nil net book value assets** **Issue** – The Council holds vehicles, plant, furniture & equipment assets with a total gross cost of £52.960 million which have been fully depreciated at 31 March 2024. **Risk** – A large value of fully depreciated assets presents a risk that either the Council are recording assets with are no longer operational, or they are not assigning appropriate asset lives to be used in the calculation of depreciation.	**Recommendation:** The Council should perform a review of assets with £nil net book value to ensure that they remain in use and, if they do, the Council should assess the appropriateness of the useful economic lives 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 response:** A process was put in place during 2023/24 to review assets with a £nil net book value through engagement with Services and Finance Business Partners. This will be further developed during 2024/25 **Target date: 30 June 2025** **Responsible Officer – Head of Finance/ Strategic Finance Manager**
Complete	**4. Cash reconciliations** **Issue** – Although all were trivial in value, we identified a number of errors in the Council's bank reconciliations. **Risk** – Proper record keeping with regards to cash management is key to the Council being able to manage its resources and make informed decisions.	**Recommendation:** Bank reconciliations should be simplified and reviewed in detail for any errors. **Management response:** Agreed. Procedures for the year end reconciliation process have been revised to ensure additional checks are made. **Responsible Officer – Head of Finance/ Revenues Manager**

Progress against prior year audit recommendations (4)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
In progress	5. Internal recharges **Issue** – A total of £103 million of internal recharges have been removed from the income and expenditure of the accounts. Of these, only around £70 million of the expenditure transactions were identifiable as internal recharges. Therefore, we have been unable to test the remaining £33 million 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:** We recognise that there has been significant improvement in this area from last year. However, we would recommend that the Council should continue to work towards all recharges being identifiable and should work to reduce the quantity of internal recharges. **Management response:** An exercise is to be undertaken in coming months to identify all recharges processed to date for 2024/25. This data will then be reviewed to assess which recharges are identifiable directly through ledger information and which are not. A review of the input methods of these harder to trace transactions will then be carried out to see what steps can be taken. Manual identification on an ongoing basis is not considered sustainable, therefore once this review has concluded Finance will be looking to automate the process for the data cleansing and accounting adjustments required. **Target date: 30 June 2025** **Responsible Officer – Head of Finance/ Strategic Finance Manager**

Progress against prior year audit recommendations (5)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
In progress	6. Provisions **Issue** – It is our view that the general debtor provision is understated by c. £3 million, and that the council tax provision is understated by c. £6 million. **Risk** – There is a risk that an additional £9 million of funds will be uncollectible and is therefore unavailable to the Council. Prudent provisions are key to allowing the Council to manage their resources in a realistic way.	**Recommendation:** We recommend that management reviews their provisions and takes a more prudent approach to assessing collectability. **Management response:** Provisions are reviewed on a regular basis. A review of provisions was considered as part of the 2025/26 MTFS and approved as part of the budget setting process on 27 Feb 2025 **Target date: 30 March 2025** **Responsible Officer – Head of Finance/ Strategic Finance Manager**

Progress against prior year audit recommendations (6)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
In progress	7. 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 and future years financial statement audit the Council should reviews its: - Accounting procedures and quality control over PPE - Valuation procedures and quality control over PPE. **Management response:** Improvements have been made in the reconciliations performed by the finance team and working papers provided for audit. Additional checking and controls were also put in place to review the valuation information before passing to audit. There continues to be a delay in providing accurate valuation information which has resulted in the delay to the audit for 2023/24 and work is ongoing to review the processes and procedures to improve for future years. **Target date: 30 June 2025** **Responsible Officer – Head of Finance/ Head of Property and Facilities**

09 IT audit strategy

IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the IT environment related to all key business processes, identify all risks from the use of IT related to those business process controls judged relevant to our audit and assess the relevant IT general controls (ITGCs) in place to mitigate them. Our audit will include completing an assessment of the design and implementation of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure.

The following IT applications are in scope for IT controls assessment based on the planned financial statement audit approach, we will perform the indicated level of assessment:

IT application	Audit area	Planned level IT audit assessment
Oracle (on premises)	Financial reporting	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 Assets Register	
iTrent	Payroll	

10 Wider scope and best value

Wider scope risks identified at planning (1)

Our responsibilities under the Code extend beyond the audit of the financial statements. The Code of Audit Practice sets out four areas that constitute the wider scope of public audit in Scotland. These are summarised below.

