Annual Audit Report for Aberdeenshire Council

Financial year ended 31 March 2024

Prepared for those Charged with Governance and the Controller of Audit

06 February 2025

Contents

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

Executive Summary (1)

This table summarises the key findings and other matters arising from the external audit of Aberdeenshire Council and its Group and the preparation of the financial statements for the year ended 31 March 2024 for those charged with governance (Aberdeenshire Council Audit Committee) and the Controller of Audit.

Financial Statements

Requirements

Under International Standards of Audit (UK) (ISAs) and Audit Scotland's Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Group and Council financial statements give a true and fair view of the state of affairs of the Council and its group as at 31 March 2024 and of the income and expenditure of the Council and its Group for the year then ended;
- the Group and Council financial statements have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Code;
- the Group and Council financial statements have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

We are required to report whether the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local government in Scotland Act 2003.

We are also required to report on whether the information given in the Annual Governance Statement is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local government: Framework (2016).

Audit progress

The draft financial statements were authorised and presented for audit by the 30 June 2024 deadline. However, as the Council were unable to obtain a valuation for their council dwelling properties until after the deadline, we were made aware that the draft financial statements submitted for audit would not include a valuation of the housing stock at 31 March 2024. The valuation was received by the Council in August and the accounts have been updated.

Audit Scotland set a deadline of 30 September 2024 for submission of audited accounts and our Annual Audit Report. However, the delays in obtaining the council dwelling valuations meant this would not be achievable and instead we conducted our audit aiming for completion by 31 October 2024. This target completion date was communicated in our Audit Plan and Audit Scotland were notified.

Unfortunately, during our audit several issues were identified with the valuations of the Council's land and buildings which have taken management a significant amount of time to resolve. This meant that the 31 October target completion date communicated in our Audit Plan was not able to be met. We received corrected valuations in November 2024 and have been working with management to audit these since. This has proved to be a complex and time-consuming process.

Executive Summary (2)

Financial Statements (continued)

Audit progress (continued)

Outside of the issues with the valuation of property, plant and equipment our audit is largely complete, subject to a handful of discrete areas being finalised. More detail is included on page 8.

Based on our work to date, we anticipate being able to issue an unmodified opinion.

We have been supported by Aberdeenshire Council's officers during the audit process, with effective working relationships and a commitment to the audit. Our thanks go to the officers for their support.

Governance statement

We have concluded that the Governance Statement has been prepared in accordance with the relevant guidance, and we have concluded that the other information to be published alongside the financial statements is consistent with our knowledge of the Council.

Key audit findings

Council dwellings

The Council received a valuation of their Council Dwelling properties after the initial set of accounts was drafted and submitted for audit. This has resulted in a £88.820 million fall in the overall value of the properties, which has been reflected in the final set of financial statements.

Other land and buildings

Shortly after commencing our work on the land and building valuations we identified unexpected movements in several of the assets' floor areas. After a review by Council officers, it was identified that many of the assets had been valued based on inaccurate floor and land area data. This data represents a key input into the valuation of every land and building asset held by the Council, and therefore every asset had to be reviewed by management which was a time-consuming task. Furthermore, the data was found to have been inaccurate in the valuations performed in each of the two preceding years. Consequently, the valuations of the land and buildings have had to be reworked for each of the last three financial years; 31 March 2022, 2023, and 2024.

The revaluation of property, plant and equipment not only affects the value which is shown on the balance sheet but also changes the calculation of depreciation and the value held in reserves. Ordinarily the Council's fixed asset register system calculates these charges automatically. However, the system does not allow prior periods to be adjusted, once they have been closed. This has meant that the capital team have had to manually calculate the adjustments for each of the affected periods, which has taken the Council's capital team considerable time and has been equally laborious to audit.

More detail is provided on pages 15 – 17 of this report and the associated audit adjustments can be found in Appendix 1.

Pensions

In recent years, there has been a national trend whereby many Councils are finding their local government pension fund assets exceed their pension fund liabilities. This has necessitated the calculation and application of an 'asset ceiling' which limits the amount of the surplus which can be recognised on the Council's

Executive Summary (3)

Financial Statements (continued)

Pensions (continued)

balance sheet. During the audit it was identified that some actuaries had calculated this 'asset ceiling' incorrectly. This was found the be the case for Aberdeenshire Council, and consequently a revised IAS 19 report, with a revised asset ceiling calculation was obtained which reduced the Council's reported surplus from £142.619 million to £nil.

In order to meet the deadline for presenting accounts for audit, the Council's IAS 19 pension figures were prepared by their actuary based on an estimated rate of return (ROR). We reviewed the estimated ROR against the audited ROR for the pension fund as a whole and found that the two were materially different. Consequently, the Council obtained revised pension figures based on the actual ROR, which has resulted in a £38.077m decrease in the value of plan assets. However, because the recognisable surplus remains to be £nil, the impact of this reduction is to reduce the impact of the asset ceiling charged and therefore has no impact on the balance sheet figure.

More detail can be found on page 19 - 20 and the errors have been reported in Appendix 1 as an adjusted misstatement.

Provisions

The Council sets aside provisions for irrecoverable debts. We have reviewed the Council's calculation of its council tax provision, and it is our view that the provision is optimistic such that there is a potential understatement of around £6 million. Please note that we reported the same issue in 2022/23, when we felt there could be a c. £4.3 million understatement.

We also have concerns that there could be a £3 million understatement in the general debtor provision.

The total £9 million understatement has been recorded as an unadjusted misstatement in Appendix 1 and a recommendation has been made in Appendix 2.

Aberdeen City Region Deal

The Council has disclosed a contingent liability in respect of the City Region Deal, which was not included in the draft accounts initially submitted for audit. We have provided more detail at page 23.

Adjustments to the primary financial statements

We have identified a number of adjustments to the financial statements of Aberdeenshire Council and Group for which management have made the appropriate adjustments to the final version of the financial statements.

We also identified three issues which have been reported as unadjusted misstatements; one relates to a £2.715 million investment by the Council's Trusts and Endowments in the Council's Loan Fund which we have been unable to directly verify, another relates to our assessment that the current council tax and general debtor provisions are inappropriately risky and therefore potentially understated, and the final is due to a mistake made in correcting for the property valuation adjustments.

Management are confident that the Trust's investment in the Loan Fund is accurate, and in any case immaterial, and therefore have not made any adjustment. Similarly, the appropriate value for provisions is a matter of judgement and assessment of appropriate risk.

(continued overleaf)

Executive Summary (3)

Financial Statements (continued)

Adjustments to the primary financial statements (continued)

Management have taken a higher risk approach to the provisions than we as auditors are comfortable with, which has resulted in the reported misstatement. Management remain comfortable with their assessment and have not adjusted for the reported overstatement. The valuation adjustment mistake has not been correct on the basis of it being immaterial.

Additionally, we identified a number of disclosure errors and issues, which do not impact on the figures in the primary financial statements.

Further detail on each of the reported misstatements is set out in Appendix 1.

Recommendations

We have raised a number of recommendations for management as a result of our audit work. These are set out in Appendix 2.

A follow up of the recommendations made last year is detailed in Appendix 4.

Acknowledgement

The audit has been delayed as both ourselves and Council officers have needed to deal with the issues outlined earlier. Despite the pressure on both teams' officers have worked with us cooperatively throughout the process and we would like to express our thanks for the team's positive approach to the audit.

Introduction

Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year at Aberdeenshire Council. The scope of our audit was set out in our External Audit Plan.

The core elements of our audit work in 2023/24 have been:

- An audit of the Council and Group's annual report and accounts for the financial year ended 31 March 2024 [findings reported within this report];
- Consideration of the wider dimensions that frame the scope of public audit as set out in Audit Scotland's Code of Audit Practice 2021 ('the Code') [within this report];
- An audit of the following charitable trusts for which the Council is sole Trustee.
    - Aberdeenshire Charities Trust (ACT 2)
    - Aberdeenshire Educational Trust
    - Anderson & Woodman Library Trust
    - McDonald Public Park Endowment
- Monitoring the Council's participation in the National Fraud Initiative (NFI);
- Certification of the NDR return (Non- Domestic Rates);
- Certification of Housing Benefits subsidiary claim; and
- Any other work requested by Audit Scotland.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Code.

This report is addressed to the Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities

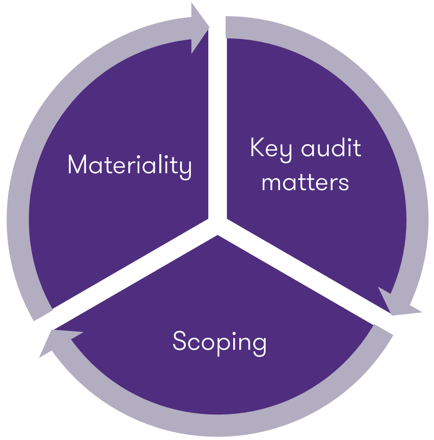
The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts in accordance with proper accounting practices. The Council is also responsible for compliance with legislation, and establishing arrangements over governance, propriety and regularity that enable it to successfully deliver its objectives.

Our responsibilities as independent auditors, appointed by the Accounts Commission, are set out in the Local Government in Scotland Act 1973, the Code and supplementary guidance, and International Standards on Auditing in the UK.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve officers from their responsibility to address the issues raised and to maintain an adequate system of control.

Audit of the annual report and accounts (1)

Our approach to the audit of the financial statements



Overall materiality

Materiality was determined during the planning phase and communicated in our Audit Plan. We reviewed materiality upon receipt of the draft financial statements, and concluded that the materiality adopted remained appropriate.

We set overall materiality at £18.000 million (Group: £18.150 million) which represents 1.50% of the Council's 2022/23 gross expenditure.

Key audit matters

The key audit matters were identified as:

- The valuation of land and buildings, including council dwellings; and
- The valuation of the defined benefit pension scheme.

Significant risks

Other than the key audit matters noted above the other significant risks were identified as:

- Management override of controls (ISA (UK) 240)

Internal control environment

In accordance with ISA requirements, we have developed an understanding of the Council's control environment. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is substantive in nature. In accordance with ISAs, over those areas of significant risk of material misstatement we consider the design of controls in place.

However, we do not place reliance on the design of controls when undertaking our substantive testing.

We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

We have also undertaken a review of the Council's IT controls. A number of issues have been raised, which have been discussed on page 37 - 38. The identified issues did not have an impact on our audit approach.

Recap of our audit approach and key changes in our audit strategy

There has been no change to our anticipated audit approach from our Audit Plan. The risks identified remain the same.

Audit of the annual report and accounts (2)

Status of audit work

Our audit team and the Council's finance team continue to work together to complete the audit.

All completed work is subject to further queries as a result of review or arising issues up until the date of signing.

The following is required before the audit can be completed:

- Receipt of a final signed management representation letter.
- Receipt of a final set of signed financial statements.
- Receipt of management's updated going concern and post balance sheet events assessment at the date of sign off.

Audit of the annual report and accounts (3)

Our application of materiality

As communicated in our Audit Plan dated 17 April 2024, we determined materiality at the planning stage based the gross expenditure as per the 2022/23 audited financial statements. At year-end, we have reconsidered materiality based on the 2023/24 draft financial statements and have considered that our initial materiality levels remain appropriate.

We report to you all misstatements identified in excess of £900,000 in addition to any matters considered to be qualitatively material.

A lower level of materiality of £25,000 is set for the auditable disclosures within the remuneration report.

Materiality was determined as follows:

Financial statement materiality threshold	Financial statement materiality has been set at £18.000 million (Group: £18.150 million) which represents 1.50% of the Council's 2022/23 gross expenditure.
Performance materiality threshold	Performance materiality for the year has been set at £11.700 million (Group: £11.800 million) which represents 65% of financial statement materiality.
Significant judgements made by auditor in determining materiality	The determination of materiality involves the exercise of professional judgement. In determining materiality, we made significant judgements in selecting the appropriate benchmark of expenditure and selecting the appropriate percentage to apply to the benchmark.
Significant revision(s) of materiality threshold that were made as the audit progressed	We calculated materiality during the planning stage of the audit and during the course of our audit, we re-assessed initial materiality based on actual gross expenditure for the year ended 31 March 2024 and considered that planning materiality remained appropriate.

Audit of the annual report and accounts (4)

An overview of the scope of our audit

We performed a risk-based audit that required an understanding of the Group and the Council's business and in particular matters related to:

- understanding the group, the Council, and its components, and their environments, including group-wide controls. The engagement team obtained an understanding of the Council, the group and its environment, including group-wide controls, and assessed the risks of material misstatement at the group and Council only level;
- identifying significant components. We evaluated the significance of each component of the group and determined the planned audit response based on a measure of materiality;
- work to be performed on financial information of Council and other components (including how it addressed the key audit matters). A full scope audit was performed for Aberdeenshire Council. Specified procedures were performed over material balances of significant components, and an analytical approach was applied for other components. No additional key audit matters were identified in group transactions;

A full scope audit was conducted for Aberdeenshire Council. Our work has covered all material balances and transactions in expenditure, income, assets, liabilities and reserves as well as other primary statements and disclosure notes. Specific procedures were conducted on material balances of property, plant and equipment and investments within the common goods and trust funds consolidation, including any material reserves.

Audit of the annual report and accounts (5)

Detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to Aberdeenshire Council and its Group and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2023/24 Local Government Accounting Code of Practice.
- We enquired of Senior Officers and the Chair of the Aberdeenshire Council Audit Committee, concerning the Council's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Senior Officers and the Chair of the Aberdeenshire Council Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Council and its group financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered the Council's financial performance for the year and potential management bias in determining accounting estimates in relation to the valuation of land and buildings and the estimations in respect of the Council's defined pension liability. Our audit procedures are documented within our response to the significant risk of management override of controls below.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in in certain account balances and significant accounting estimates.

(continued overleaf)

Audit of the annual report and accounts (6)

Detecting irregularities, including fraud (continued)

In assessing the potential risks of material misstatement, we obtained an understanding of:

- Aberdeenshire Council and its group operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- The Council's control environment, including the policies and procedures implemented by the Council to ensure compliance with the requirements of the financial reporting framework.

Audit of the annual report and accounts (7)

Group audit approach

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The table below summarises our final group scoping, as well as the status of work on each component.

Component	Significant	Scope – planning	Scope – final	Auditor	Status	Comments
Aberdeenshire Council	Yes			Grant Thornton UK	Amber	The status of our audit of the Council is set out on page 9 of this report.
Aberdeenshire Integration Joint Board	No			Grant Thornton UK	Green	The audit team performed analytical procedures.
Create Homes Aberdeenshire LLP	No			Unaudited to date	Green	The audit team performed analytical procedures.
Trusts and Endowments	No			Grant Thornton UK	Green	The audit team performed analytical procedures.
Common Good Funds	No			Grant Thornton UK	Green	The audit team performed analytical procedures.

Full scope audit procedures will be performed to component materiality, either by the group audit team or by component auditors.
Audit of specified financial statement line items to component materiality, either by the group audit team or by component auditors.
Audit of specified financial statement line items will be performed by the Group audit team to group materiality.
Out of scope components are subject to analytical procedures performed by the Group audit team to group materiality.

Green Planned procedures are substantially complete with no significant issues outstanding.
Amber Planned procedures are ongoing/subject to review with no known significant issues.
Red Planned procedures are incomplete and/or significant issues have been identified that require resolution.

Audit of the annual report and accounts (8)

Overview of audit risks

The table below summarises the key audit matters and significant risks discussed in more detail on the subsequent pages.

Risk title	Risk level	Change in risk since Audit Plan	Fraud risk	Key audit matter	Level of judgement or estimation uncertainty	Testing approach	Status of work
Valuation of land, buildings and council dwellings	Significant	↔	✗	✓	High	Substantive	● Red
Defined benefit pension scheme valuation	Significant	↔	✗	✓	High	Substantive	● Red
Management override of controls	Significant	↔	✓	✗	Low	Substantive	● Green

↑ Assessed risk increase since Audit Plan
↔ Assessed risk consistent with Audit Plan
↓ Assessed risk decrease since Audit Plan

● Green Not considered likely to result in material adjustment or change to disclosures within the financial statements
● Amber Potential to result in material adjustment or significant change to disclosures within the financial statements
● Red Likely to or has resulted in material adjustment or significant change to disclosures within the financial statements

Audit of the annual report and accounts (9)

Significant risks and Key Audit Matters (continued)

Key audit matters identified in our Audit Plan

Risk 1: Valuation of land, buildings and council dwellings

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

In previous years, Aberdeenshire Council has employed an internal valuer to undertake a rolling programme of valuations across their asset base, valuing land, buildings and council dwellings at least once every five years, with the Council carrying out a desktop review, in intervening years, to assess the material accuracy of any assets not revalued annually.

