Aberdeenshire Council

2020/21 Annual Audit Report

AUDIT SCOTLAND

Prepared for the Members of Aberdeenshire Council and the Controller of Audit

16 December 2021

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Key messages

2020/21 annual accounts

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2 The annual governance statement and remuneration report were consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance. Arrangements for the preparation of the management commentary were improved but the content fell short of relevant guidance.

3 Material misstatements were identified in respect of non-current assets which is an area of recurring accounting difficulty for the council. While corrections have been made to the accounts each year, there is a need to review the accounting arrangements.

Financial management and sustainability

4 Capacity within the finance function continues to be an area of risk. Financial management arrangements are appropriate with some scope for improvement identified. Covid-19 pressures were met through Scottish Government funding and the emerging financial impact of Covid-19 was promptly reported to elected members.

5 Financial planning was complicated and uncertain during 2020/21 and this is likely to continue. Indicative five year budgets estimate a funding gap of £65m by 2025/26. Medium term financial planning should be refreshed to reflect the impact of the pandemic and enhanced to include more sophisticated modelling and scenarios linked with council priorities.

Governance and transparency

6 Covid-19 did not have a significant impact on governance arrangements and business continued to operate largely as normal. There was limited public scrutiny of performance information in the year but a new framework has now been implemented. We also observed improvement in the operation of the audit committee.

Best Value

7 Work undertaken in response to the Best Value Assurance Report provides a good foundation to go forward. The new arrangements need to be refined and embedded to enable a culture of continuous improvement to be demonstrated and supported.

Introduction

1. This report summarises the findings arising from the 2020/21 audit of Aberdeenshire Council (the council) and its group.

2. The scope of the audit was set out in our 2020/21 Annual Audit Plan presented to the Audit Committee on 25 March 2021. This report comprises the findings from an audit of the annual accounts and consideration of the four audit dimensions that frame the wider scope of public audit set out in the Code of Audit Practice 2016.

3. The main elements of our audit work in 2020/21 have been:

- an audit of the annual accounts of the council and its group including the statement of accounts of the four section 106 charities administered by the council
- a review of the council's key financial systems
- consideration of the four audit dimensions including follow up audit work of the recommendations made in the 2020 Best Value Assurance Report.

4. The global coronavirus pandemic has had a considerable impact on Aberdeenshire Council during 2020/21. This has had significant implications for the services it delivers and the suspension of non-essential projects and activities, such as capital investment.

Adding value through the audit

5. We add value to the council through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

6. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

7. The council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

8. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government (Scotland) Act 1973, the Code of Audit Practice 2016 and supplementary guidance, and International Standards on Auditing in the UK.

9. As public sector auditors, we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the council's performance management arrangements
- the suitability and effectiveness of corporate governance arrangements, and financial position
- the arrangements for securing financial sustainability
- Best Value arrangements.

10. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

11. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

12. Our annual audit report contains an agreed action plan at Appendix 1 setting out specific recommendations, responsible officers and dates for implementation.

Auditor independence

13. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements, auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £411,220 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual accounts

The principal means of accounting for the stewardship of resources and performance.

Main judgements

Our audit opinions on the annual accounts of the council, its group and the four section 106 charities administered by the council are unmodified.

The annual governance statement and remuneration report were consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance. Arrangements for the preparation of the management commentary were improved but the content fell short of relevant guidance.

Material misstatements were identified in respect of non-current assets which is an area of recurring accounting difficulty for the council. While corrections have been made to the accounts each year, there is a need to review the accounting arrangements.

Our audit opinions on the annual accounts are unmodified

15. The audited accounts for the council and its group for the year ended 31 March 2021 were approved by the Audit Committee on 16 December 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

16. We have nothing to report in respect of: misstatements in information other than the financial statements, the adequacy of accounting records, or the information and explanations we received.

Our audit opinions on Section 106 charities were unmodified

17. Due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of Aberdeenshire Council are sole trustees, irrespective of the size of the charity. For Aberdeenshire Council, the applicable charities are:

- Aberdeenshire Charities Trust (known as ACT2)
- Aberdeenshire Educational Trust
- Anderson and Woodman Library Trust
- McDonald Public Park Endowment.

18. We received the charities accounts in line with the agreed timetable and after completing our audits, we reported in the independent auditor's reports that:

- the financial statements give a true and fair view of the charity's financial position and are properly prepared in accordance with charities legislation
- the trustees' annual report is consistent with the financial statements and prepared in accordance with proper accounting practices.