Financial sustainability

The Council should be able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Financial management

The Council should have sound budgetary processes and should understand the financial environment and whether internal controls are operating effectively.

Use of resources to improve outcomes

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

Vision, leadership and governance

The Council must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They should work together with partners and communities to improve outcomes and foster a culture of innovation.

Our initial planning work has identified three significant risks in relation to financial sustainability (Health and Social Care Partnership (H&SCP), the Council's savings and transformation plans, and the medium term financial strategy and reserves). We have also identified a potential significant risk relating to the Council's financial management (relating to the accuracy of budgets and savings plan) and a potential significant risk relating to vision, leadership and governance (for managing their involvement in the North East Scotland Investment Zone). We will continue to review the Council's arrangements during the year, including follow up of the prior year action plan agreed with management. 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 at planning (2)

We have considered the findings made in the previous year audit when identifying significant risks applicable to the 2024/25 audit and determining appropriate risk-based procedures. This is summarised below.

Wider scope area		2023/24 auditor conclusion	2024/25 risk assessment	2024/25 risk-based procedures
Financial sustainability	R	The Council's arrangements in place for projecting the financial position of the Council in the medium to longer term indicate a significant level of savings will be required going forward. The Council must focus on the early identification and delivery of recurring savings going forward. We have concluded that a **significant weakness** in the wider scope area of financial sustainability remains.	Three **significant risks** identified in relation to the Health and Social Care Partnership (H&SCP), the Council's savings and transformation plans, and the medium term financial strategy and reserves – see page 47 for more detail.	We will consider whether the body is planning effectively to continue to deliver services. In addressing the significant risk identified, we will: Health and Social Care Partnership • Review the Health and Social Care Partnership (H&SCP) 's progress against its savings plan and 2025/26 budget, • Review plans for defining and delivering the efficiency savings in the H&SCP, • Review the process for communicating H&SCP progress to the Council, • Review the H&SCP's financial forecasting and reporting arrangements for timeliness and accuracy, Savings and Transformation • Review how the Council plans to bridge its funding gaps and identify achievable savings and future transformation, MTFS and reserves • Review how the Council identifies significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans, • Review how the Council plans its finances to support the sustainable delivery of services, • Review how the Council maintains appropriate reserves.

Key:

R	Arrangements in place are not appropriate, recommendations made	A	Appropriate arrangements are in place, but could stand to be improved by recommendations made	G	Appropriate arrangements are in place, no recommendations made

Wider scope risks identified at planning (3)

Wider scope area		2023/24 auditor conclusion	2024/25 risk assessment	2024/25 risk-based procedures
Financial management	G	The Council has effective financial management arrangements in place with regular, timely and reporting of expenditure and savings to Members. Reporting is clear and understandable.	One ***potential* significant risk** identified around the accuracy of the Council's budgets and savings plans. This is heavily linked to the financial sustainability risk identified on the previous page and will be considered as part of the same procedures.	We will consider whether the body has effective arrangements to secure sound financial management.
Use of resources to improve outcomes	A	The Council has appropriate arrangements to report outcomes against priorities based on an updated Council Plan. The Council should seek to strengthen governance arrangements, including financial monitoring, for their partnership working, namely the Aberdeen City Region Deal.	No significant risks identified.	We will consider the clarity of the arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of equalities, and deliver continuous improvements in priority services.

Wider scope risks identified at planning (4)

Wider scope area		2023/24 auditor conclusion	2024/25 risk assessment	2024/25 risk-based procedures
Vision, leadership and governance	G	The Council has effective arrangements in place regarding governance and risk management. Issues are reported to relevant committees appropriately.	One ***potential* significant risk** identified around the Council's management arrangements for meeting its responsibilities as accountable body for the City Region Deal and for the North East Scotland Investment Zone – see page 51 for more detail.	We will consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body, and consider the effectiveness of governance arrangements for delivery, which includes openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information. In addressing the potential risk identified, we will: • Review the management arrangements for the North East Scotland Investment Zone • Monitor the outcomes of City Region Deal with respect to any clawback for Scottish Government.