In 2023/24 the Council made the decision to change their valuer for the valuation of their council dwellings to the District Valuer Services (DVS) arm of the Valuation Office Agency (VOA). The valuation of the land and buildings remained with the internal valuer.

As at 31 March 2023, Aberdeenshire Council held PPE of £2,433.332 million including land, buildings of £1,313.817 million and council dwellings of £572.267 million.

Given the significant value of the land, and non-specialised buildings and the council dwellings held by Aberdeenshire Council, and the level of complexity and judgement involved in their estimation process, there is an inherent risk of material misstatement in the year end valuation of some of these assets. However, the risk is less prevalent in other assets as these are generally held at depreciated historical costs, as a proxy of fair value. We therefore focussed our audit attention on assets that had 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 and one of the most significant assessed risks of material misstatement due to error.

How our scope addressed the matter

In responding to the key audit matter, we performed the following audit procedures:

- Engaged our own valuations expert to assess the instructions issued by Aberdeenshire Council to their valuers, the final valuers' reports and the assumptions used that underpinned the final valuations;

(continued overleaf)

Audit of the annual report and accounts (10)

Significant risks and Key Audit Matters (continued)

Key audit matters identified in our Audit Plan

Risk 1: Valuation of land, buildings and council dwellings (continued)

How our scope addressed the matter

- Evaluated the valuer's report to identify assets that had large and unusual changes and/or approaches to the valuation and tested these valuations substantively for reasonableness;
- Challenged the key data and assumptions used by management's experts in the valuation process for these assets;
- Tested a selection of other asset revaluations made during the year to ensure they had been input accurately into the Council's asset register, and the revaluations had been correctly reflected in the financial statements; and
- Evaluated the assumptions made by management for any assets not revalued during the year and how management had satisfied themselves that these values were not materially different to current value.

Relevant disclosures in the Statement of Accounts for the year ended 31 March 2024 are;

Note 13 – Property, Plant and Equipment (PPE)

Note 15 – Investment properties

Our results

The Council received a valuation of their council dwelling properties after the initial set of accounts was drafted and submitted for audit. This has resulted in an £88.820 million fall in the overall value of the properties, which has been reflected in the final set of financial statements. Otherwise, our work has not identified any material issues to raise in relation to the valuation of council dwellings.

The valuation of the Council's land and buildings was completed in time for the preparation of the draft financial statements. However, shortly after we began our work on the valuations, we identified some unusual and significant movements in the floor areas of the Council's buildings when compared to the prior year. After a review by officers, it was identified that many of the assets had been valued based on inaccurate floor and land area data. Officers then performed a methodical review of all its land and building assets to correct these errors and produce a revised valuation, which was received for audit in November.

(continued overleaf)

Audit of the annual report and accounts (11)

Significant risks and Key Audit Matters (continued)

Key audit matters identified in our Audit Plan

Risk 1: Valuation of land, buildings and council dwellings (continued)

Relevant disclosures in the Statement of Accounts for the year ended 31 March 2024 are; Note 13 – Property, Plant and Equipment (PPE) Note 15 – Investment properties	**Our results (continued)** The errors identified in the floor and land area data have been prevalent for a number of years, such that both the 2022/23 & 2021/22 balances are materially misstated, in addition to the 2023/24 balances. Please note that in 2022/23 our audit reported a £6.015 million misstatement which resulted from several errors in the Council's valuation of schools, relating to modern equivalent asset assumptions including floor space and site areas, as well as incorrect application of key inputs such as physical and functional obsolescence. On the basis of materiality, that misstatement was not adjusted for at the time. The revaluation of property, plant and equipment not only affects the value which is shown on the balance sheet but also changes the calculation of depreciation and the value held in reserves. Ordinarily the Council’s fixed asset register system calculates these charges automatically. However, the system does not allow prior periods to be adjusted, once they have been closed. This has meant that the Council’s capital team have had to manually calculate the adjustments for each of the affected periods, which has taken them considerable time and has been equally laborious to audit. The associated audit adjustments can be found in Appendix 1.

Audit of the annual report and accounts (12)

Significant risks and Key Audit Matters (continued)

Key audit matters identified in our Audit Plan

Risk 2: Defined benefit pension scheme valuation

The Council participates in the North East Scotland Pension Fund (NESPF), a local government pension scheme. There is an established protocol in place with Pension Fund auditors to provide external auditors with relevant assurance. The scheme is a defined benefit pension scheme and in accordance with IAS 19: Pensions, Aberdeenshire Council is required to recognise its share of the scheme assets and liabilities in its Statement of Financial Position.

As at 31 March 2024 the Council had pension fund liabilities of £1,499.486 million, of which £1,477.559 million related to funded benefits, and pension fund assets of £1,986.656 million relating to funded benefits. The net surplus of £487.170 million had been capped at £142.619 million after the application of an 'asset ceiling' in line with the requirements of IFRIC 14, which is the standard that dictates how much of a surplus the Council can recognise.

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

We identified the defined benefit pension scheme valuation as one of the most significant assessed risks of material misstatement due to error.

How our scope addressed the matter

In responding to the key audit matter, we performed the following audit procedures:

- Evaluated 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;
- Evaluated the assumptions made by Mercer Limited in the calculation of the estimate, using work performed by an auditor's expert commissioned on behalf of Audit Scotland;

(continued overleaf)

Audit of the annual report and accounts (13)

Significant risks and Key Audit Matters (continued)

Key audit matters identified in our Audit Plan

Risk 2: Defined benefit pension scheme valuation (continued)

How our scope addressed the matter

- Evaluated the data used by management's experts in the calculation of the estimates;
- Evaluated the calculation of the asset ceiling by Mercer Limited under IFRIC 14;
- Performed substantive analytical procedures over the gross assets, gross liabilities and in year pension fund movements, investigating any deviations from audit expectations; and
- Assessed the accuracy and completeness of the IAS 19 estimates and related disclosures made within the Council's financial statements.

Relevant disclosures in the Statement of Accounts for the year ended 31 March 2023 are; Note 33 – Defined Benefit Pension Schemes	**Our results** Our work identified that the Council has appropriate policies and procedures in place for calculating its pension assets and liabilities with the exception of the following matter. Prior to audit, the Council requested an IFRIC 14 assessment from the actuary and appropriately amended the pension asset in the balance sheet to reflect the 'asset ceiling' calculated by the actuary. However, upon review of the actuary's asset ceiling calculation we identified that the present value of secondary contributions had been calculated into perpetuity, which is incorrect. This issue was observed across several Councils across the country. In response, the Council requested that the actuary re-perform the calculation with the present value of secondary contributions calculated over the remaining recovery period. This reduced the economic benefit available for the Council to recognise in their accounts from £142.619 million to £nil. The accounts have been updated to reflect the revised calculation. In order to meet the deadline for presenting accounts for audit, the Council's IAS 19 pension figures were prepared by their actuary based on an estimated rate of return (ROR). We reviewed the estimated ROR against the audited ROR for the pension fund as a whole and found that the two were materially different. Consequently, the Council obtained revised pension figures based on the actual ROR, which has resulted in a £38.077m decrease in the value of plan assets. However, because the recognisable surplus remains to be £nil, the impact of this reduction is to reduce the impact of the asset ceiling charged and therefore has no impact on the balance sheet figure.

Audit of the annual report and accounts (14)

Significant risks and Key Audit Matters (continued)

Other significant risks identified in our Audit Plan

Risk 3: Management override of controls

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

How our scope addressed the matter

In response to the risk highlighted in the audit plan we carried out the following work:

- Documented our understanding of and evaluated the design effectiveness of management's key controls over journals;
- Analysed your full journal listing for the year and used this to determine our criteria for selecting high risk journals;
- Tested the high-risk journals we have identified;
- Gained an understanding of the critical judgements applied by management in the preparation of the financial statements and considered their reasonableness;
- Gained an understanding of the key accounting estimates made by management and carried out substantive testing on in scope estimates; and
- Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our results

In the prior year we encountered significant difficulties in analysing the journals due to the number of 'batch' posted journals (i.e. multiple transactions being combined into one journal). This year, we were able to engage our Digital Audit Team, who were able to use specialised software to 'unbatch' the journal to show the individual transactions, allowing us to more accurately analyse the impact of the journals.

Our work on the Council's journals has not identified any issues in relation to management override of controls.

We have not identified any issues with accounting estimates (subject to the prior comments on PPE and Pensions). Similarly, we have not identified any matters relating to accounting policies, estimates or unusual transactions.

Audit of the annual report and accounts (15)

Significant risks and Key Audit Matters (continued)

Other significant risks identified in our Audit Plan

Risk 4: Risk of fraud in expenditure

As set out in practice note 10 (Revised 2022) '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.

The Council'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 included a specific focus on year-end cut-off arrangements, including consideration of the existence of accruals in relation to non-payroll/non-finance expenditure.

How our scope addressed the matter

In response to the risk highlighted in the audit plan we carried out the following work:

- Evaluated your accounting policy for recognition of expenditure for appropriateness and compliance with the CIPFA/LASAAC Code of Practice 2023/24;
- Performed detailed 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;
- Reviewed the judgements and estimates made by management when recognising accruals at year end within the financial statements, and where appropriate challenge management accordingly.

Our results

Our work has not identified any material issues to raise in relation to expenditure recognition.

Audit of the annual report and accounts (16)

Significant risks and Key Audit Matters (continued)

Other significant risks identified in our Audit Plan

Risk 5: Risk of fraud in revenue

As set out in ISA (UK) 240 (Revised May 2021) there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. *(rebutted)*	Auditing standards require us to consider the risk of fraud in Revenue. This is considered a presumed risk in all entities. Having considered the risk factors set out in ISA (UK) 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. Our results Our work has not identified any material issues to raise in relation to revenue recognition.

Audit of the annual report and accounts (17)

Other matters

Risk not included in the Audit Plan

1. Aberdeen City Region Deal

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 has sought to obtain assurance from UK and Scottish Government partners that there will not be a re-clawing of funding for which there is insufficient evidence, however as yet they have been unsuccessful in obtaining definitive assurance.

As such the Council is exposed to a contingent liability, and the financial statements have been updated to disclose this.

2. Bank reconciliations

We identified a number of errors within the Council’s bank reconciliations. All of the issues identified were trivial in value and did not impact on the overall financial statement balance and therefore have not been reported in detail in the misstatements appendices. However, accurate record keeping with regards to the Council’s cash is key to proper management of the Council’s resources and therefore we have raised a recommendation with regards to this issue, which can be found in Appendix 2.

Audit of the annual report and accounts (18)

Other matters

Risk not included in the Audit Plan

3. Investment properties

During our on-site visits to the Council's offices at Woodhill House, we noticed that areas of the building were being let out to other organisations to generate income for the Council. Upon discussion with management, we were made aware that similar arrangements were also in place at Buchan House, another of the Council's offices.

In our view these areas which are being let solely to generate income for the Council meet the definition of investment properties and therefore, if material, should have been recognised as such in the financial statements.

Without having had the properties formally valued as investment properties by a professional valuer, it is difficult to say what the value of the investment properties is, but we have estimated the value to be around £1.4 million. The total carrying value of Woodhill House and Buchan House combined is £6.960 million, therefore we are comfortable that the value could never be material.

On the basis that the leased areas are unlikely to be material, we are content that the Council have not presented the investment properties separately from the property, plant & equipment . The Council should be mindful if additional areas are let in future, that the value could become material and in that case their presentation as property, plant & equipment would be incorrect.

Audit of the annual report and accounts (19)

Key judgements and estimates

As required in the Council's Accounting Polices note, officers outline critical judgements in applying accounting policies and in addition, assumptions about the future and other sources of estimation uncertainty. In particular, where estimates and judgements are identified, these should be quantified.

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

The estimate for PPE valuation including council dwellings has already been reported on pages 16 – 18 and the estimate for the pension asset on pages 19 – 20.

This section covers other material estimates within the financial statements.

● Green	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.
● Yellow	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious.
● Amber	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic.
● Red	We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated.

Audit of the annual report and accounts (20)

Key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
1. Depreciation of property plant and equipment, including assessment of useful economic lives (UELs). £83.542 million	Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction). Depreciation is calculated using the straight-line method. Depreciation is not calculated in the year an asset is acquired but is calculated in the year of disposal. Where a material item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The UELs of council dwellings and other buildings are estimated by the Council's valuers. All other UELs are determined by a 'suitably qualified officer'.	We examined the estimate, considering the: • ISA (UK) 540 requirements; and • appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate. **Conclusion** The Council holds assets with a total gross cost of £115.761 million which have been fully depreciated at 31 March 2024. The majority of these assets are infrastructure (£61.053 million, 2022/23: £53.631 million) or vehicles, plant, furniture & equipment (VPE) (£52.960 million, 2022/23: £46.931 million). There are national issues with the recognition of infrastructure assets due to practical difficulties in applying component accounting for the recognition and derecognition of replaced components, in large part due to historic information limitations, which have meant most local authorities have been unable to comply with the requirement to assess the net book value of a replaced component of an infrastructure asset and have taken a network approach to the measurement of such assets, treating the amount of the replaced component as having no value. This explains the large number of fully depreciated infrastructure assets. *(Continued overleaf)*	Amber

Audit of the annual report and accounts (21)

Key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
1. Depreciation of property plant and equipment, including assessment of useful economic lives (UELs). £83.542 million		*(Continued…)* A temporary statutory override was introduced in August 2022, applying to the 2022/23 and 2023/24 financial years, in order to allow time for the CIPFA LASAAC Local Authority Accounting Code Board to conclude the development of a permanent solution. However, a permanent solution has not yet been agreed, and the statutory guidance will therefore be extended by a further 12 months. The statutory override is due to expire after 31 March 2025. The large number of fully depreciated VPE assets present two main risks: 1. if these assets are no longer operational, the gross cost and accumulated depreciation balance will be overstated; and 2. if these assets are operational, there is a risk that the Council is not assigning appropriate asset lives to its assets. This issue was reported in our annual audit report for the 2022/23 financial statements, and we made a recommendation in relation to it, however, we note that since then the gross cost value of fully depreciated assets have increased.	Amber

Audit of the annual report and accounts (22)

Key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
2. Council dwelling adjustment factor	The valuer applies an 'adjustment factor' to the cumulative total of all Beacon values to determine an Existing Use Value of Social Housing (EUV-SH). The 'adjustment factor' is a measure of the difference between private market rent and socially rented property within the Aberdeenshire Council area and is therefore the relationship between the capitalised net rent (investment value) of private dwellings and the equivalent public sector investment.	We examined the estimate, considering the: • ISA (UK) 540 requirements; and • appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate. We have consulted with our auditor's expert in relation to this estimate. **Conclusion** We are satisfied with the methodology for the calculation of the adjustment factor.	Green

Audit of the annual report and accounts (23)

Key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
3. Fair value of assets and liabilities (financial instruments) Financial assets: £52.022 million Financial liabilities: £1,200.888 million	Financial liabilities and financial assets represented by current and long-term debtors and creditors are carried in the Balance Sheet at amortised cost.	We examined the estimate, considering the: • ISA (UK) 540 requirements; and • appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate. **Conclusion** We are satisfied with the methodology for the calculation of the financial assets and liabilities.	Green
4. Asset decommissioning provision £6.656 million	The provision is an estimate of costs to dismantle, remove items and to restore the related sites for 14 Household Waste Recycling Centre (HWRC) sites; 6 waste transfer sites; 5 landfill sites and 2 quarries. Asset decommissioning costs were first recognised at the end of financial year 2015/16.	We examined the estimate, considering the: • ISA (UK) 540 requirements; and • appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate. **Conclusion** We are satisfied with the methodology for the calculation of the asset decommissioning provision.	Green

Audit of the annual report and accounts (24)

Key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
5. Provisions for debt impairment Council tax provision: £16.328 million	The Council makes a provision for the estimated losses on the non-collection of council tax. The provision has been calculated based on a percentage of the council tax billed in year, as estimated by management.	We examined the estimate, considering the: • ISA (UK) 540 requirements; and • appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate. **Conclusion** We have reviewed the Council's calculation of its council tax provision, and it is our view that the provision contains assumptions which appear to be optimistic, such that we believe it is understated by around £6 million. Whilst it is not separately listed here as a significant judgement, owing to it not being material, we have similar concerns with the general debtor provision, which we believe to be understated by around £3 million. In summary, we believe that the Council's higher risk approach to the provisions could be generating a total £9 million understatement, which has been recorded as an unadjusted misstatement in Appendix 1 and a recommendation has been made in respect of this in Appendix 2.	Amber