19. During this audit appointment, we have regularly highlighted the relatively low levels of expenditure being incurred by the charities and as a result, the risk that the charitable aims are not being met and therefore some of the charities may be failing to provide public benefit. On conclusion of the 2019/20 audit, we wrote to the trustees of Aberdeenshire Educational Trust and Mcdonald Public Park Endowment to provide a reminder of trustee responsibilities and to promote the use of these specific trusts.

20. We note disbursements by both of these trusts in the year and acknowledge the positive steps that has been made. We also support the plans being developed to increase accessibility to the funds but we would encourage elected members, in their role as trustees, to ensure these plans are progressed in a timely fashion.

Timescales for delivering the audited accounts were delayed due to the continuing impact of Covid-19

21. The Scottish Government advised that the provisions made in Schedule 6 of the Coronavirus (Scotland) Act 2020 are sufficient to allow each local authority to determine its own revised annual accounts timetable. Aberdeenshire Council decided to take advantage of this provision and delayed the submission of its unaudited accounts from 30 June 2021 until 6 August 2021. These accounts were formally considered by the Audit Committee on 16 September 2021.

22. Supporting working papers were largely provided within agreed timescales. They were of a good standard and finance staff provided prompt responses to audit queries raised during the audit. This helped ensure that the audit of the annual accounts process ran smoothly.

23. We were intending to report to the Audit Committee in November 2021 but due to competing demands because of extended deadlines and the knock on effect of closing 2019/20 audits later, we delayed our reporting by one committee cycle. The annual accounts were therefore approved by the committee on 16 December 2021.

Overall materiality is £17m

24. We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values.

25. The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment.

26. Our initial assessment of materiality is undertaken at the planning phase of the audit and reviewed on receipt of the unaudited annual accounts. 2020/21 values are summarised in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. Based on our professional judgement, it has been set at 1.5% of gross expenditure on provision of services.	£17m
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, performance materiality has been calculated at 60% of overall materiality.	£10m
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been set at 1.5% of overall materiality.	£250,000

Source: Audit Scotland, Annual Audit Plan 2020/21

Appendix 2 identifies the main risks of material misstatement and our audit work performed to address these

27. Appendix 2 provides our assessment of the risks of material misstatement in the annual accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. The appendix identifies the work we undertook to address these risks and our conclusions from this work.

Identified misstatements of £148m were adjusted in the accounts

28. Misstatements identified during the audit which were amended in the accounts had the overall effect of increasing net income on the comprehensive income and expenditure statement (CIES) by £148m, decreasing net assets by £33m and increasing prior year reserves by £115m. The main adjustment related to the revaluation of council dwellings. This was originally disclosed as a 2020/21 event but has now been treated as a prior year adjustment. More detail on this matter is included in Exhibit 2.

29. The material misstatements identified related to non-current assets which is an area of recurring accounting difficulty for the council. While corrections have been made to the accounts each year, there is a need to review the accounting arrangements.

Recommendation 1

A review of the accounting arrangements for non-current assets should be undertaken.

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30. A number of other misstatements were identified during the course of our audit and while it is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, the final decision on this lies with those charged with governance, taking into account advice from senior officers and materiality.

31. Management do not propose to adjust for the misstatements set out in Appendix 3, as the amounts are not considered material in the context of the accounts. Had the accounts been adjusted, the net impact would have been to reduce net income on the CIES by £4.9m with a corresponding decrease in Net Assets.

Significant findings from the audit in accordance with ISA 260

32. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body’s accounting practices covering accounting policies, accounting estimates and financial statements disclosures. We had no significant findings to report around the qualitative aspects of the annual accounts process.

33. The significant findings are summarised in Exhibit 2. Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 has been included.