Wider scope risks identified at planning (5)

We have identified three significant risks in relation to financial sustainability, one potential significant risk in relation to financial management and one potential significant risk in relation to the Council's vision, leadership and governance.

Health and Social Care Partnership (H&SCP) - Financial sustainability

The H&SCP is forecasting an overspend of £26.543 million for 2024/25, of which the Council is likely to need to contribute £11.413 million. This continues a pattern of overspends in the Integration Joint Board (IJB) which was overspent by £27.9 million in 2022/23 and £28.3 million in 2023/24. It is proposed that the Council will temporarily use the Transformation Reserve to fund their share of the overspend for 2024/25, and that this will be repaid by the H&SCP within the next 5 years, in line with the Council's reserves policy.

The H&SCP's draft budget for 2025/26 is currently showing an anticipated funding gap of £17.115 million, of which £7.377 million is requested to be underwritten by the Council. As part of its 2025/26 budget, the Council intends to set aside the sum in a separate reserve to support this.

For the H&SCP to set a balanced budget for 2024/25, they set a saving target of £12.5 million in addition to £7.5 million of general efficiency savings. Progress against these savings has not been clearly and separately reported to the IJB, and it is therefore difficult to judge how much, if any, of these savings have been achieved. However, the H&SCP's overbudget position indicates that on a whole any savings made have been insufficient.

For 2025/26, the H&SCP has outlined plans for savings of £11.083 million, including £3.303 million of income generated by increasing the cost of chargeable services, and £7.819 million of general 'efficiencies'. This is in addition to the £17.115 million funding gap from 2025/26, which is being underwritten by the partners, and the £11.413 million underspend in 2024/25 which will need to be repaid within 5 years.

This is a level of savings not previously achieved by the H&SCP and is likely to take longer than a year to implement. Therefore, we consider that there is a **significant risk** to the Council's **financial sustainability** as a result of the overspends seen in the H&SCP over the past three years and the level of savings required to balance their budget for 2025/26 and beyond. If the H&SCP is not able to make to required savings, it is likely that it will fall to the partners to fund any savings gap.

(continued overleaf)

Wider scope risks identified at planning (6)

We have identified three significant risks in relation to financial sustainability, one potential significant risk in relation to financial management and one potential significant risk in relation to the Council's vision, leadership and governance.

Health and Social Care Partnership (H&SCP) - Financial sustainability *(continued)*

The Council plans to contribute £172.346 million to the H&SCP in 2025/26. The MTFS assumes that this contribution will remain static over the period to 2029/30. This appears to be unlikely, especially given the H&SCPs overspends in recent years. It is likely that the Council will have to identify increased resources for the service over the next few years (which will impact its own financial position).

The Council will need to support the H&SCP to transform its services and governance, and to deliver additional savings if it is going to ensure both its own financial sustainability and that of the H&SCP.

Wider scope risks identified at planning (7)

Savings and transformation - Financial sustainability

To achieve a balanced budget for 2024/25 the Council set out savings proposals of £23.555 million, including £6.200 million of savings as part of the Transformation Strategy. The Council’s savings and transformation budget is currently expected to produce a saving of only £14.860 million, which is £8.695 million (37%) less than budgeted. The main driver of the underperformance is the transformation efficiencies which are now expected to generate only £0.271 million of savings, £5.929 million less than planned.

For 2025/26, the Council is aiming to deliver £15.806 million of savings through its services and £5.731 through 'efficiencies' across all directorates as part of the Council's transformation plans.

The Council does not have a detailed medium-term savings plan. The MTFS identifies the funding gap over the next 5 years, but this gap is only being addressed on an annual basis, as part of the annual budget setting process, with savings only being identified for the coming year.

We consider that the scale of savings and transformation needed to be implemented by the Council and the H&SCP, in both the short and medium term, represents a **significant risk** to the Council's **financial sustainability**.

Additionally, the failure of the Council to deliver on its transformation savings in 2024/25, the extent of general 'efficiency' savings in the 2025/26 budget which currently lack definition, the level of overspend consistently seen in the H&SCP (see previous page) and the lack of longer-term savings planning and reporting suggests a **potential risk** around the Councils **financial management** in terms of budgetary processes and the accuracy of the identified savings.