Audit of the annual report and accounts (25)

Key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Private Finance Initiative (PFI) liabilities £81.192 million	The Council is committed to four PFI and similar contracts, in respect of Education & Leisure facilities. These are accounted for under IFRIC 12, Service Concession Arrangements. The Council considers themselves to be in control of the services provided under the agreement for the provision of educational establishments, and that the assets will transfer to Council ownership at the end of the lease period. As such, the PFI assets have been accounted for as "on-balance sheet" assets. The accounting models are updated annually to reflect actual charges and RPI. Future years' service costs are estimated based on the latest actual charges and current RPI rates. Interest and finance lease liability charges are unaffected by changes in RPI.	We examined the estimate, considering the: • ISA (UK) 540 requirements; and • appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate. Additionally, we have: • performed a review of key assumptions input into the accounting models; • used specialist software to gain assurance that the PFI model has been appropriately updated for the period ended 31 March 2024; • agreed that accounting entries from the accounting model have been accurately recorded in the Council's accounts. **Conclusion** We are satisfied with the methodology for the calculation of the PFI liabilities.	Green

Audit of the annual report and accounts (26)

Key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Holiday pay accrual £12.289 million	The Council accrues for annual leave balances which have been earnt by staff, but not yet taken by 31 March 2024. The Council base the estimate upon a sampled approach of outstanding leave and extrapolate the findings across the whole population.	We examined the estimate, considering the: • ISA (UK) 540 requirements; and • appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate. **Conclusion** We are satisfied with the methodology for the calculation of the holiday pay accrual.	Green

Audit of the annual report and accounts (27)

Other key elements of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or due to their complexity or importance to the user of the accounts:

Issue	Commentary
Matters in relation to fraud and irregularity	It is the Council's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from officers and those charged with governance regarding the Council's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquiries of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any incidents in the period and no issues in relation to these areas have been identified during the course of our audit procedures.
Accounting practices	We have evaluated the appropriateness of Aberdeenshire Council's accounting policies, accounting estimates and financial statement disclosures. We have identified disclosure adjustments required to the financial statements which have been detailed in Appendix 1.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. We have not identified any cases of money laundering or fraud at the Council.
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified from work performed.

Audit of the annual report and accounts (28)

Other key elements of the financial statements (continued)

Issue	Commentary
Governance statement	We are required to report on whether the information given in the Annual Governance Statement is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local government: Framework (2016). No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required by the Accounts Commission to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit or there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.
Written representations	A letter of representation has been requested from the Council as required by auditing standards.
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2022). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered management's (senior officer's) assessment of the appropriateness of the going concern basis of accounting and conclude that: • a material uncertainty related to going concern has not been identified • management's (senior officer's) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Audit of the annual report and accounts (29)

Other key elements of the financial statements (continued)

Issue	Commentary
National Fraud Initiative	The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Participating bodies, including the Council, receive matches for investigation. We completed our return to Audit Scotland in February of this year, and our next return is planned for 2026.
WGA return	For local government audits we are required to complete Whole of Government Accounts (WGA) work and provide an assurance statement on Aberdeenshire Council's WGA return as mandated by Audit Scotland. Aberdeenshire Council does not exceed Audit Scotland's prescribed testing threshold so we will complete the relevant specified procedures and prepare and submit a partial assurance statement once we have completed all our work on your financial statements.
Grants	In accordance with Audit Scotland planning guidance, as appointed auditors we undertake grant certification work on behalf of the Council. For 2023/24 we are required to provide the following certifications: • National Non-Domestic Rates Income Return (NDR) and • Housing Benefit certification The certification of both the NDR return and the housing benefit is complete.
Other returns to Audit Scotland	In accordance with the Audit Scotland Planning Guidance, as appointed auditors we have prepared and submitted Fraud Returns and Current Issues Returns to Audit Scotland and we have contributed to housing benefit performance audits, the Shared Risk Assessment, sector annual reports, shared intelligence on health and social care, sector meetings and Technical Guidance Notes. There is nothing we need to bring to your attention in this respect.

Audit of the annual report and accounts (30)

Other key elements of the financial statements (continued)

Issue	Commentary
Section 106 Charities	Our audit appointment as the Council's auditor includes the audit of any trust funds falling within Section 106 of the Local Government (Scotland) Act 1973 that are registered charities. For Aberdeenshire Council we have therefore been appointed as auditors of four charitable trusts. The work for 2023/24 was undertaken and concluded during July to August, and the Trust Funds are to be presented to the Audit Committee on 31 October 2024 for approval. There were no significant matters to bring to your attention, and no audit adjustments were identified that impacted the primary statements in any of the four charitable trust's financial statements. The audit fee for the Trust Funds is negotiated separately and the audit has been delivered at the rate agreed at our audit planning stage of £15,000. An unmodified opinion is expected to be issued for each of the Trust Funds: Aberdeenshire Educational Trust Aberdeenshire Charities Trust (ACT2) Anderson & Woodman Library Trust Mcdonald Public Park Endowment Thank you to the officers involved in the audit of the four charitable trusts.

Audit of the annual report and accounts (31)

Other findings – information technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating			
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks
Oracle EBS – general ledger	ITGC assessment (design and implementation effectiveness only)	Green	Green	Green	Green	All significant risks
iTrent - payroll	ITGC assessment (design and implementation effectiveness only)	Green	Green	Amber	Green	n/a
CIPFA	ITGC assessment (design and implementation effectiveness only)	Amber	Amber	Amber	Grey	PPE valuations

Assessment

- Red — Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Amber — Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- Green — IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Grey — Not in scope for testing

Audit of the annual report and accounts (32)

Other findings – information technology (continued)

Key matters noted from our IT audit are detailed below. No changes have been made to our audit approach as a result of these findings as we do not place reliance on IT General Controls and our substantive testing approach has been deemed sufficient, however the issues have been reported for consideration by management.

CIPFA

1. There is a Lack of segregation of duties between CIPFA system administrators and business users. We consider that the combination of system administrative privileges and privileges that are required to perform regular business functions creates a risk that system-enforced internal controls can be bypassed.
2. There is no proactive monitoring of activity logs and review occurs only reactively as issues arise.
3. There is no documented procedure in place for periodically reviewing access within the system.
4. The Council did not receive a System and Organisation Controls (SOC) report. A SOC report provides assurance around the controls and processes implemented by a service organisation.

Management response:

The team using the system are a team of 4, with 2 members "Admin" and 2 "users". It is not deemed practical for another team within the Council to manage the admin of the system. Regular reconciliations are carried out, with any variances arising from system updates fully investigated. This is therefore considered a low risk.

The provision of SOC reports was discussed with the audit team and due to the these not being available for the CIPFA system, an alternative approach was agreed that assurance would be obtained through testing of the Council's internal controls.

iTrent - payroll

1. No records are retained of batch scheduling changes made and the process followed.
2. The Council did not receive a System and Organisation Controls (SOC) report. A SOC report provides assurance around the controls and processes implemented by a service organisation.

Management response:

There are currently only 10 Batch jobs in use and these are standardised within scheduling that does not change. Therefore there are no records of any such alterations to be retained.

The provision of SOC reports was discussed with the audit team and due to the additional costs to the Council for the I-Trent report, an alternative approach was agreed that assurance would be obtained through testing of the Council's internal controls.

Wider scope conclusions

Wider scope conclusions

This section of our report documents our conclusions from audit work on the wider scope areas set out in the Code. We take a risk-based audit approach to wider scope work. Within our audit plan we identified one significant wider scope risk in relation to financial sustainability. As part of our ongoing audit planning audit work during the year we have not identified any additional wider scope audit risks.

Wider Scope Area	Our risk considerations and focus	Risk Identified	Wider Scope Conclusion
Financial Sustainability	The projected financial position of the Council in the medium to longer term and the relevance and appropriateness of assumptions applied to financial plans that will allow the Council to effectively deliver services in the future.	Yes	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.
Financial Management	The arrangements in place at the Council to ensure sound financial management, accountability and the arrangements to prevent and detect fraud, error and other irregularities.	No	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.
Vison, Leadership and Governance	The effectiveness of the Council's governance arrangements and the arrangements in place to deliver the vision, strategy and priorities set by the council.	No	The Council has effective arrangements in place regarding governance and risk management. Issues are reported to relevant committees appropriately.

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

Wider scope conclusions

Wider Scope Area	Our risk considerations and focus	Risk Identified	Wider Scope Conclusion
Use of Resources to Improve Outcomes	How the Council demonstrates economy, efficiency and effectiveness through its use of financial and other resources.	No	The Council has appropriate arrangements to report outcomes against priorities based on an updated Council Plan. 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.

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

Wider scope - financial sustainability (1)

Significant risk identified

Aberdeenshire Council, like all Scottish local authorities, is facing increasing financial pressures. The Council have estimated, in their 2024/25 budget setting, that there could be a cumulative funding gap of £113million by the end of the period 2025/26 to 2028/29. At the time of this review the Council has no plans to rely on transfers from reserves to alleviate the funding gap. However, we note that the level of savings required to manage this funding gap is significant and beyond the scale that has previously been achieved by the Council.

Significant risk identified:
The Council faces a significant funding gap over the medium term (£113m by 2028/29), with a £10.9m budget gap forecasted for 2024/25. The gap has subsequently reduced to £6.7m. A transformation programme has been put in place but this is comparatively new and untested. So far, it has not generated options at sufficient pace or value to deliver the level of savings that will be required to close the gap identified in the MTFS. There is a risk that where sufficient savings and transformation plans are not identified sufficiently early in the process, or are not robustly planned and monitored, they may not be delivered in the required timeframe to the required value.
Furthermore, we note the 2023/24 overspend on the Health and Social Care Partnership of £10.1m, of which the Council had to contribute £4.4m. The projected overspend for 2024/25 is £26.3m of which the council's share could be £11.4m. There is a risk that the savings and transformation plans in place will not enable the Council to be able to meet this demand.

Response to significant risk

Our audit work included:

- Reviewing how the council identifies significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- Reviewing how the council plans to bridge its funding gap and identify achievable savings and future transformation
- Reviewing how the council plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- Reviewing how the council identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans
- Reviewing how the council sets longer term financial plans and capital investment to deliver on priorities and how they determine their affordability

Conclusion on significant risk

We have concluded that the significant risk of weakness in the wider scope area of financial sustainability remains.

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 note that our financial statements audit has identified a potential under provision against bad debt of c.£9 million which will increase the financial pressure on the Council. We also note that the Council have taken a higher risk approach to this.

Recommendations have been raised regarding this in Appendix 3.

Wider scope - financial sustainability (2)

Background

Aberdeenshire Council, like all Councils across Scotland, is facing unprecedented financial challenges. These include pressures associated with unit costs and demand in services such as social care and looked after children as systems continue to rebalance after the COVID19 pandemic. Other factors are more area-specific, such as the rural nature of the region and the implications of this for education and healthcare strategies. Wider economic challenges, such as inflation and the cost of living, have caused volatility in the Council's supply chains and fluctuating interest rates have affected the cost of borrowing over the past two years.

Medium Term Financial Strategy

Aberdeenshire Council approved the 2023/24 Revenue and Capital budgets in March 2023 as part of agreeing the wider Medium Term Financial Strategy (MTFS). The MTFS was developed to set out the financial framework to support the delivery of the Council Plan and associated priorities over the medium term and is based on a financial forecast over a rolling timeframe from 2023/24 to 2027/28.

The Council approved a budget for 2023/24 of £711.1m, which increased to £751.4m on the receipt of additional Scottish Government funding received in year. Revenue Support Grant (RSG) from the Scottish Government for 2023/24 was budgeted at £411.5m but was increased to £425.5m by March 2024. The RSG budget increased mainly due to the additional funding associated with both LG and Teachers pay awards.

The final net expenditure for the year is £754.9m, resulting in an overspend of £3.5m. This has been offset by a net increase in Council Tax and Business Rates income, resulting in an overall net budget outturn position of £0.9m. The Council planned to use reserves to balance the financial position, but with general savings and savings on the capital plan, costs were contained and no draw down of reserves was required. This is a positive outcome for the Council and is indicative of strong financial management.

As reported in the updated MTFS for 2024/25, the Council were able to successfully achieve a balanced budget position for 2023/24 through savings of £17.4m and transformation gains of £6.2m. Per the latest financial report, financial allocation increased to £763.6m due to the use of earmarked reserves and changes in government funding that occurred after the budget was established. As of September 2024, net expenditure is expected to exceed the budget by £10.9m.

The Council's projections indicate a developing funding gap increasing to £113m over the next 4 years. This has increased from the budget gap of £91.8m predicted in 2023/24 iteration of the MTFS. This represents a significant risk to the Council's ability to balance their budget in future years and emphasises the need for them to identify and deliver on a significant number of efficiencies and savings opportunities. Risks such as potential reduction in future local government funding settlements, pay negotiations, rising inflation, cost of living crises and supply chain pressures are reflected within the MTFS projection.

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Estimated Base Budget	753	784	817	847	872
Estimated Funding	(753)	(754)	(758)	(759)	(759)
Transfer to/(from) Reserves					
Cumulative Funding Gap	(0)	30	58	88	113

Wider scope - financial sustainability (3)

The MTFS includes a review of key assumptions made during budget preparation, including on inflation, energy prices, borrowing costs and future funding. Identified financial risks are accounted for and estimates are used for items impacting on key assumptions, such as interest rates. The assumptions incorporate scenario-modelling to consider the impact of key assumptions were they to change, and the resulting additional income or budgetary pressures. The MTFS evidences that the Council take a prudent approach when setting and reviewing assumptions and the calculation of the funding gap was done on a reasonable basis.

The £113m funding gap is 13% of the forecast budget in 2028/29, which presents a significant challenge. On the basis that income levels are unlikely to keep pace, it is likely that major transformation will be required to enable services to be delivered within the available funding envelope. However, the £113m has an assumption of 0% Council Tax increase, so the Council does have flexibility to increase this to bridge some of the gap. Our experience at other Councils suggests this level of change will require significant preparatory work and resources over a period of years. We note that the Council has been unable to successfully implement its transformation plan in 2023/24. We discuss this later in this report.

Savings

The 2023/24 budget identified required savings of £18.3m. The Council achieved £15.0m of those in-year, with the remainder being deferred to 2024/25 as while the value of the saving was realistic, the timing of the savings was too optimistic.

The Council were able to balance the budget for 2024/25 through policy changes to council tax and business rates, a borrowing costs cap, savings through their transformation programme, targeted budget savings, and changes to pension contributions.

Savings of £17.355m are proposed alongside £6.2m of savings arising from the Transformation programme. It is likely that the Council will have to continue to implement savings plans going forward, at least for the MTFS period 2024-2029.

The Council's reporting of savings targets has improved in 2024/25, evidencing budgeted savings planned at the start of the year, actual savings reported on a quarterly basis, as well as the forecast for full year saving, assessing what can feasibly be achieved within the financial year. Reporting to Members, as set out in the financial management section of this report, is clear, concise and understandable, with the ability to easily drill down and find more detailed information. Maintaining this will be crucial as the Council have never previously had to deliver savings on this scale.

The MTFS in 2023/24 and 2024/25 highlight a significant and growing savings gap (currently estimated as c£113m). Due to the sheer size of the savings gap, there is a significant risk that the Council could under deliver on its savings targets for future years which would place further reliance on reserves and further sustainability challenges. Improvements should be made to the identification and delivery of savings targets.

Transformation

The increase in the cumulative funding gap position in the next five years is significant and outlines serious concerns over the future financial sustainability of Aberdeenshire Council. The Council will have to balance its financial sustainability with ensuring it continues its service delivery to meet Council priorities.

Wider scope - financial sustainability (4)

The Council started planning the major transformation programme in April 2023 but had not yet made significant progress in delivering tangible savings. Business cases were developed by officers, setting out proposals for the transformation of services alongside realistic financial savings, and once agreed, corporate leadership and oversight of operational activity and progress will be undertaken by the Strategic Change Board. The Business Change Team created a sub-team to support transformation activity. Workshop activities were undertaken in June 2023 to engage with key stakeholders and drive ideas and innovation for change.