Exhibit 2
Significant findings from the audit of the financial statements

Finding
1. Revaluation of council dwellings The carrying amount of an item of property, plant and equipment should reflect its current value. However, the Code of Practice on Local Authority Accounting (the Code) does not explicitly require an annual revaluation. Instead, revaluations are required to be made with sufficient regularity to ensure that the carrying amount does not differ materially from current value. The Code sets 5 years as the maximum interval but that is only appropriate where the annual change in value is not significant. More frequent valuations are appropriate for assets that experience significant annual changes in value. The council operates a rolling five year programme of revaluation. Council dwellings were last revalued in 2016/17. In 2020/21, the valuer identified a significant downward movement in the housing market in the year, this was the first significant movement identified since the previous revaluation. The council's dwelling stock, approx. 13,000 properties, was therefore revalued and approx. £100m in value was added to non-current assets. While the housing market generally fell in value, the revaluation of council stock increased in value by approx. £100m. Council stock is valued at Existing Use Value for Social Housing (EUV-SH) in line with the Code. The EUV is based on the vacant possession value of the dwelling stock, with a discount applied to reflect social housing values. The discount factor considers the gap between private and public sector rent levels. Over the period since 2016/17, the north east of Scotland has experienced a fall in private sector rents following the downturn in the local energy sector. As a result, the public/private gap has narrowed which has resulted in an increase in the social housing element, from 28.6% in 2016/17 to 40.2% in 2020/21. A substantial movement in the value of an asset in any one year might indicate that the carrying amount at each year end since the previous valuation exercise was under/overstated. We therefore queried whether the change in value of approx. £100m should have been reflected in the accounts over the period since 2017 and whether it should be disclosed in the 2020/21 accounts as a prior year adjustment. **Resolution** The valuer's report for 2020/21 compared the market movements in 2021 with those in 2016 and identified 2020/21 as the year of change. The report did not however cover the change is social housing factors. We undertook broad, approximate calculations which suggested that the factor had increased by a similar percentage each year (2017 - 25%, 2018 - 28%, 2019 - 30% and 2021 - 31%). Whilst maintaining the same valuation figure, the application of this changing social housing factor would materially shift the value on the balance sheet each year. Due to the material amount of the revaluation, the change should be reflected as a prior year adjustment. The revised accounts have been amended accordingly.

Finding
Recommendation 1 (refer Appendix 1, action plan 1) Management should consider a valuation methodology whereby 20 per cent of each class of asset is revalued each year, with all assets still being revalued once over a 5-year period.
2. Inverurie Community Campus The Inverurie Community Campus valued at £55m opened in October 2020 and has been correctly included in the council's balance sheet at 31 March 2021. Delivered through a PPP arrangement, we confirmed that the financial model supporting the overall PPP liability was developed in accordance with the appropriate guidance, that the asset was correctly brought onto the Balance Sheet and subsequently formally revalued at fair value. While the new campus has been built on the site of the former school, those former school assets were not treated correctly in the unaudited accounts. The assets, with a total value of £35m, were not subject to an impairment review to reflect that they were no longer operational as at 31 March 2021. They were infact due to be demolished to form the car park and playing fields of the new campus. **Resolution** The revised accounts have been amended to reflect the impairment of the former school buildings.
3. Inverurie Town Hall is a Common Good asset A judicial review, published in August 2020 relating to Angus Council, concluded that all council assets built on Common Good land cannot be considered as owned separately from the land they stand on and are therefore Common Good assets. This is a new legal ruling with wide ranging impact on all Common Good funds across Scotland. Aberdeenshire's common good funds were inherited from the former town councils and can be disbursed on projects within the boundaries of these former burghs. The funds are administered by the council but the transactions and assets held by the funds are separate from those of the council. As part of the council's Office Space Strategy, Inverurie Town Hall is being refurbished and extended to provide additional office accommodation and enhanced public space. Having checked the title deeds for the property, officers established that Inverurie Town Hall and surrounding areas comprise inalienable common good land and is not owned by the council as previously thought. The value of the property at 31 March 2021 was £2.6m. **Resolution** The annual accounts of both the council and common good funds will be amended to reflect the correct ownership of Inverurie Town Hall. Operational assets which stand on Common Good land and are used to deliver council services can be considered in substance, if not legal form, to be finance leases, i.e. the council bears all the risks and rewards of asset ownership, even though the Common Good is the legal owner. Assets leased under finance leases are shown on the Balance Sheet of the lessee, so the 2020/21 council accounts which already include these assets in the Balance Sheet are not likely to be materially misstated. The value of those assets should however be disclosed in the accounts as leased rather than owned assets.

Finding
Recommendation 2 (refer Appendix 1, action plan 2) The council should review its accounting policies for its use of Common Good assets, including responsibility for maintenance costs and rental payments; and determine exit strategies for when assets are no longer used by the council or reach the end of their useful lives. The council should also determine if it has other operational assets which are on Common Good land as these would now legally be considered Common Good assets rather than council owned assets.
4. Untaken leave accrual The Code requires bodies to recognise the liability for any untaken leave at the year end that can be carried forward, in accordance with IAS 19 Employee Benefits. The unaudited accounts included an accrual of £12.9m to reflect this balance. Our review of the calculation indicated that the accrual was overstated by £0.9m. **Resolution** The accounts have not been amended in respect of this matter. The amount has been included on the schedule of unadjusted errors at Appendix 3.
5. Grant income During 2020/21, the Scottish Government provided councils with a range of Covid-19 funding to support not only councils themselves, but also businesses and individuals within their areas. The key accounting consideration for councils was to assess if it was acting as a principal or agent in the process. Under the Code, principal is defined as where the authority is acting on its own behalf and agent is defined as where the authority is acting as an intermediary. The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued guidance to assist councils in making their assessment on the correct accounting treatment to be applied. We reviewed the council’s assessment and are satisfied that the council has correctly accounted for Covid-19 funding as principal or agent as appropriate. A total of £64m was classified as principal and included as grant income with a further £65m classified as agency arrangements. **Conclusion** – we are satisfied with the principal/agency classification and the accounting treatment of grant income received.