Wider scope risks identified at planning (8)

Medium term financial strategy and reserves - Financial sustainability

On 22 February 2024, the Council agreed a medium-term financial strategy (MTFS) which showed a cumulative funding gap of £113 million over the period from 2025/26 to 2028/29. On 27 February 2025, this estimated funding gap was reduced to £51 million (£80 million by 2029/30). This has largely been achieved through a 10% increase to Council Tax in 2025/26, followed by expected increases of 8% in 2026/27 and 2027/28.

The Council's 2024/25 budget is expected to be overspent by £6.656 million and the Council is likely to have to use £4.266 million of its Risk and Inflation Reserve and £2.390 million from repurposing other earmarked reserves, to fund the overspend. However, the Council does intend to replenish and increase the Risk and Inflation Reserve as part of the 2025/26 budget. The H&SCP is forecasting an overspend of £26.543 million for 2024/25, of which the Council is likely to need to contribute £11.413 million. It is proposed that the Council will temporarily use the Transformation Reserve to fund its share of the overspend, and that this will be repaid by the H&SCP over the next 5 years, in line with the Council's reserves policies. Given that the H&SCP is also forecasting an overspend in 2025/26 it appears unlikely that the overspend will be repaid.

Aberdeenshire Council's usable reserves are forecast to be £87.993 million at the start of 2025/26. This is relatively low in comparison to peer authorities. The Council is forecasting to increase its total usable reserves to £109.379 million over the period to 01 April 2029. However, a large part of this increase is from the repayment of the transformation reserve by the H&SCP, and it is uncertain if this will occur.

Despite the decrease in the predicted funding gap and the forecast increase in reserves, the remaining funding gap remains a challenge for the Council and will require the identification and delivery of significant savings over the coming years, beyond the scale that has previously been achieved by the Council. The use of a large portion of the transformation reserve to fund the overspend in the H&SCP also presents a concern, as the Council's ability to deliver on its transformation programme will be critical to their ability to maintain financial sustainability over the medium term. The planned increase in reserves in the MTFS represents an annual increase of only £5.3 million, which is less than the overspends seen in both the Council and the H&SCP individually in 2024/25. We are therefore concerned that the planned increases to the reserves may not be sufficient. We therefore consider that the funding gap and the reserves position presents a **significant risk** to the Council's **financial sustainability**.

Wider scope risks identified at planning (9)

North East Scotland Investment Zone – Vision, leadership and governance

The Aberdeen City Region Deal (ACRD), is a three-way, ten-year agreement between the UK Government, the Scottish Government and regional partners including Aberdeenshire Council. The aim of the ACRD is to improve economic and infrastructure development in the area. Aberdeenshire Council acts as the 'Accountable Body' for Government and Council funding in accordance with the signed Deal Agreement and the terms of the Scottish Government's annual Aberdeen City Region Deal Grant Offer. Drawdowns and grant payments to projects are dependent on the Accountable Body receiving evidence of projects' spend and progress. Aberdeenshire Council therefore have lead responsibility for programme delivery and stewardship of funds.

In March 2024 the Council's internal audit team performed a review of the system of governance, risk management and control relating to the ACRD, and found significant gaps, weaknesses or non-compliance. Since then, the Council have been working to improve controls, and we note that by December 2024 all recommendations made by Internal Audit had been actioned. However, management have also sought assurances from UK and Scottish Government partners that funding will not need to be repaid where there is insufficient evidence that performance targets have been met. While some assurances have been given by the Governments, there remains a risk of clawback and the Council need to ensure that City Region Deal targets are delivered.

The Council is in the process of entering into the Nort East Scotland Investment Zone. We understand that the Zone will be operated by a joint committee between Aberdeenshire Council and Aberdeen City Council, with Aberdeenshire Council taking the role of 'Accountable Body'. It is important that appropriate financial, governance and performance arrangements are introduced for the Zone. We consider that there is a **potential risk** regarding the governance of the Zone.