In November 2023, the Council launched its Transformation Programme and Strategy which set out proposals for a rolling programme of transformation, driving improvement in customer service and the employee experience, delivering better outcomes, and generating savings. The savings targets for 2024/25 anticipate £6.2m worth of savings to be achieved through the programme specifically. However, this target is unlikely to be met and these savings are likely to spill over into future years. Going forward, updates on the strategy will be presented to the Business Services Committee and Full Council twice yearly, and policy committees have oversight of business case development and transformation themes.

A timetable has been set out which looks to develop a vision and framework for transformation, a communications strategy, a stakeholder map and three-year programme of transformation activity. We note that the Chief Executive is considering consultant support for the programme.

The Transformation Programme is still developing but not at the pace that is required. Given the critical nature of the programme to the Council's financial sustainability, both the Council and policy committees will need to actively monitor the development of the programme and the delivery of savings.

Reserves

Reserves are a key performance indicator of monitoring the financial health of a body. The Council review the level of reserves as part of the annual budget setting process to ensure that there is adequate protection against unforeseen events and the planned use of reserves is appropriate.

At 31 March 2024, the Council held £103.5m of Reserves. This is split between £11.0m in general reserves which continues to be maintained, £1.9m in statutory funds and £90.6m in earmarked reserves, split between revenue and capital. £77.8m was transferred into the reserves balance during 2023/24 to offset the balance drawn down of £58.1m to fund the delivery of services and balance the budget. The actual use of reserves in the year is £18.6m.

In setting the 2023/24 budget, the Council agreed to changes in how it accounts for the repayment of debt on its PPP/ PFI schools, in line with Finance Circular 10/2022. This resulted in a retrospective gain to the Council of £37.5m which has been transferred to reserves in 2023/24 to invest in transformation projects to bring about service redesign and reduction in costs.

The MTFS forecasts that general reserves will continue to be kept at a level of £11m over the next five years. Earmarked reserves however experience a significant drop in 2024/25 and then decrease gradually over time until 2028/29 (see table on next page). This is due to planned use of earmarked reserves in line with approved plans.

Wider scope - financial sustainability (5)

	31 March 2024 £m ACTUALS	31 March 2025 £m	31 March 2026 £m	31 March 2027 £m	31 March 2028 £m	31 March 2029 £m
General Reserves	(11,000)	(11,000)	(11,000)	(11,000)	(11,000)	(11,000)
Statutory Funds	(1,868)	(1,788)	(2,248)	(2,248)	(2,248)	(2,248)
Capital Earmarked Reserves	(12,847)	(12,732)	(7,307)	(7,306)	(7,305)	(7,304)
Revenue Earmarked Reserves	(77,779)	(58,792)	(68,129)	(67,839)	(67,614)	(68,174)
Total Reserves	**(103,494)**	**(84,312)**	**(88,684)**	**(88,393)**	**(88,167)**	**(88,726)**

The reserves strategy of the Council is reviewed annually as part of the budget setting for the year ahead and approval of the next MTFS. The strategy states that the Council will maintain working balances of £9m and £2m for HRA. As well as saving going forward the Council will need to maintain an appropriate level of reserves, and where possible, build them up to give future flexibilities.

Given the projected medium-term funding gap, the Council will have limited flexibility to place reliance on reserves to bridge future funding gaps and will need to continue to maintain adequate general reserves. It should not use reserves to cover recurrent funding gaps or as a substitute for Council transformation.

Capital and Long-Term Borrowing

The Council have a 15-year Capital Plan which sets out their capital investment programme and considers the requirements to deliver the Council's priorities against the affordability within the overall MTFS. The plan is funded by a combination of General Capital Grant from Scottish Government, Capital Receipts and Borrowing.

The capital budget approved in November 2023 was £117.5m but the revised budget increased to £118.5m due to adjustments through the year. Actual expenditure incurred on capital projects in 2023/24 was £85.6m, resulting in a £33.0m or 30% underspend below the revised budgeted capital expenditure position. Some of the under-budget positions are beyond the control of the Council including the construction of the Energy from Waste facility. The forecast position reported to Council in January 2024 indicated that spend would be lower than budget, and most of this slippage was incorporated into the 2024/25 Capital Plan that was approved in February 2024. The Council acknowledge that it is quite common for them to experience natural slippage or delays due to various risks, including the inherent complexity of their projects leading to unforeseen challenges affecting timelines.

The Capital Plan shows an expected total expenditure of £564.0m between 2023/24 and 2027/28. Given the ongoing uncertain economic conditions, the Council committed to reviewing and challenging all activity within the Capital Plan across 2023/24 in order to assess the affordability and sustainability of borrowing, with a focus on reducing it to a more manageable level. Officers undertook an assessment of the Capital Investment 'Needs and Wants' of services over the 15-year period, which highlighted the impracticality and unaffordability of the plan.

Wider scope - financial sustainability (6)

The exercise underscored the necessity to prioritise and curtail the capital plan to mitigate the impact of borrowing expenses on future revenue budgets with borrowing costs increasing from around £40m in 2024/25 to over £116m in 2036/37, with borrowing costs to net revenue streams increasing from 6% to 15%.

The Capital Plan sets out significant expenditure plans for the next five years, the majority of which is to be funded by cash and prudential borrowing as set out in the table below.

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
Planned CapEx	95,613	118,546	93,853	45,799	48,111
Financed by:					
Scottish Government	25,096	26,207	20,956	20,956	20,956
Levelling Up Funding (UKG)	7,053	12,432	-	-	-
Nestrans	2,528	-	-	-	-
Other Contributions	1,141	1,597	5,038	1,882	4,189
Internal Financing	3,831	3,437	2,587	2,710	3,007
Prudential Borrowing	55,964	74,873	65,272	20,251	19,959
Borrowing as % of CapEx	59%	63%	70%	44%	41%

The level of borrowing projected is significant. Borrowing is subject to the inherent risk of interest rate changes, coupled with capital spend projected being prone to inflationary increases, meaning this is an area that the Council will need to continue to monitor closely.

The latest Capital Plan was approved by Full Council as part of the budget setting meeting in February 2024, with a cap of 8.5% agreed on the maximum borrowing financing cost as a percentage of net revenue streams to 2038/39. This is being implemented to limit the rising borrowing costs and is considered a prudent approach by the Council. There are no other provisions for significant rate rises in future years and this is reflected as a risk within the Council's budget risk register.

The ratio of capital financing costs to the total revenue streams (Revenue Support Grant, business rates and Council tax) can be found in the table below. The impact on revenue increased from 5.4% to 7.6% within the 5-year period.

	Total Revenue Streams (£m)	Capital Financing Charges (£m)	Capital Financing as a % of Revenue Streams
2024/25	753.000	40.827	5.4%
2025/26	754.000	46.549	6.2%
2026/27	754.000	50.646	6.7%
2027/28	754.000	54.380	7.2%
2028/29	755.000	57.022	7.6%

Capital Financing costs (excluding PFI/PPP) as a % Total Revenue Streams

Wider scope - financial sustainability (7)

Regarding the HRA Capital Plan, the budget for 2024/25 is £50.3m. The medium-term budget is set out in the table below. As per Q1 results for 2024/25, there was an overall underspend of £1.8m for HRA capital performance, and by 30 November 2024 this had increased to a projected underspend of £5.5m by 31 March 2025. This will continue to be reviewed throughout the financial year.

The Council has carried out a review of the 30-year HRA business plan and that it will continue to monitor this and have committed to in-depth three-yearly reviews with tenants and Communities Committee.

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
HRA Capital Budget	50,312	58,472	55,076	53,006	49,530

The Council will need to continue to monitor the affordability of the proposed capital plan and its revenue implications. This should include scenario planning and sensitivity analysis to determine whether the proposed capital plan is affordable in the short to medium term.

Aberdeenshire Health and Social Care Partnership (HSCP)

The Health and Social Care Partnership (HSCP) revised budget for 2023/24 was £426.3m, resulting in a final overspend for the HSCP of £10.1m, of which the Council contributed £4.4m. Overspends were in relation to the volume and cost of prescriptions and care management, among other issues.

In the latest forecast for 2024/25, the IJB is forecasting an over-budget position of £27.1m. Aberdeenshire Council, a partner with NHS Grampian in the HSCP are likely to be asked to fund 43% of any overspend to balance the budget, which amounts to around £11.7m.

Reserves are earmarked for this purpose, but as evidenced in the Full Council report in November 2024, these have now been fully drawn down to fund the Council's share of the 2023/24 overspend. Overarching responsibility for addressing the HSCP overspend sits with the IJB. However, should overspends in the HSCP continue, the Council will not have sufficient reserves to cover this and will need to identify an ongoing sustainable solution to reduce and/or fund the deficit. Failure to do this will result in further financial sustainability issues for the Council.

The HSCP experienced an overspend in 2023/24, and is projecting a growing overspend in 2024/25, indicating a significant risk to financial sustainability and the management of this partnership going forwards. Although overarching responsibility for the HSCP lies with the IJB, a recommendation has been raised for the Council to place greater focus on budget and performance management of the partnership, particularly within Adult Social Care. This will ensure that the partnership operates as effectively and efficiently as possible to meet its demand.

Wider scope - financial management (1)

Financial management arrangements

The Council has a suite of financial reporting to Members throughout the year. These reports follow the same format – whether reporting is to Council or to a service committee, allowing for a clear read-across and making understanding of movements in budget and savings clear and easy to follow. The Council has increased its reporting to Members during the 2023/24 year, with financial information being provided in line with committee dates and not by set quarterly dates in order to ensure Members have the most up to date financial information at Council and service committees. All service committees received six financial performance reports during the year. Full council received five financial performance reports during the year as the March 2024 Council meeting was cancelled, otherwise it would also have been six.

Financial management reporting is good overall and there is a suitably qualified and experience senior financial officer leading the finance team. However, this is the second year that the completion of the financial statements audit has been delayed due to issues arising from the valuation of the Council's land and buildings. This is covered in more detail in the financial statements section of this report.

The Council has a suite of financial management reporting for Members which is regularly reported to Members.

Financial performance – revenue

The Council approved the revenue budget for 2023/24 on 9 March 2023. This approved budgeted total revenue expenditure of £711.1m against budgeted income of £711.4m, with £6.282m being agreed to be transferred to reserves.

The final outturn reported to Council on 27 June 2024 reported total revenue expenditure of £754.9m, total income of £735.3m with circa £18m being transferred from reserves. There were no significant variances between projected and actual outturn towards the end of the year that might indicate that financial management was not appropriate. It appears to have been well managed in year.

Overspends were recorded in three of the four directorates, with Business Services recording a small underspend of £426k. Communities overspend against budget was £1.1m, made up of losses in sport and leisure with planned and unexpected closures of facilities. In common with other local authorities an increasing cost of providing homeless accommodation. In addition to these overspends, the Aberdeenshire Health and Social Care Partnership (HSCP) annual accounts showed a deficit position for 2023/24 of £10.2m after accounting for the use of £16.9m in reserves. Aberdeenshire Council, a partner with NHS Grampian in the HSCP have been asked to fund circa 40% of any overspend to balance the budget. This was agreed at Full Council in November 2024.

Education and Children's Services also recorded an overspend of circa £1.1m. Energy savings in schools were recorded, giving an underspend under the Education budget head of £1.5m. Overspends were recorded in Early Years, primarily due to staffing costs to meet the statutory entitlement for all children to be provided with a certain number of nursery hours. The rural location of some of the Council's nurseries mean that even though there could be reductions in numbers of children, that might not automatically equate to reduction in staff costs as provision is required in all areas. Children's Services recorded an overspend of £1.4m, due to Family Placements and Out of Authority Placements.

Wider scope - financial management (2)

Finally, an overspend was also recorded in Infrastructure Services. Of the £3m recorded, £2.67m was attributable to Roads and Infrastructure, after there had been a £4.4m drawdown from ear-marked reserves to support the position. These reserves (roads maintenance and winter maintenance) are now fully utilised and cannot be used to support any future overspends. The overspend was predominantly due to a lower than expected level of income from quarries and car parks.

The financial position has been managed during 2023/24, however, the fact that reserves have been used to alleviate the overspends in Infrastructure and HSCP and are now fully utilised, raises concerns as to how the financial position can and will be managed going forward. Further comment on this is included in the 'Financial Sustainability' section of our report.

The budgeted and projected financial outcome have been reported to Members throughout the year, updated for known changes as they occur. Reporting follows the same format through the year allowing for easy comparability and the ability to drill down. During the year, the original budget for Infrastructure Services was revised upwards. High level explanations are shown in the reporting to Council, but a review of the financial reports presented to the Infrastructure Services Committee clearly demonstrate why this has been necessary – in this instance, over optimistic budgeting for income to be received which was then not received.

Financial revenue performance is reported regularly and on a timely basis to Members with consistent reporting formats.

Financial performance – capital

The capital programme for 2023/24 was set out and approved by Members at the same point as the revenue budget. However, realising the scale of savings required, the capital plan was re-reviewed during 2023/24 as set out in the financial sustainability section of this report. Reporting to Members is very clear, setting out the link between capital and revenue and the revenue implications of borrowing to fund the capital programme.

The HRA capital budget was also set for the year in February 2023, allocating £78.3m to capital spend. Of this, £68.2m was spent, a variance of £10.2m, meaning 87% of the annual budget was spent.

Capital reporting follows the same format as revenue, with high level reporting to full council and more detailed reporting to service committees. Again, the same format is used during the year to allow for easy comparability and the ability to drill down. Review of detailed papers to service committees and full council set out reasons for variance in spend.

The table below sets out the capital budget and outturn for the 2023/24 year as reported to Members.

Wider scope - financial management (3)

	Revised budget £'000	Actual spend £'000	Variance to budget £'000	Variance to budget %
Business Services	19,283	12,397	(6,886)	36%
Communities	4,085	4,410	325	8%
Education & Children's	16,712	6,698	(9,814)	59%
Infrastructure Services	63,363	50,338	(13,025)	21%
Infrastructure Fund 1	4,080	3,214	(866)	21%
Infrastructure Fund 2	10,845	8,220	(2,625)	24%
City Region Deal	164	83	(81)	49%
Total	**118,532**	**85,560**	**(32,972)**	**28%**

The table above shows that against a revised capital budget for the year, the Council underspent by circa £33m, or 28%. There have been several large underspends during the year, with capital spend being deferred to future years. These are largely recorded as being outside the control of the service and thus the Council.

Overspends are also recorded – notably large compensation payments for the Stonehaven flood protection and Aberdeen western peripheral route, where the timing of payment was outwith the council's control, with the former being budgeted for at a lower level and the latter not being budgeted for.

Overall, we have not seen a general underspend on capital, indicating over-optimistic budgeting and planning with slippage on a large number of projects or significant changes to the capital plan in-year. This demonstrates that the Council has appropriate capital planning and forecasting in place. However, this must remain under review to ensure budgeting is prudent and overspends are minimised wherever possible.

Capital expenditure is reported regularly and on a timely basis to Members with consistent reporting formats. There are clear explanations and links to demonstrate the link between capital expenditure funded by borrowing and the impact on revenue spend.

Financial performance – efficiency savings

An in-year savings plan was established by the Council as part of the 2023/24 budget setting in March 2023. Savings of £18.269m were identified as required at this point. The budget papers contained a budget risk register, highlighting areas of spend where Officers considered there was an element of risk that the full saving might not be achievable. This was produced council-wide and at service committees and was updated and reported to Members throughout the year.

As for revenue reporting, each financial report presented to Members – whether at full council or in a service committee – the report follows the same format, making analysis and understanding easier for the reader.

The in-year savings intended and achieved are set out below:

Wider scope - financial management (4)

	Savings as per budget £'000	Achieved 2023/24 £'000	Not Achieved 2023/24 £'000
Business Services	2,777	2,377	400
Communities	244	244	0
Education & Childrens	4,223	3,670	553
Infrastructure	6,835	5,714	671
Corporate savings	5,000	3,000	2,000
Total Savings	**18,269**	**15,005**	**3,624**

The table demonstrates that the Council overall achieved 81% of the savings identified for the 2023/24 year. At a service level, removing corporate savings, that percentage increases to 88%. The corporate savings not achieved, relate to a voluntary severance scheme, which will provide savings, but not in 2023/24. This was recognised and reported early in the year to Members.

The savings, while large in value, represent less than 2% of the revenue outturn. Reporting is not fully clear as to what the Council expects to be one-off savings and what is expected to be recurring savings, which will need to be considered as work is undertaken on reducing the funding gap identified in the MTFS 2023 and MTFS 2024.