Source: Audit Scotland

Management commentary, annual governance statement and remuneration report

34. The Local Authority Accounts (Scotland) Regulations 2014 require the annual accounts to include a management commentary prepared in accordance with statutory guidance. An annual governance statement and a remuneration report that are consistent with the disclosures made in the financial statements are also required.

Management commentary

35. The preparation of the management commentary was identified in our 2019/20 annual audit report as an area in need of improvement. For 2020/21, the management commentary needed to tell 'the story' of the council's response to Covid-19. Also, Finance Circular 10/2020 which allowed bodies to disapply specified requirements in 2019/20 did not apply in 2020/21 and therefore the commentary was expected to include non-financial performance information.

36. The submission of the unaudited accounts was largely delayed to provide extra time for the preparation of the commentary and to involve the senior leadership team in the process. While there was wider engagement in the process which we commend, the content of the commentary fell short of relevant guidance in several key areas e.g. it did not initially include any non-performance information.

Recommendation 3

The process for the preparation of the Management Commentary requires review to ensure the document complies with Scottish Government guidance and the Code of Practice on Local Authority Accounting.

Annual Governance Statement

37. Improvements have been made in recent years to the underlying arrangements supporting the preparation of the annual governance statement. We note and support the wider engagement of elected members and the senior leadership team in the process.

38. As part of the audit, we requested further detail be included in the statement on completed actions and that further consideration be given to the completeness of the actions arising from the review of 2020/21. Revisions have been included in the audited statement.

Remuneration Report

39. Councils have been required to produce a remuneration report within their annual accounts since 2011. Scottish Government guidance sets out the expectation that remuneration reports be placed alongside the annual governance statement in the accounts. Aberdeenshire Council separated the statements within its unaudited accounts by placing the remuneration report after the primary statements rather than as part of the governance arrangements. We reminded officers of expectations around the positioning of the remuneration report and it was subsequently correctly placed with the governance statement in the audited accounts.

2. Financial management

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Main judgements

Capacity within the finance function continues to be an area of risk. Financial management arrangements are appropriate with some scope for improvement identified. Covid-19 pressures were met through Scottish Government funding and the emerging financial impact of Covid-19 was promptly reported to elected members.

Financial Performance 2020/21

40. On a statutory basis, the council reported a deficit of £45.1m on the provision of services in 2020/21. Adjusting this balance to remove the accounting entries required by the local authority accounting code resulted in a surplus for the year on a funding basis of £33.9m. The surplus is largely a consequence of the additional funding provided by the Scottish Government to mitigate the impact of Covid-19, of which approx. £30m was transferred to reserves to be carried forward to mitigate pressures caused by the pandemic and to support future recovery.

41. After taking account of other transfers to and from reserves, the final outturn was an overspend of £0.7m as shown in Exhibit 3.

Exhibit 3
Reported 2020/21 Revenue Outturn

Revenue Outturn	Revised budget - £m	Actual- £m	Diff - £m
Expenditure	617.472	645.910	(28.438)
Income	(652.606)	(680.121)	27.515
Underlying Surplus/(Deficit)	35.134	34.211	(0.923)
Transfer to Reserves	(35.134)	(34.861)	0.273
Reported Deficit	**0**	**(0.650)**	**(0.650)**

Source: Aberdeenshire Council - year end monitoring report 2020/21

42. Total net income on the housing revenue account amounted to £16.1m. This was less than budget by £3.4m, largely due to increased costs of repairs and maintenance on void properties and an increase in the provision for non-collection of rent arrears.

43. When a property becomes vacant, the council take the opportunity to ensure that it is brought up to all appropriate standards before it is re-let. Depending on the numbers and condition of properties becoming vacant, this can have an impact on the required works.

The Covid-19 pandemic had a significant impact on the 2020/21 budget

44. The impact on public finances of the Covid-19 pandemic has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy.

45. The financial impact of Covid-19 on the 2020/21 financial year is summarised in Exhibit 4. In total, net expenditure increased by £33.8m which equates to around 6% of the council's initial revenue budget for the year.

Exhibit 4
Summary of financial impact of Covid-19 in 2020/21

	£m
Direct Covid expenditure	23.8
Net impact of income reductions and other expenditure increases/decreases	10.0
Total increase in Net Expenditure	**33.8**
Total additional funding received	(64.4)
Unspent balances transferred to reserves	**30.6**

Source: Aberdeenshire Council

46. The council's financial ledger includes £23.8m of expenditure which has been directly attributable to the response to Covid-19 including the impact of lockdowns and other restrictions. This includes £6.8m of additional staff costs and payments of £8.3m to care providers.