Best value (1)

Auditors have a statutory duty under section 99(1)(c) of the Local Government (Scotland) Act 1973 (the 1973 Act) to be satisfied that bodies have made proper arrangements to secure Best Value.

Best value work

Local government bodies have a duty under the Local Government in Scotland Act 2003 to make arrangements which secure Best Value. Best Value is continuous improvement in the performance of the body's functions, having regard to efficiency, effectiveness, economy and the need to meet equal opportunity requirements.

The audit of Best Value in councils is fully integrated within the annual audit work performed by appointed auditors and their teams. Auditors are required to evaluate and report on the performance of councils in meeting their Best Value duties. There are the following five aspects to auditors' work:

1. Following up previous improvement actions.
2. Risk based consideration of themes.
3. Assessing the effectiveness of performance reporting.
4. Thematic reviews.
5. Contributing to Controller of Audit reports.

Follow up of previous improvement actions

We have followed up on the recommendations made in our 2023/24 Annual Audit Report to establish the progress made against the actions to date, this can be found on page 33-39. Further consideration of this progress will be made throughout the course of the audit and reported in our Annual Audit Report.

Risk based consideration of themes

The statutory guidance which councils are required to follow sets out seven Best Value themes. The guidance details for each of the themes what a council should be able to demonstrate to achieve Best Value. We are required to consider the Council's arrangements in respect of the themes to identify any significant risks. No significant risks have been identified for 2024/25.

Best value (2)

Auditors have a statutory duty under section 99(1)(c) of the Local Government (Scotland) Act 1973 (the 1973 Act) to be satisfied that bodies have made proper arrangements to secure Best Value.

Assessing the effectiveness of performance reporting

Theme 3 in the Best Value statutory guidance is the effective use of resources, an element of which is performance reporting. Auditors are required to carry out work on performance reporting annually. This work will include understanding the Council's assessment of progress against its service priority measures and what the council is reporting on its relative performance. We will determine the effectiveness of council processes for the reporting and scrutiny of performance against its priorities and report on the effectiveness of the council processes in our Annual Audit Report.

The Commission issued a Statutory Performance Information Direction in December 2021 which continues to apply in 2024/25. We have a statutory duty to satisfy ourselves that the Council have made proper arrangements for preparing and publishing the statutory performance information in accordance with the Direction, and we will report a conclusion in our Annual Audit Report.

Thematic review for 2024/25

Auditors are required to report on Best Value themes prescribed by the Commission. The thematic work for 2024/25 is on the subject of service transformation – '*Transformation: How councils are redesigning and delivering more efficient services to achieve planned outcomes*'. This involves auditors considering how councils are redesigning services to maintain outcomes and deliver services more efficiently. In carrying out our consideration we will consider the following:

- To what extent does the council have clear plans for transformation that link to its priorities and support long-term financial sustainability?
- To what extent do the council's programme management arrangements facilitate effective oversight of its transformation plans?
- To what extent are communities and partners involved in the development and delivery of the council's plans for transformation?
- To what extent has the council considered the impact of its transformation activity, including on vulnerable or protected groups?

Contributing to Controller of Audit reports

The Controller of Audit also reports to the Commission on each council's performance in meeting its Best Value duties at least once over the five-year audit appointment. Aberdeenshire Council is not scheduled for 2024/25 or proposed for 2025/26.

11 Audit Scotland Deliverables

Audit Scotland deliverables (1)

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 2024/25 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
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 2024/25 – 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.
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.

Audit Scotland deliverables (2)

Requirement	How we will report our findings
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
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

Audit Scotland deliverables (3)

Requirement	How we will report our findings
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

12 Logistics

Logistics

The audit timeline

Key Dates

Audit committee:
26 March 2025

Year end:
31 March 2025

Audit committee and sign off:
TBC

Audit phases:

Planning: 4 weeks
Feb-Mar 2025

Key elements

- Inquiries to management, internal audit and those charged with governance
- Planning materiality and risk assessment procedures
- Document design effectiveness of systems and processes
- Review of key judgements and estimates
- Issue the Audit Plan to management and Audit Committee

Wider Scope and Best Value: Apr-Jun 2025

Key elements

- Wider Scope and Best Value work focused on wider scope risks and Best Value themes identified in planning