As set out in the financial sustainability section of this report, savings going forward require to be more significant and transformational. The reporting arrangements will require to be maintained so there is a clear line of narrative for Members that is easily understood what the trajectory of savings are and the risks that are attached to their non-achievement.

Revenue savings reporting to Members is clear and easy to understand. The Council has a good track record of identifying and achieving savings annually, but these need to be significantly higher savings, delivered at a greater pace in order to meet the savings gap identified in the MTFS.

Wider scope – vision, leadership and governance (1)

Leadership and committee effectiveness

The political administration of the Council remains as a coalition between Scottish Conservatives, Scottish Liberal Democrats and Independents. Aberdeenshire Council has 70 Councillors representing 19 Wards. 3 new Councillors have been elected from the Scottish Conservative Party in the by-elections in November 2024. As no majority party is in place at the Council it is important that the Council and leadership are able to put aside political differences to ensure key decisions and Council priorities are progressed.

All Members of Aberdeenshire Council sit on Full Council which works to set the Council's budgets, Council tax, housing rents and approves strategic plans and other reserved matters. The Provost is the civic leader and chairs Council meetings. The Leader of the Council oversees the Council's priorities, working with its partners and Councillors. The role of Councillors is important as they are required to monitor spend in order to provide assurance that the budget remains on track and aligned with financial objectives.

The Council has four policy committees that the directorates report to on a regular basis in order to make and approve key decisions. These are Business Services, Communities, Education and Children's, and Infrastructure. Any changes to future service delivery, performance reports, policy or work programmes are reported through policy committees and Full Council. The Council has six area committees which determine matters directly affecting their areas. Recommendations are then made to policy committees on strategic matters and Council Policy. There are also a number of other committees in place which hold specific duties such as the Integrated Joint Board, Aberdeen City Region Deal (Joint Committee) and Sustainability Committee.

The Audit Committee is responsible for internal and external audit matters, financial and risk management, and scrutiny of the Integrated Joint Board for Health and Social Care. Committee meeting agendas include updates on internal audit reports and key policies in place, updates to the corporate improvement plan and committee reviews.

The Council undertakes an annual self-evaluation in line with the Public Service Improvement Framework (PSIF) and to demonstrate compliance against the seven CIPFA Code of Principles for Delivering Good Governance.

No issues have been identified relating to the Council's leadership and governance arrangements in place.

Policies, procedures and controls

The Council has in place a wide range of policies and procedures designed to ensure compliance with laws and regulations, including a Code of Conduct for members and staff, as well as HR and whistleblowing procedures.

The Equality Policy had not been updated since 2018 but following an improvement recommendation in the prior year, the policy was updated in 2024, along with other policies such as the anti-bullying policy.

Wider scope – vision, leadership and governance (2)

The Council has a Counter Fraud strategy, led by the Chief Internal Auditor and approved by the Business Services Committee. The strategy sets out the process for assessing and prioritising fraud referrals and the administration of any subsequent investigation. Part of the strategy is the Council's continued participation in the National Fraud Initative – a nationwide data matching process undertaken every two years.

An analysis of fraud allegations over the years shows that most relate to Council Tax Reduction and Business Rates, however since 2020 there had been a significant amount related to COVID-19 grants. There were 34 fraud allegations investigated in 2021/22 which dropped to 5 in 2023/24.

An annual whistleblowing report is provided to the Audit Committee. The report for 2023/24 was presented in October 2024 and confirms that 1 disclosure was made in the year which was the same number as 2022/23. The reputation management around whistleblowing is controlled through general policy and procedures and is assured by external scrutiny bodies through the annual risk assessment and by internal audit, through the corporate risk register.

The Council has sufficient policies and procedures in place to appropriately manage its business. Processes are in place to ensure they are kept up to date.

Monitoring and assessment risk

The Council's Senior Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. The Chief Internal Auditor has the responsibility to review these independently, and report to the Audit Committee annually on the adequacy and effectiveness of the Council's framework of Governance, Risk Management and Control. The Chief Internal Auditor reported that for 2023/24, the Council had an adequate framework in place and that there had been no limitation to the scope of Internal Audit's work during 2023/24.

The revised Risk Management Policy was approved by Business Services Committee in January 2022, following consultation with Directorate Management Teams, the Corporate Risk Management Steering Group, Strategic Leadership Team and Area and Policy Committees. It takes into account compliance with ISO Standards, best practice guidance and is looking at strategy, framework, policies, procedures, processes, assurance, accountability, risk appetite and risk registers.

The Council maintains an annual Budget Risk Register that analyses threats to the achievement of objectives, potential consequences, controls and mitigations in place, as well as the likelihood of occurrence. Services are currently in the process of reviewing their digitally managed risk registers and making any changes that are appropriate. It is the responsibility of every budget holder to carefully monitor their spending decisions, adjusting programmes and activity through the year, to ensure that budgets are not exceeded.

Wider scope – vision, leadership and governance (3)

The Corporate Risk Register and Business Services Directorate Risk Register were reviewed in 2024 to ensure that current arrangements in place were adequate.

The Council has evidenced adequate risk management through its budget and corporate risk registers, and associated frameworks. We are satisfied risk management procedures are in place and operating effectively.

Internal Audit

Internal audit activity is reviewed and monitored by the Audit Committee, with the assistance of the Director of Business Services. Internal audit's roles and responsibilities are defined in an internal audit charter. Its main responsibility is to support the entity to accomplish its objectives by evaluating and improving the effectiveness of Aberdeenshire Council's risk management, controls, and governance processes. Internal Audit published their Annual Assurance Report and Chief Internal Auditor's Opinion for 2023/24 in which Internal Audit states that it is satisfied that sufficient internal audit and assurance work has been undertaken to allow a reasonable conclusion to be drawn as to the adequacy and effectiveness of the Council's framework for governance, risk management and control. Areas of good practice, improvement, and procedural compliance have been identified and these have been detailed in individual assignment reports to the Committee.

In 2023/24, Internal Audit identified major risks across 9 reviews, compared to 6 in the prior year. The majority of these key risks stemmed from four areas which include carbon budget monitoring, the City Region Deal and associated controls, self-directed support payments issues which will be reported in the annual report to the Integration Joint Board (IJB) Audit Committee and compliance with procurement regulations and strengthening its control framework.

Alongside the annual review, the Audit Committee received quarterly audit and inspection reports and updates from internal audit which outline the work undertaken in each quarter alongside any follow up audits and associated results. This provides Committee members with the assurance that internal controls are operating as expected.

The following year also comes with additional significant risk areas of focus including the delivery of Health and Social Care Partnership services, climate change and fraud prevention.

Regarding follow up of audit recommendations, as at 31 March 2024, 168 audit recommendations were open compared to 236 in 2022/23, with 58 of them due for implementation. The majority are rates as either minor or moderate with 16 recommendations being more significant.

From our review of internal audit reports and audit committee reports we have not identified any evidence of significant gaps in the assurance obtained by the audit committee in relation to the work programme undertaken.

Wider scope – vision, leadership and governance (4)

Workforce Planning

In 2023/24, Audit Scotland's Best Value thematic report for Councils was focused on workforce innovation. The Accounts Commission directed auditors to report on how councils are responding to local government and workforce challenges through building capacity, increasing productivity and innovation.

The Council has a Workforce Strategy, Transformation Strategy and Council Plan in place that link together to inform and improve workforce planning arrangements. In an annual staff survey performed by the Council in March 2024, 73% of respondents were aware of the workforce strategy in place but only 20% agreed that the Council effectively measures the impact of its workforce planning approach. This suggests that more work needs to be carried out by the Council to fully embed the updated workforce plans across the Council. See more information in the Best Value section of this report.

The Council's self-evaluation for 2024 was also based on the best value thematic of workforce innovation. Overall, key strengths were identified including workforce plans being embedded across the organisation within Head of Service Business Plans and are regularly monitored and reported. There are good policies, strategies and procedures in place, providing clarity for staff. Areas for improvement identified include a need for greater adaptability to change, and ensuring sufficient recruitment and retention of young people. An associated improvement plan has been created for 2024/25 based on the findings which details actions along with owners and deadlines for each Public Service Improvement Framework (PSIF) category. This will be reported back to the Audit Committee for monitoring of progress, evidencing the Council's proactive nature regarding accountability.

The Council adheres to the 'One Aberdeenshire Principles' which are the aspirations of the workforce and underpin how the Council plans to achieve its vision. The Council Plan acknowledges that Aberdeenshire faces significant demographic challenges, having one of the fastest ageing population rates in Scotland. Therefore, the latest update for 2024-2029 agreed by Full Council will focus on attracting and retaining people of working age to the region and adapt to these demographic changes and financial constraints.

As part of the transformation programme and savings plans, opportunities to create savings are being identified in areas such as vacancy management whereby vacant positions will only be filled if critical, which was expected to generate £1m in savings.

As per the work carried out in the Best Value thematic report and Council's self-evaluation for the year, the progress monitoring of workforce plans will need to continue to ensure effective service delivery for the region. Overall, we are satisfied that workforce plans clearly identify the skills or capacity gaps and the actions and progress taken to address workforce needs.

Cybersecurity and digital

There is a Digital Strategy in place for the period 2020-2025 which sets out the priorities and continuing commitment to embedding the digital approach for Aberdeenshire contributing to delivering the Council's strategic priorities. The strategy ensures the Council's resilience to technological advancements and ability to make financially sustainable use of technology to ensure best value.

Wider scope – vision, leadership and governance (5)

The Council is currently transitioning to the Big Data, Digital & Technology workstream delivery model within the Transformation Strategy. This workstream will leverage insights from the Digital Strategy to inform its activities and ensure seamless transition to a new delivery model without duplication of efforts.

The Council have undertaken several projects, including Cyber Security and Compliance and Building Digital Skills, which have delivered more strategic benefits in terms of offsetting potential significant financial and operational impact through cyber-attack, as well as ensuring the workforce has the right level of skills and capability to leverage existing and emerging technology.

The Council has a Data Protection Policy which was last updated in 2022. It applies to all employees, elected members, contractors and any other individuals working with or for the Council who have access to the Council's personal data, including any providers of digital services.

We have not identified any significant issues in relation to cyber security or the arrangements in place at the Council in relation to cyber security.

Wider scope – effective use of resources (1)

Performance Reporting

Aberdeenshire Council approved a Performance Management Framework in June 2021 (updated in 2022) which includes the Council's key strategies and plans. The Council Plan has been updated for the period 2024-2029 and states the strategic priorities that are supported by the Council's MTFS. The Plan is informed by the Strategic Assessment, which is the Council's objective data led assessment of what economic, social, and environmental impacts are affecting the Council currently and in the future which in turn helps inform and support future decision making.

Services have developed directorate plans which are also used to support the delivery of the Council Plan. A range of performance indicators are identified within the directorate plans and are reported on a 6 monthly basis to policy committees. Performance reports are undertaken for each of the four policy committees; Business Services, Education and Children's Services, Infrastructure Services and Communities. The performance targets are linked to each of the three priorities People, Environment and Economy. The performance indicators in these plans are also used to evidence how the Council is meeting the core outcomes identified in the Council plan.

Each policy committee reviews a performance report for their area at least twice a year. The final year end performance report is also reviewed by full Council. Each of the reports is published on the Council website as part of the committee agenda papers for the public to review to ensure accountability and transparency. Annual performance reports are also published on the Performance Report section of the Council website on an annual basis.

We have confirmed that the 2023/24 Annual Performance Report was presented to the full council on 26th September 2024, consistent with the timeframes outlined in the performance framework. Additionally, we verified that all six-month performance progress reports were presented to each of the four respective committees by June 2024.

Council service leaders acknowledge the significant challenge ahead and are committed to strategically managing their allocated resources. This involves implementing measures such as cost control, exploring revenue enhancement opportunities, reviewing vacant positions and service efficiencies, and engaging in transformation programmes and service redesign.

Service Performance

Education and children's services

The year-end performance monitoring report for Education and Children's Services has a positive trajectory for performance measures, with eighteen being on target or exceeding targets, five classed as just off track and four with information unavailable. Key notes of success include an increase in senior pupils involved in level 4-6 foundation apprenticeships. Children's services achieved 99% of child placements meeting needs and 100% of Care Inspectorate inspections receiving a good or better evaluation.

Items just off track relate to school inspections where six Aberdeenshire schools did not exceed the Scottish Government definition for a positive inspection (good or better) using the 'full' inspection model. Other areas related to an increased gap in literacy and numeracy and being slightly off target for the number of pupils entered for SQA music courses.

Wider scope – effective use of resources (2)

Business Services

The Business services year end performance update includes progress against 25 performance measures which are made in line with the Council's strategic priorities. The majority of measures (thirteen) were meeting or exceeding their targets. Notable successes include high rates of commercial and industrial property occupation, improved processing times for benefit claims and consistent IT service desk response within SLA timescales. Additionally, the percentage of contracts including carbon reduction measures has exceeded council targets.

However, eight measures are off target or just off target with an additional four being data only.

Areas for improvement include procurement spend on local enterprises (26% actuals vs 30% target), digital confidence among employees, and call wait times for Customer Services (14.64 minutes vs target of 5 minutes). Furthermore, the planned expenditure on the capital plan was below the Council's target of 100% (72.9% actuals).

The major improvement activity undertaken in the Business Services area is Operation Oyne where the council is currently undertaking disinvestment in their assets to reduce running costs associated with the Council's operational asset portfolio. The Asset Disposal process currently considers 180 properties/sites with 69 actively being progressed and are at various stages within the process i.e. under offer, on the market or in disposal pipeline. The programme commenced in April 2023 and is currently underway so it is still too early to draw conclusions on the overall savings effect.

Environment and Infrastructure

The Environment and Infrastructure year-end performance included seventeen measures meeting or exceeding target, four off target and six being data only.

The main areas for improvement include reducing the average time taken to process applications (Q4 8.6 weeks vs. an 8-week target), addressing delays in applications with legal agreements, ensuring compliance with timescales for processing agreements and extensions of time, and meeting the recycling targets for household waste.

The service has been addressing recruitment challenges that have impacted the above performance indicators. Their efforts, including a recruitment drive, have yielded positive effects on the performance indicators.

Communities Services

The Communities Committee at the council holds responsibility for various areas, with housing being one of the main areas. The council is effectively managing housing performance with current tenant arrears as a percentage of total rent well within target and the time to resolve homelessness at 67 days compared to a 90-day target.

Furthermore, the Communities Committee oversees performance related to the Health and Social Care Partnership (HSCP). Quarterly reports to the IJB form the basis for six-monthly performance reports submitted to the Communities Committee and Area Committee structures. The IJB holds ultimate accountability for and scrutiny of performance. The HSCP recorded an overspend in 2023/24 and is projecting to do so again in 2024/25. This could have a significant impact on the Council's financial position going forward. This is set out in the financial sustainability section of our report.

Wider scope – effective use of resources (3)

A progress report dated 29th May 2024, indicated that eight projects were rated green (on track) and six were rated amber (slightly off track). Off track projects include the Primary Care Improvement Plan, Effective Support for Carers, Self-Directed Support, Very Sheltered Housing (Central) Review and Insch Service Review.

While some targets and projects are off track, overall, we have seen the Council demonstrate understanding and acknowledgement of these areas and note that it is taking action to improve overall performance. Reporting to service committees is regular and thorough.

National Benchmarking Data

The Council particates in the Local Government Benchmarking Framework (LGBF). The outputs include information about how all Scotland's councils perform and includes a range of indicators. The most recent national benchmarking overview report 2022/23, was published in March 2024.

The Council considers the outputs of the LGBF in a timely manner and presented them to the Audit Committee in August 2024. The LGBF datasets are first scrutinised by directorate management teams, who agree on actions for indicators performing in the bottom two quartiles. These actions are then consolidated into an overall improvement plan which is included as an appendix within the Council's LGBF report. The LGBF report presented to the committee includes key national messages on overall issues affecting Scottish Councils. Additionally, it presents the LGBF in a local context, outlining the areas Aberdeenshire Council is performing well and the areas for improvement.