47. The council also experienced a significant reduction in income as a consequence of lockdown and other restrictions. For example, income at sports and leisure facilities fell by £5.1m, there was a loss of £3.9m from school catering income and a £1.5m reduction in income from music tuition and after school clubs. This fall in income was partially offset by a reduction in expenditure incurred by council services, in areas such as repairs and maintenance and energy costs. With services such as sports and leisure, ground maintenance and roads paused for a period of time, there was a reduction in the use and cost of relief and casual staff.

48. The council received £64.4m of Covid-19 funding from the Scottish Government. Of this £29.7m was for a specific purpose, such as Education (£10.9m) and Health and Social Care (£6.9m). The remaining funding of £34.7m was general in nature and included £7.6m for loss of income. The balance of funding received in the year but unspent by the year end has been carried forward to mitigate ongoing pandemic related pressures.

The council disbursed £65m of grants on behalf of the Scottish Government

49. The Scottish Government put in place a range of grants to support businesses and individuals during the pandemic. These were administered by Aberdeenshire on an agency basis on behalf of the government. Whilst the Scottish Government provided some guidance as to how businesses and individuals qualified for each grant, there was a high degree of discretion afforded to individual councils and guidance itself was fairly fluid as different scenarios arose.

50. The council's internal audit service provided advice to teams on the controls which were put in place and the evidence being sought in support of claims made by businesses or individuals. The chief internal auditor also acted as the final appeal for any business who disagreed with the decision not to award a grant payment.

51. In total, Aberdeenshire Council disbursed £65m of such grants in the year. The main element of these were Business Support Grants (£43m), Strategic Framework Grants (£11m) and Top-up grants for Hospitality, Retail and Leisure (£8m). We are satisfied that the council has correctly accounted for these grants.

The impact of Covid-19 reduced planned capital expenditure by half and contributed to a reduction in borrowing

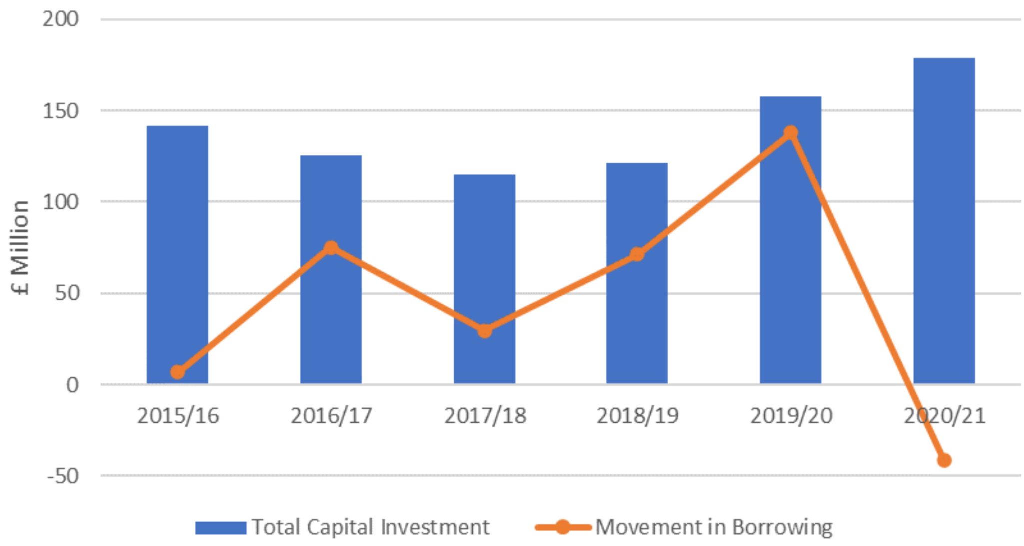
52. In March 2020, the council approved a 15-year General Fund Capital Plan to provide capital investment of approx. £975m over the period to 2035. During the year, the 2020/21 General Fund capital budget was revised upwards from £149m to £160m to include those projects carried forward from the previous year.

53. The capital programme was suspended for three months during the first Covid-19 lockdown with a phased restart thereafter and this resulted in actual General Fund capital expenditure for the year of only £79m, some £25m less than the previous year. Key capital expenditure projects in the year included Early Learning Childcare projects (£10.2m), Energy from Waste (£23.3m) and the Stonehaven Flood Prevention Scheme (SFPS) (£10.3m). The SFPS incurred increased expenditure of £4.7m compared to the revised budget due to a number of compensation events in the year which led to changes in the works programme.