Fieldwork: 15 weeks
Jun-Sep 2025

Key elements

- 'Hot review' of the financial statements
- Audit teams onsite to complete fieldwork and detailed testing
- Weekly update meetings with management

Completion: 2 weeks
Oct 2025

Key elements

- Draft Audit Findings issued to management
- Audit Findings meeting with management
- Draft Audit Findings issued to Audit Committee
- Audit Findings presentation to Audit Committee
- Auditor's Annual Report
- Finalise and sign financial statements and audit report

Our team and communications

Grant Thornton core team

Mark Stocks
Engagement Lead/ Key Audit Partner

- Key contact for senior management and Audit Committee
- Overall quality assurance

Cathy Smith
Audit Manager

- Audit planning
- Resource management
- Performance management reporting

Rajat Malik
Audit Senior / In-charge

- On-site audit team management
- Day-to-day point of contact
- Audit fieldwork

Pool of specialists and other technical specialists – Audit quality specialists, financial reporting technical team, valuations experts.

	Service delivery	Audit reporting	Audit progress	Technical support
Formal communications	• Annual client service review	• The Audit Plan • Audit Progress and Sector Update Reports • The Audit Findings • Auditor's Annual Report	• Audit planning meetings • Audit clearance meetings • Communication of issues log	• Technical updates
Informal communications	• Open channel for discussion		• Communication of audit issues as they arise	• Notification of up-coming issues

As part of our overall service delivery, we may utilise colleagues who are based overseas, primarily in India and the Philippines. Those colleagues work on a fully integrated basis with our team members based in the UK and receive the same training and professional development programmes as our UK based team. They work as part of the engagement team, reporting directly to the Audit Senior and Manager and will interact with you in the same way as our UK based team albeit on a remote basis. Our overseas team members use a remote working platform which is based in the UK. The remote working platform (or Virtual Desktop Interface) does not allow the user to move files from the remote platform to their local desktop meaning all audit related data is retained within the UK.

13 Fees and related matters

Our fee estimate (1)

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2024) which stipulate that the Engagement Lead (Key Audit Partner) 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.

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.

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.

Our fee estimate:

We have set out below our specific assumptions made in arriving at our estimated audit fees, we have assumed that the Council 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.
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Our fee estimate (2)

Service	Final audit Fee for 2023/24 (£)	Proposed fee for 2024/25 (£)
External Auditor Remuneration	£403,580	£331,540
Pooled costs	£11,600	£8,330
Contribution to Audit Scotland support costs	£nil	£nil
Contribution to Performance Audit and Best Value (PABV) costs	£98,820	£95,980
Sectoral Cap Adjustment	£60,420	£62,510
Total audit fee (Inc. VAT)	**£574,420**	**£498,360**

Fees for other services	Audit Fee for 2023/24 (£)	Proposed fee for 2024/25 (£)
Fee for audit of charitable trusts	£12,700	£12,960

In 2023/24 the audit fee was £489,020. The actual fee charged for the audit, including £85,400 for the cost of fee variations, was £574,420.

We are currently proposing to charge an additional £15,000 in 2024/25 for additional work expected in response to the additional risks identified as part of our wider scope planning; £6,000 for the Council's involvement in the North East Scotland Investment Zone and £9,000 for the risks associated with the Health and Social Care Partnership.

It is possible that there will be an additional fee for work required around the new accounting standards and reporting developments discussed on page 6.

The fee, and any fee variations, is subject to agreement by the Council and Audit Scotland. The fees shown here are inclusive of VAT.

We do not anticipate any fees in relation to non-audit services as none are provided.

14 Independence considerations

Independence considerations

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers. In this context, there are no matters that we are required to report

As part of our assessment of our independence at planning we note the following matters:

Matter	Conclusions
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Group that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group .
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff (that would exceed the threshold set in the Ethical Standard).

We confirm that there are no significant facts or matters that impact on our independence at planning as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

Following this consideration we can confirm that we are independent at planning and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

We confirm that for 2023/24, we did not receive any fees for non-audit services.

15 Communication of audit matters with those charged with governance

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	●	
Planned use of internal audit	●	
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 the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		●
Significant findings from the audit		●
Significant matters and issue 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		●

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Grant Thornton