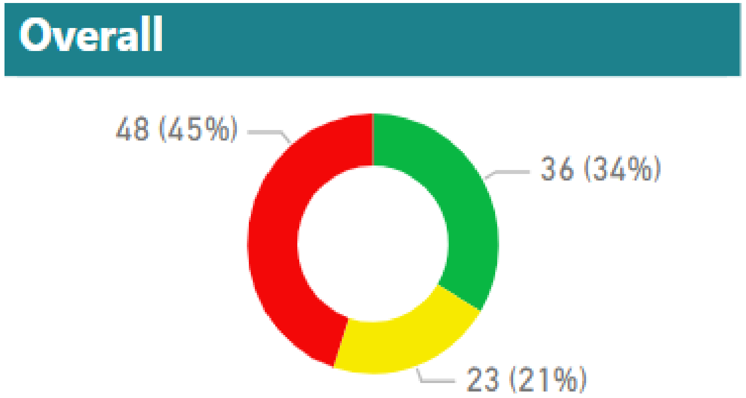
The LGBF is also reported within the Council's annual Performance Report. Within the report it was noted that forty-five indicators have improved in performance since last year's reporting period, two have remained the same, sixty have declined and one has no short-term trend information. In the long term, fifty-two indicators have improved in performance and fifty-six indicators have declined.

The data for LGBF is live and is available for any member of the public to review for their council area. Appreciating the LGBF reporting was carried out in June 2024, a summary at September 2024 was obtained from LGBF to note any further trends since the reporting date. Overall, since the base year of collection, the Council has improved indicators for 58%. Taking the change from the prior year alone the improved indicators are 34% and deteriorated indicators are 45%.

Using the Pentana risk management system, the Council are now monitoring performance against benchmarks such as LGBF and their own internal targets on a live basis, to allow for real-time recognition and action where required. The information on the system is well organised, clear to read and available to all managers and Members.

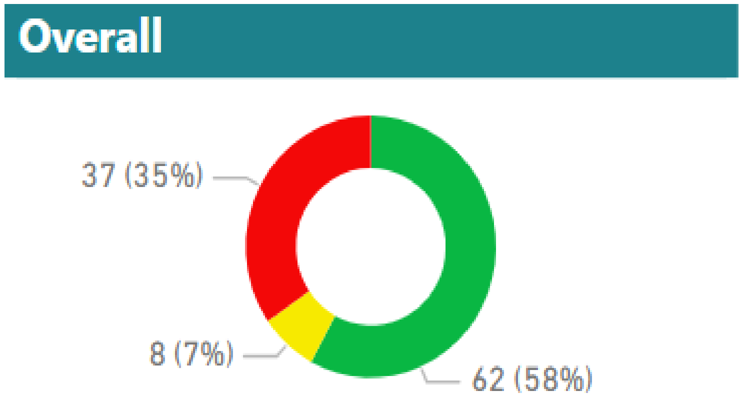
Wider scope – effective use of resources (4)

Performance 2023/24



Change in indicators since prior year (2022/23)

Performance 2022/23



Change in indicators since base year collection

Source: LGBF website 2022/23 performance September 2024

The Annual Performance and LGBF Reports show a negative trajectory from the prior year, with 45% of indicators deteriorating. The formal reporting, in contrast to Pentana, has a lack of tables or graphs to present the information in a clear manner, making it difficult to visualise the Council's performance in comparison to other councils or family groups and to see trends over time. It is recommended that these visual aids be included for improved clarity and insight. See Appendix C.

Partnership Working

The Local Outcomes Improvement Plan or LOIP provides a vision, based on agreed local priorities, to which partners work systematically and collaboratively to meet the needs and aspirations of local communities. Aberdeenshire Council has secured £20m of Levelling Up funding to enhance the Peterhead Cultural Quarter and expand the Macduff Marine Aquarium. This investment should boost letting income and admission fees at the aquarium, contributing to economic growth, and mitigating the pandemic's impact on public services as part of the UK Government's Levelling Up initiative.

The Council are also part of the Aberdeenshire Community Planning Partnership which is working to support the third sector and other public sector organisations through budget cuts. The partnership is a collaborative endeavour among the public, private and voluntary sectors to enhance service delivery within the area.

Wider scope – effective use of resources (5)

Aberdeenshire Health and Social Care Partnership

The Health and Social Care Partnership and Integrated Joint Board are the most significant partnerships at the Council. An annual performance report for Aberdeenshire Health and Social Care Partnership (HSCP) 2023/24 was published in November 2024. The report demonstrates how the HSCP has progressed against its 5 agreed local strategic priorities, as well as the National Health and Wellbeing Outcomes. We have reported on the financial position of the HSCP, its current and projected overspend in the Financial Sustainability section of this report.

The HSCP and IJB released a Strategic Plan for 2020-2025 which focuses on improving outcomes for people through the design and delivery of an integrated health and social care service. It highlights the key priorities over the next 5 years which include prevention and early intervention, as well as effective use of resources. A key challenge in the last year has been in relation to delayed discharges. The HSCP continues to manage this as effectively as possible with close oversight at Aberdeenshire wide and local management team level and working with system partners across NHS Grampian to support patient flow.

Achieving its objectives will continue to present significant challenges for health and social care, particularly with increasing demand and complexity of need exceeding available resource. This will require the HSCP to be clear and consistent in delivering against its priorities as agreed with the IJB.

The Aberdeenshire Health and Social Care Partnership experienced an overspend of £27.1m in 2023/24, with Adult Social Care being the main area of overspend. Overarching responsibility for the management of budgets and any overspends lies with the IJB, as per the Integration Scheme. However, the Council is responsible for a share of any IJB overspend. There is a significant risk around the Council's ability to manage expenditure and the associated financial risks. Therefore, a recommendation was raised around the financial sustainability of the partnership – see relevant section for further detail.

Aberdeen City Region Deal

Another significant partnership at the Council is the Aberdeen City Region Deal (ACRD) is the agreement between the UK Government and the Scottish Government with Aberdeen City Council, Aberdeenshire Council and Opportunity North East which focuses on supporting the evolution of the region's key sectors, sustainable business growth and creating green jobs for the future. The terms of the deal commit both the UK Government and Scottish Government to jointly investing up to £250m whilst Aberdeen City Council, Aberdeenshire Council and local partners are committed to investing up to £44m over the next decade.

As per the Annual Report for 2023/24, ACRD has been running for 8 years and is due to complete by 2025/26. It has grown from £826.2m and is now worth £1.01bn across the key themes of innovation, digital and transport, of which 87% of the available resources have been utilised as of 31 March 2024. The growth in the deal is primarily due to an increase in private sector contributions with funding committed beyond March 2026. There are currently ten projects encompassed within the delivery.

Wider scope – effective use of resources (6)

ABERDEEN CITY REGION DEAL PROGRAMME PROFILE

	UK Government	Scottish Government	Councils	Regional Partners	Total
	(£'000s)	(£'000s)	(£'000s)	(£'000s)	(£'000s)
INNOVATION THEME					
Net Zero Technology Centre	£90,000	£90,000	£0	£238,345	£418,345
ONE BioHub	£10,000	£10,000	£0	£19,995	£39,995
ONE SeedPod	£5,000	£5,000	£0	£16,626	£26,626
Aberdeen South Harbour	£0	£0	£11,000	£409,107	£420,107
DIGITAL THEME					
Digital projects	£5,000	£5,000	£7,000	£59,000	£76,000
TRANSPORT THEME					
Strategic Transport Appraisal projects	£2,500	£2,500	£2,000	£0	£7,000
External Transportation Links to Aberdeen South Harbour	£12,500	£12,500	£0	£0	£25,000
Total	**£125,000**	**£125,000**	**£20,000**	**£743,073**	**£1,013,073**

During 2023/24 the Council's Internal Audit assurance review of ACRD identified an overall net risk rating of 'Major' with limited assurance gained over the governance, financial spend and the planned spend of public funds. This rating implies that significant gaps, weaknesses or non-compliance were identified through its governance arrangements, review of supporting audit trail for expenditure, and delivery of outcomes. The report identifies a need for greater transparency and challenge in respect of financial and progress data provided by project delivery partners. There was pushback from management in response to the risk rating given, stating the controls that are in place including the existence of the legal agreement, progress status reports and internal project governance.

There has been subsequent engagement with the Scottish and UK Government regarding ACRD and the internal audit review, who have recognised that progress is being made on the action plan recommendations from the report. However, as Accountable Body for the ACRD, Aberdeenshire Council are responsible for ensuring there are appropriate arrangements in place for record keeping and scrutiny. We note that by December 2024 all recommendations made by Internal Audit had been actioned, but there is recognition that further assurance work is required.

Overall, due to the limited audit trail it is uncertain as to whether the city region deal is on track. It is important that the Audit Committee continue to monitor this position closely and track the control measures and governance arrangements in place to mitigate risks. See Appendix C for recommendations.

Other Capital Programmes – Peterhead Community Campus

Peterhead Community Campus is an ongoing infrastructure project involving a new educational campus and dry community sports facilities, as well as community facilities with a theatre, swimming pool and other spaces.

The affordability of the Peterhead Community Campus is being considered by the Council with rescoping taking place. This will inevitably result in delays to the project. In addition to the existing supply chain and market volatility challenges, the subsequent withdrawal of the preferred contractor is likely to lead to further delays. Further discussions among Council members are ongoing to rescope the project. We note that these matters were identified at a relatively early stage and no funds have been lost by the Council as the project has not yet been contracted.

The Council remains committed to building a new community campus for Peterhead. However, it is likely that the project completion will now be delayed until January 2028 at the earliest.

Given the uncertainties around future overspend, the Council need to strengthen governance arrangements around the project, and ensure they are regularly reporting to Committee and Full Council on progress. See 'Section 3 – Action plan and recommendations' for further detail.

Wider scope – effective use of resources (7)

Climate change

As part of the Council's commitment to climate change mitigation, Aberdeenshire Council set its first carbon budget for 2017/18. The Council was the first authority in Scotland to develop and approve a carbon budget, aligning itself with the ambitious targets set into law by the Scottish Government. An annual carbon budget figure is set each year to keep the council on track for its commitment to reduce emissions by 75% by 2030 and Net Zero by 2045 using 2010/11 as a baseline year. Management of the necessary annual reduction in emissions is the responsibility of the Senior Leadership Team with support from key services and the Sustainability Team. Annual progress towards the 2030 target is documented on the Council's website. This approach ensures that the Council is placing as much focus on their carbon footprint as it is on their financial budgets.

A Climate Change Risk Register is maintained and was last updated in November 2024. It documents ideal outcomes in a climate context, alongside delivery plan actions and identified risks if these outcomes are not achieved.

The Council have a climate change plan called 'The Route Map to 2030 and Beyond' which was approved at Full Council in September 2022, and focuses on Aberdeenshire Council's operational buildings, fleet, and street lighting, which account for more than 90% of its current carbon footprint. Improvements to authority's residential properties, such as heating systems and solar roof panels, are separately underway through the Council's Housing Improvement Programme.

We are satisfied with the Council's arrangements around climate change.

Best Value (1)

Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within the annual audit work performed by appointed auditors and their teams. Auditors are required to evaluate and report on the performance of councils in meeting their Best Value and community planning duties. As part of our integrated wider-scope annual audit work, we as appointed auditors use a risk-based approach to assess and report whether the audited body has made proper arrangements for securing Best Value and is complying with its community planning duties, including reporting progress against previous Best Value findings and recommendations. The Accounts Commission's approach to Best Value involves reporting on individual local government bodies and thematically across the local government sector through performance reports. Our work on the Best Value thematic is set out below.

Best Value thematic – workforce innovation

In 2023/24, the Accounts Commission has directed auditors to report on how councils are responding to local government and workforce challenges through building capacity, increasing productivity and innovation. Our report, setting out our findings and improvement recommendations was presented to Members in September 2024. Our conclusions, based on a series of questions posed by the Accounts Commission are set out below.

How effectively are the council's workforce plans integrated with its strategic plans and priorities?

The council has a Workforce strategy, Transformation strategy and Council Plan in place. There should be a formal linking of these three key documents to better inform workforce planning. Workforce planning data should be maintained and considered on a council-wide basis to ensure there is effective integration with strategic plans and priorities.

How effectively has digital technology been used to support workforce productivity and improve service quality and outcomes?

The council's former Digital Strategy was well implemented and identified some cash savings. There is limited data to support that the strategy supported workforce productivity and improved service quality. The achievements of the Digital Transformation Programme will require to be monitored closely to ensure that cash savings are made, but also productivity, service quality and outcomes are achieved.

How effectively is the council using hybrid and remote working and other innovative working practices such as a four-day week to achieve service and staff benefits?

The council is effectively using workSTYLE to promote flexibility in working arrangements. Benefits of rationalising office space required have not been achieved in full by the council.

Best Value (2)

What innovative practice is the council using to develop its future workforce capacity and skills needs and manage staff reductions in line with its priorities?

The council has launched its 'Springboard' programme, which aims to redeploy skills across the council. Implementation of the programme is limited to date and without a council-wide workforce analysis of skills gaps, will not achieve the savings and benefits envisaged.

What progress has the council made with sharing roles or functions across its services and/or with other councils and partners?

The council has made limited progress in sharing roles and functions to date.

How effectively is the council measuring the impact of its workforce planning approach?

The council is measuring the impact of workforce planning but needs to enforce rigorous review of performance going forward to ensure objectives are met. Council-wide workforce analysis should be implemented and used to ensure the impact of change is measured properly.

The report set out a number of recommendations for improvement in the following areas:

- Council-wide workforce data analysis
- Transformation Strategy linkage
- Estates strategy
- Council-wide reporting framework

These recommendations have been replicated at Appendix 3. As the report was issued in September 2024, we have not included a follow-up on progress of agreed actions in this report and will conclude on the follow up as part of our 2024/25 Annual Audit Report.

Council service performance improvement

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. In turn, councils have their own responsibility, under their Best Value duty, to report performance to the public. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

The Accounts Commission issued the Statutory Performance Information Direction in December 2021 which requires a council to report: "its performance in improving local public services (including those provided with its partners and communities), and progress against agreed desired outcomes its own assessment and audit, scrutiny and inspection body assessments of how it is performing against its duty of Best Value, and how it has responded to these assessments."

Aberdeenshire Council approved a Performance Management Framework in June 2021 (updated in 2022) which includes the Council's key strategies and plans. The Council Plan has been updated for the period 2024-2029 and states the strategic priorities that are supported by the Council's MTFS. The Plan is informed by the Strategic Assessment, which is the Council's objective data led assessment of what economic, social, and environmental impacts are affecting the Council currently and in the future which in turn helps inform and support future decision making.

Best Value (3)

Services developed directorate plans which are also used to support the delivery of the Council Plan. A range of performance indicators are identified within the directorate plans and are reported on a 6 monthly basis to policy committees. Performance reports are undertaken for each of the four policy committees; Business Services, Education and Children's Services, Infrastructure Services and Communities. The performance targets are linked to each of the three priorities People, Environment and Economy. The performance indicators in these plans are also used to evidence how the Council is meeting the core outcomes identified in the Council plan.

Each policy committee reviews a performance report for their area at least twice a year. The final year end performance report is also reviewed by full Council. Each of the reports is published on the Council website as part of the committee agenda papers for the public to review to ensure accountability and transparency. Annual performance reports are also published on the Performance Report section of the Council website on an annual basis.

We have confirmed that the 2023/24 Annual Performance Report was presented to the full council on 26th September 2024, consistent with the timeframes outlined in the performance framework. Additionally, we verified that all six-month performance progress reports were presented to each of the four respective committees by June 2024.

The Council has an appropriate performance management framework to monitor and report progress against Council priorities.

Appendices

1. Audit Adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. Trivial has been set at £900,000.

Impact of adjusted misstatements

All adjusted misstatements made during the course of the audit are set out in the table below, together with their impact on the Comprehensive Income and Expenditure Statement (CIES), the Balance Sheet for the year ending 31 March 2024.