54. The Housing Revenue Account capital programme for 2020/21, approved in February 2020, was also affected by restrictions in the construction industry. The capital outturn of £43m was £22m less than planned due to a reduction in the council’s new build housing programme.

55. The council's borrowing at 31 March 2021 was £807m, a decrease of £41m (5%) on the previous year. Although there was a 20% reduction in capital expenditure compared to the previous year, the overall level of capital investment increased, due to the completion of Inverurie Community Campus which was funded by a PPP arrangement. Exhibit 5 shows the fall in borrowing in the year which reflects a reduced requirement because of the fall in capital expenditure and the council’s policy to minimise long term borrowing by utilising internal balances.

Exhibit 5
Total Capital Investment and Movement on Borrowing



Source: Aberdeenshire Council

The emerging financial impact of Covid-19 was promptly reported to elected members

56. The financial impact of Covid-19 was reflected in weekly dashboard updates which were considered by the council’s Senior Leadership Team. These provided a high level snapshot of Covid-19 specific expenditure and the level of lost income due to a reduction in service delivery.

57. Covid-19 financial reports were presented to the council in April, June and November 2020 providing elected members with emerging indications of the potential scale of the financial challenge. Routine quarterly monitoring reports thereafter highlighted the total additional expenditure directly attributable to

Covid-19. Overall, the council and policy committees were promptly informed on the financial impact of the pandemic as the situation developed.

Financial systems of internal control operated effectively

58. As part of our annual audit, we identify and assess the key internal controls in those accounting systems which we regard as significant in the production of the financial statements. Our objective is to gain assurance that the body has systems for recording and processing transactions which provide a sound basis for the preparation of the financial statements.

59. As most of the council's key financial controls were already operating electronically prior to the pandemic, we did not note any significant changes to the control environment because staff were working remotely from home.

The impact of additional responsibilities and staff changes on financial capacity should be assessed

60. As part of our 2020/21 audit planning, we identified capacity within the finance team as an area of risk. At that point, March 2021, there were a number of interim arrangements in place as a result of the head of finance being appointed interim director of infrastructure. Two of the four business partners within the finance team were also in interim roles. With permanent appointments having been recently made at head of finance and strategic finance manager roles, there is now less uncertainty in the process.

61. Finance staff experienced additional pressure due to the administrative burden presented by the Covid-19 support schemes and the increased monitoring activity required to track the impact of the pandemic on income and expenditure. Elsewhere in the report, we comment on areas of the annual accounts where improvement is required. Covid related responsibilities are likely to continue to create additional pressure for the foreseeable future and combined with the impact of staff changes and the accounting improvements required, capacity remains an area of risk.

Recommendation 4

The finance function should be reviewed to ensure there is sufficient capacity to meet the ongoing pressures arising from the impact of Covid-19. This should include ensuring there is sufficient management review in the structure and that staff in new roles have adequate support and training to operate effectively.

Internal audit unable to deliver planned programme of work

62. The interim chief internal auditor reported significant slippage in delivering the 2020/21 internal audit plan which largely arose as a result of vacancies in the section. Following a review, a number of audits were deferred to 2021/22 or removed from the plan. An unqualified audit opinion was however provided for 2020/21 on the basis of all work done including follow up activity and reliance on work undertaken in previous years.

63. In March 2021, the reporting process for following up outstanding internal audit recommendations was changed. This was in response to recurring delays by services in implementing recommendations by agreed timescales. The new reporting process is intended to enable the Audit Committee to better manage change by focusing on higher risk recommendations and those that have been outstanding for a long period of time.

64. Many internal auditors set out a high level audit universe (ie all areas which may be subject to audit) and provide a risk assessment to audit committees as part of the information supporting the annual plan. Aberdeenshire internal audit has not routinely shared such information or has provided limited information. In our view, this makes it more difficult for the Audit Committee to see the bigger picture and particularly when there is slippage, it is not well placed to offer alternative solutions.

65. CIPFA's statement on 'the role of the head of internal audit' states that internal audit work should be risk based and aligned with the council's priorities. In practice, a council's risks can change regularly dependent on projects and events. This was the case during 2020 as the pandemic progressed but is also likely to be the case in the current and subsequent years as councils adapt, change and recover from the impact of Covid-19. This could also mean that internal audit plans could change more regularly to ensure that key business priorities and risks continue to be assessed by the audit process.

66. CIPFA 's statement also states that 'the audit plan must identify the priorities for internal audit based on an assessment of the key risks to organisational objectives and the extent of alternative sources of assurance, as well as the resources and skills needed to deliver it'. By setting priorities for audits, it should be clearer where there is flexibility in audit plans if changes are necessary and/or easier to identify which audits can be dropped or deprioritised as the council's risks change.

67. Based on our observations, we recommend that:

- clearer links are demonstrated between internal audit planning arrangements and the council's priorities and strategic risks
- the audit universe and risk assessment are included as part of the annual plan to provide senior leadership and the Audit Committee with the context to better understand the content of an individual year's plan
- audits are prioritised to provide a wider understanding of those which are critical to the audit opinion, those which may be subject to change if corporate risks change and where there is more flexibility if resources are scarce
- internal audit consider other forms of assurance to support the audit opinion, thereby maximising the use of its resources.

Recommendation 5

Taking account of organisational risk, audits should be prioritised to provide a wider understanding for the audit committee and officers of those which are critical to the annual audit opinion, those which may be subject to change if risks change and where there is more flexibility when resources are scarce.

Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate

68. Public bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption, and also to ensuring that their affairs are managed in accordance with proper standards of conduct by putting proper measures in place.

69. Since the start of the pandemic, the risk of fraud and error has increased as organisations felt stretched, and controls and governance were changing. Remote working brings the potential for increased risk e.g. phishing emails, scam callers, data breaches and/or there is more opportunity for internal fraud or more likelihood of errors. For all these reasons, it is important that existing ways of reporting fraud or irregularity are operating and are being promoted e.g. through increased promotion of the counter fraud strategy and whistle blowing policy.

70. There has been limited progress against previous recommendations we have made in this area:

- we reported that the Counter Fraud Strategy (February 2020) required an update to reflect the latest good practice guidance and thereafter, the refreshed strategy needs to be promoted with staff. We understand a working group has been established to take this matter forward.

- the development of a counter fraud annual report was agreed as part of the annual governance statement arrangements but has not yet been progressed.

3. Financial sustainability

Financial sustainability looks forward to the medium and long term to consider whether the council is planning effectively to continue to deliver its services or the way in which they should be delivered.

Main judgements

Financial planning was complicated and uncertain during 2020/21 and this is likely to continue. Indicative five year budgets estimate a funding gap of £65m by 2025/26. Medium term financial planning should be refreshed to reflect the impact of the pandemic and enhanced to include more sophisticated modelling and scenarios linked with council priorities.

Financial planning was complicated and uncertain during 2020/21

71. Following the approval of the council's medium term financial strategy (MTFS) in March 2020, the council was faced with the unprecedented financial impact of the Covid-19 pandemic. In April 2020, a high level update was presented to the council setting out the early implications of the pandemic.

72. By 30 June 2020, the council was forecasting a deficit of £38m for financial year 2020/21 and projecting this forward, a deficit of £60m by March 2022.

73. By November 2020, it was recognised that it would not be possible to find a resolution in a single financial year, so a '20 month' budget to March 2022 was agreed. At this point, having received additional Scottish Government funding, the council's forecast deficit to March 2022 had reduced to £46m.

74. The Scottish Government announced the Local Government Finance Settlement on 28 January 2021, a month later than usual while the UK Government Budget was not held until March 2021, with a subsequent knock-on for the final Scottish Government budget. Those delays in national budget announcements by both the UK and Scottish Governments impacted on the council's 2020/21 budget setting process.

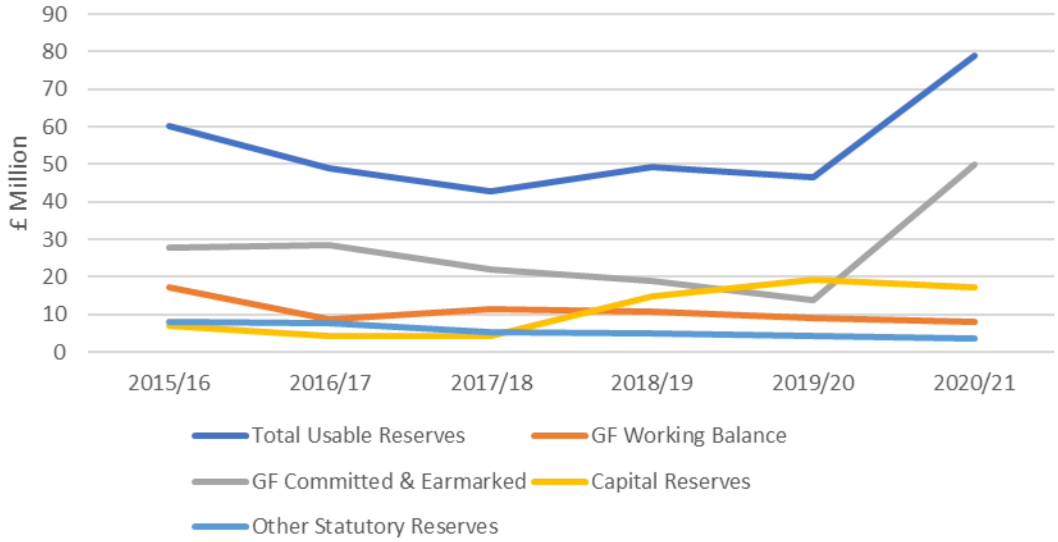
75. While council tax rates were approved in February as normal, the council delayed setting its 2021/22 £624m revenue budget until March 2021. In developing the budget, pressures of £24m were identified.