Detail	CIES £'m	Balance Sheet £'m
1. Pension assets		
The IFRIC 14 asset ceiling calculation has been performed with the present value of secondary contributions in perpetuity, as opposed to over the remaining recovery period, which we consider to be an error. The calculation has been revised by the Council's actuary which has reduced the available economic benefit from £142.619 million to £nil.		
CR Balance sheet – Long term assets – Pension assets		(142.619)
DR CIES (OCI) – Actuarial (gains)/losses on pension assets/liabilities	142.619	
2. Council dwellings valuation		
The Council received a valuation of their Council Dwelling properties after the initial set of accounts was drafted and submitted for audit. This has resulted in a £88.820 million fall in the overall value of the properties, which has been reflected in the final set of financial statements.		
CR Balance sheet – Property, plant and equipment		(88.820)
DR CIES (OCI) - Surplus on revaluation of non-current assets and AHfS / Balance sheet – Unusable reserves – Revaluation reserve	88.820	

1. Audit Adjustments

	In -year impact		Year-end (cumulative) impact	
Detail	**CIES £'m**	**Balance Sheet £'m**	**CIES £'m**	**Balance Sheet £'m**
3. OLB valuations				
It was identified that an extensive number of other land and building (OLB) assets which had been revalued at 31 March 2024, had been revalued based on inaccurate floor or site plan data. As a result, many of the asset valuations had to be reperformed and the revised valuations have resulted in a £9.591m decrease in the final value of property, plant and equipment at 31 March 2024. The identified errors were also found to be present for the valuations performed in 2022/23 and 2021/22, such that the comparative figures disclosed in the accounts have also been adjusted. The adjustments made to the carrying values of the OLB at 31 March 2022, 2023, and 2024 have had a consequential impact on the depreciation charged in each of the last two periods, as well as the gain/loss charges made through the CIES and the MIRS and then into the revaluation reserve and capital adjustment account.				
2023/24:				
CR Balance sheet - Property, plant and equipment		(40.554m)		(9.591m)
CR CIES (cost of services) / Balance sheet - Unusable reserves – CAA	(3.752m)	(3.752m)		
CR Balance sheet - Unusable reserves – CAA		(1.970m)		(9.823m)
DR CIES (OCI) - Surplus on revaluation of non-current assets and AHfS / Balance sheet – Unusable reserves – Revaluation reserve	44.305m	44.305m		
DR Balance sheet – Unusable reserves – Revaluation reserve		1.970m		19.414m

1. Audit Adjustments

Detail	In -year impact CIES £'m	In -year impact Balance Sheet £'m	Year-end (cumulative) impact CIES £'m	Year-end (cumulative) impact Balance Sheet £'m
3. OLB valuations *(continued)*				
2022/23:				
DR Balance sheet – Property, plant and equipment		9.550m		30.963m
DR CIES (cost of services) / Balance sheet - Unusable reserves – CAA	3.444m	3.444m		
CR Balance sheet - Unusable reserves – CAA		(0.720m)		(4.105m)
CR CIES (OCI) - Surplus on revaluation of non-current assets and AHfS / Balance sheet – Unusable reserves – Revaluation reserve	(12.995m)	(12.995m)		
DR Balance sheet – Unusable reserves – Revaluation reserve		0.720m		(26.858m)
2021/22:				
DR Balance sheet – Property, plant and equipment		21.413m		21.413m
CR Balance sheet - Unusable reserves – CAA		(6.829m)		(6.829m)
CR Balance sheet – Unusable reserves - Revaluation Reserve		(14.584m)		(14.584m)

1. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of all non-trivial errors which we identified during the course of our 2022/23 audit which management decided not to amend within the final set of financial statements.

Detail	CIES £'m	Balance Sheet £'m
1. Trusts & Endowments		
The Council administers a number of Trusts and Endowments and discloses a summary of their balances along with its own accounts. Included in the assets of the Trusts' is £2.715 million which has been invested by the Council in its Loan Fund and is shown in the Council's accounts as a borrowing. The Council is unable to provide direct evidence to support the value of the Loan Fund investment which belongs to the Trusts and we have had to place reliance on the reconciliation of the total cash balance held by the Council (including the amount borrowed from the Trusts) to external confirmations. There is therefore a doubt over whether the amount disclosed in the accounts of the Trusts and Endowments is accurate, although we note there is consistency between the Trust and the Councils accounts.		
2. Provisions		
We have reviewed the Council's provisions for council tax and general debtors and consider them to be over-optimistic such that there is potentially an overall under-provision of around £9 million.		
CR Balance sheet – Short term debtors		(9.000)
DR Balance sheet – Usable reserves – general fund		9.000

1. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of all non-trivial errors which we identified during the course of our 2022/23 audit which management decided not to amend within the final set of financial statements.

Detail	CIES £'m	Balance Sheet £'m
3. OLB valuations		
The process for accounting for the adjustments required to correct the errors in the OLB valuations (see page 71 for more detail) was complex. During that process a series of miscellaneous asset value movements were not appropriately accounted for. This has resulted in a £3.090m understatement in the value at 31 March 2023, and a £5.696m understatement in the value at 31 March 2024 (of which £3.090m is being carried forward from the prior year). As the amount are immaterial, the Council have chosen not the adjust the accounts.		
2023/24:		
DR Balance sheet – Property, plant and equipment		2.606
CR CIES (OCI) - Surplus on revaluation of non-current assets and AHfS / Balance sheet – Unusable reserves – Revaluation reserve	(2.606)	
2022/23:		
DR Balance sheet – Property, plant and equipment		3.090
CR CIES (OCI) - Surplus on revaluation of non-current assets and AHfS / Balance sheet – Unusable reserves – Revaluation reserve	(3.090)	

1. Audit Adjustments

Impact of unadjusted misstatements in the prior year

The table below provides details of all unadjusted misstatements brought forward from the 2022/23 audit.

Detail	CIES £'m	Balance Sheet £'m
1. Accounting treatment for revaluations		
We identified an issue in the accounting for the valuation of Inverurie Community Campus, whereby the increase in the value of the all-weather pitches had incorrectly not been off-set against the original campus asset. The increase was posted to the revaluation reserve when it should have reversed prior period losses through the CIES. Please note that due to the change in materiality levels, for the current year, this error would be trivial.		
DR OCI – Revaluation Reserve	0.705	
CR CIES – General Fund	(0.705)	

1. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. This is not a complete list, as this does not include minor changes requested by the audit team, including typos and formatting requests, but includes all those which warrant your attention.

This list of misclassification and disclosure changes reflects presentational adjustments to the financial statements which have no impact on the Council's reported financial position.

Disclosure	Adjusted?
1. NESS plant and machinery The Council jointly owns an energy from waste plant, with two other Councils. The Council's share of the value of this asset has been recognised on the balance sheet under property, plant and equipment, and under 'other land and buildings' in Note 13. However, £56.222 million of the total £85.814 million relates to plant and machinery, and therefore should have been disclosed in Note 13 under 'vehicles, plant, furniture & equipment'.	Yes
2. Asset ceiling reconciliation The CIPFA Code 6.4.3.45(6) requires the Council to provide a separate reconciliation for the effect of the asset ceiling, which had not been included.	Yes
3. Revaluation schedule Note 13 includes a table showing the value of properties revalued over the past years. The dates in this table were initially incorrect.	Yes
4. Group CIES The Group CIES was presented with only the net income/expenditure position. This has been updated to disclose the income and expenditure separately.	Yes
5. Aberdeen City region deal The Council has disclosed a contingent liability in respect of the Aberdeen City Region Deal, which was not included in the draft accounts initially submitted for audit.	Yes

1. Audit Adjustments

Misclassification and disclosure changes

Disclosure	Adjusted?
6. Pension rate of return In order to meet the deadline for presenting accounts for audit, the Council's IAS 19 pension figures were prepared by their actuary based on an estimated rate of return (ROR). We reviewed the estimated ROR against the audited ROR for the pension fund as a whole and found that the two were materially different. Consequently, the Council obtained revised pension figures based on the actual ROR, which has resulted in a £38.077m decrease in the value of plan assets. However, because the recognisable surplus remains to be £nil, the impact of this reduction is to reduce the impact of the asset ceiling charged and therefore has no impact on the balance sheet or CIES figures.	Yes
7. Group MIRS The group MIRS did not include separate disclosure of the authority's share of the reserves of the joint venture before reporting total reserves of the group.	Yes
8. General fund working balance The general fund working balance disclosed in Note 7 (Usable reserves and earmarked balances) did not include the £3.991m drawn down in respect of the IJB reserves, as this was confirmed shortly after the preparation of the draft accounts. This will decrease earmarked balances and increase the general fund balance by £3.991m.	Yes

2. Action plan and recommendations – Financial statements audit

We have identified 6 recommendations for Aberdeenshire Council and the Group during our audit of the financial statements for the year ended 31 March 2024. We have agreed our recommendations with management and will report on progress against these recommendations during our 2024/25 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations and Reponses
High	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. 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.	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/ Head of Estates.** **Timeline – 31 March 2025**

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

2. Action plan and recommendations – Financial statements audit

Assessment	Issue and risk	Recommendations and Reponses
Medium	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.	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

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

2. Action plan and recommendations – Financial statements audit

Assessment	Issue and risk	Recommendations and Reponses
Medium	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.	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 UELs applied. The Council should embed a formal process for reviewing assets which have outlived their useful economic lives on an annual basis, to ensure the assets are still in existence. Management 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**
Medium	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.	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**

2. Action plan and recommendations – Financial statements audit

Assessment	Issue and risk	Recommendations and Reponses
Medium	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.	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

2. Action plan and recommendations – Financial statements audit

Assessment	Issue and risk	Recommendations and Reponses
High	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.	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 further review is planned as part of the development of the MTFS for 2025/26 budget process. Target date: 30 March 2025 Responsible Officer – Head of Finance/ Strategic Finance Manager

3. Action plan and recommendations – wider scope and best value

Issue / Risk	Recommendation	Agreed management response
Financial Sustainability – transformation savings A transformation programme is in place, but this is comparatively new and untested. So far, it has not generated options at sufficient pace or value to deliver the level of savings that will be required to close the significant gap identified in the MTFS. There is a risk that where sufficient savings and transformation plans are not identified sufficiently early in the process, or are not robustly planned and monitored, they may not be delivered in the required timeframe to the required value. This could lead to the rapid depletion of reserves and cause significant financial sustainability challenges for the Council within the next 1-2 years.	The Council should perform a detailed review of the savings set out in the MTFS and realistically assign timeframes to their achievement to ensure that sufficient savings are made in each year of the MTFS to enable a balanced budget to be set. A detailed transformation plan should be developed and appropriate project management and governance arrangements put in place to ensure it is delivered.	Action owner: Transformation Project Manager Timescale for implementation: June 2025 Savings will be delivered by services transforming, enabled by the transformation strategy and corresponding themes. This will enable sustainable transformation which will, in turn, support financial sustainability. A detailed transformation plan will be in place by June 2025 which will cover requirements including, but not limited to, resourcing, project management and governance. It must be noted that there is currently, robust governance arrangement in place, however these will be reviewed as part of the plan preparation to ensure that they do not hinder future delivery.
Financial Sustainability – HSCP The HSCP are experiencing overspends against budgets year-on-year without sufficient measures in place to manage budgets, performance and the associated financial risks. The key risk lies in earmarked reserves allocated to balancing the HSCP budget depleting at an unsustainable level beyond the medium term, and whether the Council have sufficient governance and risk management in place to deal with this.	The Council should carry out an in-depth review of budget and performance management of the partnership, including an analysis of the adequacy of governance and risk management processes in place, particularly around Adult Social Care, to ensure that the Council can meet its demand.	Action owner: Head of Finance & Chief Officer of the HSCP Timescale for implementation: An in-depth review is currently underway with estimated completion date of September 2025.

3. Action plan and recommendations – wider scope and best value

Issue / Risk	Recommendation	Agreed management response
Effective use of resources – partnership working governance arrangements An Internal Audit review of the Aberdeen City Region Deal during 2023/24 highlighted a number areas of improvement required to the governance and monitoring in place for the Deal. An action plan was developed and is being implemented. There is a risk that further overspends may occur if the governance and monitoring for the deal does not improve as planned. The Peterhead Community Campus was scoped inaccurately meaning that budgets are insufficient and delays are now being incurred as the scope and design of the project is amended to reflect the budget. Without strong performance monitoring and robust governance arrangements, there is a risk that the project will continue to overspend and not deliver on time.	The Council should seek to strengthen governance arrangements, including financial monitoring, for their partnership working, namely the Aberdeen City Region Deal and the Peterhead Community Campus.	Action owner: Aberdeen City Region Deal – Head of Finance Peterhead Community Campus – Head of Property and Facilities and Head of Finance Timescale for implementation: Aberdeen City Region Deal Financial Monitoring – This will be addressed during the review of the Strategic Finance Service. We will make the necessary adjustments to reflect the risks associated with the Deal, ensuring that all potential impacts are thoroughly considered and mitigated where appropriate. Peterhead Community Campus - Changes have already been implemented in the monitoring and governance arrangements. These will continue to be reviewed and enhanced to ensure robust oversight and effective management. Our ongoing commitment to strengthening these processes will help us maintain high standards of accountability and transparency.
Best Value – performance reporting The Council's performance reporting in its annual performance report is overly summarised. Details of key performance indicators or trend data is not included. There is a risk that by not including detailed performance data that true performance is not properly understood.	The Council should seek to revisit and refresh their annual performance reporting to include key performance indicators and trend data.	Action owner: Head of Customer and Digital Services Timescale for implementation: Sept 2025 Changes will be reflected in the Annual Performance report.

3. Action plan and recommendations – wider scope and best value

Recommendations raised in the 2023/24 Best Value thematic review

We have set out below, based on audit work performed in 2023/24, the key recommendation arising from the best value thematic review. Given the timing of our reporting on the thematic, no follow up on recommendations has been made at this time.

Issue / Risk	Recommendation	Agreed management response
Council-wide workforce data analysis Workforce data analysis is primarily held within individual services, with no over-arching analysis of where skills gaps and capacity may lie. There is a risk that without this, the council does not effectively monitor the workforce and thus not enable the full value of savings or staff benefits.	The council should develop council-wide workforce data analysis to ensure the maximum benefit is achieved from the Springboard programme and there is clarity where technology support is required for digital innovation to be achieved.	Management response: Council wide workforce data and trends is available to services and SLT and used to develop the workforce planning element of business plans. Included in a report to SLT scheduled for September 2024 is a proposal that service business plans and corporate data analysis along with the Springboard programme results will be reported through business services committee twice a year for scrutiny. This will be in place for November 2025. Action owner: Karen Wiles Timescale for implementation: November 2025

3. Action plan and recommendations – wider scope and best value

Issue / Risk	Recommendation	Agreed management response
Transformation Strategy linkage The Transformation Strategy, along with the Workforce Strategy and the Council Plan are key documents that will support Aberdeenshire Council's journey to efficiency, effectiveness and closing the savings gap identified in the MTFS. To do this, these documents should be formally linked and recognised as being interdependent. Failure to do this could lead to gaps arising in the forward planning of service delivery. .	The council should formally link the expected outcomes of the three key policies that will influence workforce planning and innovation going forward.	Management response: The corporate workforce strategy for Aberdeenshire Council is in draft form and called the People Strategy. Due to be considered at SLT in September this document contains links to transformation, the MTFS and Council Plan and demonstrates how the documents work together to achieve our ambition. This will be supplemented by an infographic. A programme of transformation culture and behaviours is in development. This initial phase will be completed by Autumn 2024 with delivery commencing within the calendar year. This will include management and leadership workshops, team talks, leadership forum and promoting examples of successful transformation at all stages and levels Action owner: Director of Business Services Timescale for implementation: December 2024

3. Action plan and recommendations – wider scope and best value

Issue / Risk	Recommendation	Agreed management response
Estates strategy Hybrid and remote working is now fully embedded at the council. As a result, there is a decrease in the level of office space required which could be put to other uses that would increase savings and/or generate additional revenue or capital income for the council. Progress in this area has been slow, with limited savings and benefits being recognised to date.	The council should formally link the expected outcomes of the three key policies that will influence workforce planning and innovation going forward.	Management response: The corporate workforce strategy for Aberdeenshire Council is in draft form and called the People Strategy. Due to be considered at SLT in September this document contains links to transformation, the MTFS and Council Plan and demonstrates how the documents work together to achieve our ambition. This will be supplemented by an infographic. A programme of transformation culture and behaviours is in development. This initial phase will be completed by Autumn 2024 with delivery commencing within the calendar year. This will include management and leadership workshops, team talks, leadership forum and promoting examples of successful transformation at all stages and levels Action owner: Karen Wiles Timescale for implementation: December 2024

3. Action plan and recommendations – wider scope and best value

Issue / Risk	Recommendation	Agreed management response
Council-wide reporting framework As the council embarks on their transformation programme, to transform the way the council works and achieve a significant savings gap, it is imperative that progress is monitored regularly and rigorously at all levels to ensure objectives are met. Without regular and rigorous review of performance measures, the council runs the risk that the desired objectives are not achieved. This should also include, when agreed, the expected savings to be obtained from workforce changes and office space reductions.	The council should develop a suite of performance measures, council-wide and service specific, that should be reported on regularly with rigorous follow up where objectives are not met.	Management response: The People Strategy and accompanying report to SLT in September 2024 outlines how the four proposed pillars of the People Strategy will be mirrored in the business plans. The proposed pillars are skills, well-being, fairness and right people right place. It is proposed that the 2025/26 business plans workforce sections outlines the state of their workforce currently and in future and what actions services will take to work towards the future state across the four pillars. These actions will be monitored along with corporate actions to BS Committee twice a year. PIs around absence, turnover, well-being and establishment have been developed and are proposed in the new People Strategy Action owner: Karen Wiles Timescale for implementation: March 2025

4. Follow up of prior year recommendations – Financial statements audit

Progress against prior year audit recommendations

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

We have set out below, our follow up of the recommendations made last year and management's progress in implementation:

Auditor assessment	Issue and risk previously communicated	Agreed management response
Complete	1. Bank reconciliations Issue – Formal bank reconciliations are not being prepared for all of the Council's bank accounts. Furthermore, the year-end bank reconciliations show some £1.626m of reconciling items. This appears to be excessively high. Risk – There is a risk that the cash and bank position could be misstated. Additionally, there is a risk that the Council will not have accurate information to inform appropriate cash management. Recommendation – Bank reconciliations should be performed for all bank accounts, and the Council should make progress towards more accurate reconciliations with fewer reconciling items.	Management update: Complete – Rec supplied for 2023/24
Ongoing – please refer to current year recommendation	2. Internal recharges Issue – A total of £118.700m of internal recharges have been removed from the income and expenditure of the accounts (after adjusted audit misstatement 4, detailed in Appendix 1). *(continued overleaf)*	Management update: As above for Internal Recharges - Progress has been made but a full review is to be undertaken in 2024/25

4. Follow up of prior year recommendations – Financial statements audit

Progress against prior year audit recommendations (continued)

Auditor assessment	Issue and risk previously communicated	Agreed management response
	2. Internal recharges (continued) Of these, only £118.407m of the income and only £49.451m of the expenditure was identifiable. Therefore, we have been unable to test the remaining £0.294m of income and £69.249m of expenditure. The untested expenditure recharges are substantial in value, and we have had to place reliance on our testing of the income leg of the internal recharges to gain sufficient assurance over them. Additionally, we have had to perform additional testing over the 'other expenditure' due to not being able to remove the recharges from our testing population, which has taken additional time. Risk - Inability to identify internal recharge transactions presents a risk that they have been incorrectly removed from the financial statements and inhibits our ability to audit them. Recommendation – The Council should ensure that all recharges are identifiable and should work to reduce the quantity of internal recharges.	
Complete	3. Market review for council dwellings Issue – The Council's valuer performs a market review each year to assess the risk of material movement in the value of the Council's assets. For the council *(continued overleaf)*	Management update: A comprehensive market review was carried out at 31 March 2024 to assess the risk of material movements in

4. Follow up of prior year recommendations – Financial statements audit

Progress against prior year audit recommendations (continued)

Auditor assessment	Issue and risk previously communicated	Agreed management response
	3. Market review for council dwellings (continued) dwellings this review was largely directed towards a small portfolio of acquisitions made by the Council. Risk – It is our view that this presents a risk that the research is not representative of the wider housing market, and therefore presents a risk of material misstatement in the value of assets. Recommendation – The Council should incorporate wider market data into their research when assessing market movements.	assets not subject to revaluation during the year.
Complete	4. Review of assets not revalued in year Issue – The Council did not produce a *quantified* assessment of the potential change in value of those assets which were not revalued at 31 March 2023. The Council is permitted, under the Code, to revalue assets on a rolling 5 year basis, only if the impact of doing so is not material. Without performing a quantified assessment the Council is unable to determine if this is the case. Risk – PPE values could be materially misstated. Recommendation – The Council should perform a *quantified* assessment of the potential change in value of asset which they do not intend to value at 31 March, based on market research as appropriate.	Management update: As noted in response to point 3, a comprehensive market review was carried out at 31 March 2024 by the Council's internal valuers. This was then reviewed by the Finance team to develop a quantified assessment of potential changes in value

4. Follow up of prior year recommendations – Financial statements audit

Progress against prior year audit recommendations (continued)

Auditor assessment	Issue and risk previously communicated	Agreed management response
Ongoing – improvements continue to be made by the Council	5. Fixed Asset Register, valuations and reconciliations Issue – Numerous issues and errors were identified with regard to PPE. These included: - The Council has a single fixed asset register but is not able to produce a single report that reconciles directly to the financial statements. - The Valuation report did not agree with the FAR or the disclosures in the financial statements. - Errors were identified with regard to PFI and depreciation. Risk – PPE values could be materially misstated. Recommendation – In preparation for the 2023/24 financial statement audit the Council should reviews its: - Accounting procedures and quality control over PPE - Valuation procedures and quality control over PPE.	Management update: 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
Complete	6. Aged creditor balances Issue – There are some £68.671m of debits and £76.478m of credits included in the short-term creditors balance which date from 2019/20 or older. The net balance of £7.807m is made up of 12,623 individual transactions, with some dating back as far as 1999/2000. *(continued overleaf)*	Management update: Management has reviewed and concluded that there is no overstatement. This review Identified that this £7.807m balance was incorrect due to an error in audit

4. Follow up of prior year recommendations – Financial statements audit

Progress against prior year audit recommendations (continued)

Auditor assessment	Issue and risk previously communicated	Agreed management response
	6. Aged creditor balances (continued) Risk – There is a risk that these creditor balances are not genuine and therefore that creditors is overstated. Recommendation – The Council should seek to reduce this balance, either by identifying and paying the creditors, or writing them off.	workings – True balance was £3.656m of which £2.971 was a genuine creditor and the remainder either cleared in later years or amended during a review in 2024/25.
Complete	7. Aged debtor balances Issue - Included within short term debtors of £78.240m was £1.384m of 'opening balances' for which no breakdown was provided. Risk - There is a risk that these debtor balances are not genuine and therefore that debtors is overstated. Recommendation – The Council should seek to reduce this balance, either by identifying and collecting the debtors, or writing them off.	Management update: Review of debtor balances was undertaken in 2024/25. The aged Balance now approx.. £660,000. Remaining balances are in relation to Employee Benefits (long term arrangements £80k) and Payroll Debtors of £580k which is currently under review. Finance are also undertaking a review of all debtor and creditor transactions to ensure ledger data is cleansed to only show true transactions relevant to the balances held in the accounts for each financial year.

4. Follow up of prior year recommendations – Financial statements audit

Progress against prior year audit recommendations (continued)

Auditor assessment	Issue and risk previously communicated	Agreed management response
Ongoing – Please refer to current year recommendation	8. Nil NBV assets Issue - The Council's asset register includes 1,177 assets which are being held at £nil net book value as they have been fully depreciated. The gross book value of these assets is £102.736m. Risk – There is a risk that the gross cost and accumulated depreciation are overstated, or that UELs are inappropriate. Recommendation – The Council should perform a review of assets with £nil net book value to ensure that they remaining in use and, if they do, the Council should assess the appropriateness of the UELs applied. The Council should embed a formal process for reviewing assets which have outlived their useful economic lives on an annual basis, to ensure the assets are still in existence.	Management update: A 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
Complete	9. Ledger mapping Issue - As part of our journals testing, we import the Council's general ledger transactions into our data analytics software, which enables us to run a number of routines to identify those transactions which might be most likely to be at risk from management override of controls. In order to run these routines effectively, we need to know where in the accounts a transaction has been posted to, or where the transactions are 'mapped' to. *(continued overleaf)*	Management update: Detailed mapping files provided for 2023/24

4. Follow up of prior year recommendations – Financial statements audit

Progress against prior year audit recommendations (continued)

Auditor assessment	Issue and risk previously communicated	Agreed management response
	9. Ledger mapping (continued) The Council were only able to provide a mapping document at a relatively high level. For example, showing transactions as being posted to Unusable Reserves, rather than those posted to the Revaluation Reserve, as opposed to the Capital Adjustment Account. Risk - There is a risk that instances of management override of controls which would otherwise have been detected by our testing could have gone unfound because our testing was inhibited by a lack of detailed mapping information. Recommendation – The Council should work to provide a more detailed mapping document (subjective level) for the 2023/24 audit.	

5. Follow up of prior year recommendations – wider scope and best value

Progress against prior year audit recommendations

We have set out below, our follow up of the recommendations made in our 2022/23 Annual Audit Report Wider Scope reporting. A total of seven recommendations were made, of which one has been cleared, albeit progress has been made against all other recommendations:

Risk and Recommendation	Agreed officer response in prior year	Update at September 2024
Financial Sustainability - Transformation **Risk:** Transformation programmes are at a very early stage at the Council and therefore a depth of pace will need to be undertaken on the programme in order to ensure the Council can bridge the significant funding gap in a short space of time in order to remain financially sustainable. **Recommendation:** In order to ensure financial sustainability, the Council will need to ensure that its transformation programme is in place as soon as possible, and by December 2023 at the latest. The council and policy committees will need to monitor progress and delivery regularly	Aberdeenshire Council at its meeting of Full Council of 23 November 2023 agreed a Transformation Strategy and associated governance framework. Policy committees play a key role within the framework monitoring their areas of responsibility with biannual (twice yearly) reporting to Full Council. Policy committees to monitor their areas of responsibility and twice yearly reporting will be provided to Full Council, with links to the MTFS.	Following the approval of the Transformation Strategy in November 2023, an update was provided to full council in June 2024, along with the business case for digital, data and technology. Updates on the Transformation Strategy will be presented twice yearly going forward. Policy committees have overseen the development of business cases on the transformation themes and following approval will be subject to regular monitoring, which is being built into the committee schedule.

5. Follow up of prior year recommendations – wider scope and best value

Risk and Recommendation	Agreed officer response in prior year	Update at September 2024
Financial Sustainability - Capital **Risk:** The current capital plan is unaffordable and if not reviewed could have serious revenue implications and impact the financial sustainability of the Council. **Recommendation:** The Council should review the affordability of the proposed capital plan and its revenue implications. It is important that the Council considers what is affordable to ensure continued financial sustainability as well as ensuring that agreed capital spend supports the delivery of Council plan priorities	A Sub Group of the Council's Capital Plan Group has been established to undertake the review of the Capital Plan, in terms of affordabilty, deliverability and impact of associated implications. As part of this work, a Capital Plan Strategy is in the process of being developed. The outputs of this review and associated Strategy will be reported as part of the part of the Council's budget setting process for 2024/2025. .	The Capital Plan was reviewed through the Capital Plan Sub Group and was subject to an affordability and achievability review. The Capital Plan was approved by the Council as part of the budget setting meeting in February 2024, with a cap of 8.5% on borrowing agreed. The development of a Capital Strategy will be progressed during 2024/25 and in line with the 2025/26 budget process will be reported back to Council for approval as part of final budget reports in February 2025.
Vision, Leadership and Governance – Updating Policies **Risk:** Policies such as whistleblowing and equality policies have not been updated for a number of years. There is a risk that policies become ineffective if these are not reviewed and updated on a regular basis. **Recommendation:** A review of historic policies should be undertaken and updated where required.	A review of polices shall be undertaken to ensure all externally facing policies are included in the corporate reporting framework.	This review has been undertaken and all policies are being considered by their respective policy committees to determine a timetable for updates being made

5. Follow up of prior year recommendations – wider scope and best value

Risk and Recommendation	Agreed officer response in prior year	Update at September 2024
Vision, Leadership and Governance- Adult Social Care **Risk:** The prior year LGBF results indicate that performance in the Council's Adult Social Work Services has decreased year on year. In some instances, the performance metrics Council are below the national average Council. High risk governance recommendations were also raised by internal audit with regard to the IJB. Although the Council do not hold responsibility for the governance of the IJB, the Council do have the responsibility to ensure the delivery of services of adult social care which is interlinked with the performance of the IJB. **Recommendation:** It is important the Council ensure there are effective management functions and governance in place at the Council to ensure delivery of performance is improved for Adult Social Care Services	Internal Audit's report 'Assurance Review of IJB Governance' instigated the Committee Review Process and an action plan was developed for 15 recommendations. 10 are completed with 5 outstanding but on schedule to be closed by the deadline	All actions from the Internal Audit report have now been completed except one. The last recommendation relates to publication of agendas for the Clinical and Adult Social Work Committee. Information is provided to this Committee from both Council and NHSG and agreement is therefore required on publication of information. Work is progressing rapidly with the Information Governance team of NHSG with the aim to complete as soon as practicable. The IJB approved the Governance Handbook in March 2024 which incorporated the changes required that allow reports to be published appropriately as required.
Best Value - Council vision and priorities To reduce the risk of silo working the council will need to ensure that it provides a holistic view of areas of best practice as well as challenges or performance improvement by performing an overall review of head of service business plans in a collective manner It will be important that as progress against the council plan is monitored that the council is able to identify themes across a range of service areas in relation to performance, best practice and challenges. This will support cross department working and an overview of progression against the council plan.		Business plans were peer reviewed through the Collaboration Board prior to consideration at SLT and committees. The approach is being repeated as business plans are being updated to reflect the new Council Plan and Priorities. The annual performance report presented to full council on 25th September contains a number of case studies relating to each of the Council Priorities. This approach will continue in future annual reports.

5. Follow up of prior year recommendations – wider scope and best value

Risk and Recommendation	Agreed officer response in prior year	Update at September 2024
Reducing inequalities and tackling climate change There is a risk that integrated impact assessments can become a tick box exercise and that they may not be effectively used to inform strategic decisions when being provided for consideration alongside detailed committee reports. We recommend that where integrated impact assessments are provided alongside an agenda item that these are appropriately considered within committee meetings and minuted to provide an audit trail which evidences the use of impact assessment are appropriately informing strategic decisions and are considered and acted on at the planning stage of the decision-making process.		To be actioned when mentioned in debate
Alignment of delivery plans - Transformation Transformation programmes are at a very early stage at the council and therefore a depth of pace will need to be undertaken on the programme in order to ensure the council can bridge the significant funding gap in a short space of time and ensure continued financial sustainability. It is important that the council and policy committees monitor the progress and delivery of the transformation programme and outcomes at a close level to ensure that not only efficiencies can be delivered but that financial sustainability can be achieved. In order to ensure financial sustainability for the medium to longer term, the Council will need to ensure that it is able to deliver increased productivity and efficiency initiatives in order to reduce costs and deliver financial benefits. The council will also need to use transformation to re-prioritise resources to priority areas and either reduce or stop expenditure in non priority areas.		The Transformation Strategy was approved by full council in November 2023. work is ongoing to monitor progress against the strategy.

6. Audit fees, ethics and independence

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence 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. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Council's Ethical Standard.

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

Matter	Conclusion
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 with regard to non-audit services.
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.

6. Audit fees, ethics and independence

Independence and ethics (continued)

We confirm that there are no significant facts or matters that impact on our independence 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 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.

Fees and non-audit services

The tables below set out the total fees for audit and other services charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

For the purposes of our audit, we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to Aberdeenshire Council. The table summarises all non-audit services which were identified.

External Audit Fee

Service	Audit Plan	Annual Audit Report
External Auditor Remuneration	£318,180	£403,580*
Pooled costs	£11,600	£11,600
Contribution to Audit Scotland support costs	£nil	£nil
Contribution to Performance Audit and Best Value (PABV) costs	£98,820	£98,820
Sectoral Cap Adjustment	£60,420	£60,420
2023/24 Audit Fee	**£489,020**	**£574,420**

Fees for other services

Service	Fees
Fee for audit of charitable trusts	£12,700
We confirm that for 2023/24, we did not receive any fees for non-audit services	£nil

* An £85,400 fee variation has been charged for the financial statement audit. The fee is subject to agreement by the Council and Audit Scotland. The fee is inclusive of VAT.

6. Audit fees, ethics and independence

Independence and ethics (continued)

Financial statements

The fees do not reconcile directly to the financial statements. We have provided a reconciliation below for the fee on page 101. The figures are in round thousands as per the disclosure in Note 11 External Audit Costs.

	£'000
Note 11 External Audit Costs	502
Additional fee	85
2023/24 Audit Fee per page 101	**587**

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to John Gilchrist, Audit Scotland Quality and Appointments, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2021 (grantthornton.co.uk)

7. Communication of audit matters

International Standard on Auditing ISA (UK) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance. These are set out in the table below.

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

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