76. Additional funding of £30m was however subsequently received from the Scottish Government which had not been anticipated and this resulted in a surplus position of £27m. The council agreed to use £6m to increase planned expenditure in specific areas such early years and health and social care but to carry the balance of £21m to reserves to support Covid recovery plans.

Unspent Covid funding has increased the level of General Fund reserves

77. One of the key measures of the financial health of a body is the level of reserves held. Exhibit 6 shows that the level of total usable reserves has increased by £32m from £46m in 2019/20 to £78m in 2020/21. This largely reflects the carry forward of additional Covid-19 funding received from the Scottish Government which was unspent at 31 March 2021.

Exhibit 6
Movement in Usable Reserves



Source: Aberdeenshire Council

78. The council reviews the level of its uncommitted reserves when setting the budget each year. There is no prescribed minimal level of usable reserves. In setting a policy, councils should take relevant risks into consideration. In March 2021, the council agreed to continue to hold a minimum working balance of £9m, representing 1.4% of the 2021/22 net revenue budget, to be held as a contingency fund to meet unexpected expenditure.

The council needs to refresh its medium term financial planning

79. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the council's strategies. In addition, budgets should be supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant pressures on the council.

80. Aberdeenshire introduced a medium term approach to financial planning several years ago which presents a complete view of the revenue budget, capital plan and council reserves allowing the full financial impact of decisions taken now to be considered on the next year's budget and provides an indication of the impact on future years.

81. The council also prepares indicative five year revenue budgets, which are approved each year along with the annual budget. This provides a clear indication of the forecast financial position over the period. Future years are based on the best estimate of financial uplifts and funding settlements available.

82. The funding position was uncertain for most of 2020/21 and is likely to continue to be so in the foreseeable future. As we continue to live with Covid-19, the financial impact is not yet fully known. It is therefore important that the council's medium term financial planning becomes more sophisticated.

83. The council's indicative five year budgets for the period 2021-26 estimate a funding gap of £65m by 2025/26. If this shortfall is to be managed, there needs to be a better understanding of the spending levels associated with council priorities, budgets need to be updated to reflect actual positions and the assumptions and risks on which the medium term plan is based should be refreshed.

84. Reference has been made nationally to the 'pandemic pound', being able to demonstrate how the additional Covid-19 funding has been used and whether it has improved outcomes. This is challenging work but good medium term financial planning will provide a good starting point.

Recommendation 6

Medium term financial planning should be refreshed, include financial modelling and scenarios to provide a fuller picture of the impact of changes in income and expenditure streams, and provide a link with the council's priorities.

4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information.

Main Judgements

Covid-19 did not have a significant impact on governance arrangements and business continued to operate largely as normal. There was limited public scrutiny of performance information in the year but a new framework has now been implemented. We also observed improvement in the operation of the audit committee.

The council was able to operate remotely largely as normal throughout the pandemic

85. The council's Scheme of Governance always provided for a significant degree of flexibility in remote participation in meetings. In advance of the first lockdown, additional emergency powers were put in place to cover a situation if significant numbers of elected members and staff were not available.

86. In practice, the council and committees made the smooth transition to virtual meetings and were able to conduct business largely as usual but remotely. With one exception, all meetings took place as initially planned. A recording of public business items is made available as soon as possible after each meeting has concluded, and this has ensured a continued good level of openness and transparency over decision making.

87. During the year, the ongoing use of virtual platforms for council meetings was regularly reviewed by the council and retained as the default option. More recently, it was agreed to trial hybrid meetings. This currently underway, with a review expected in January 2022.

There was significant change in senior officer roles

88. There has been significant change in the council's senior officers since December 2020 including:

- Chief Officer for Health and Social Care
- Chief Social Work Officer
- Director of Infrastructure Services

- Head of Finance/Section 95 Officer

89. With the exception of the director role, all posts were subject to an external recruitment process. In the view of the Accounts Commission, key senior management positions, such as director and head of service level posts, should be advertised externally to ensure the best pool of candidates is secured. Where this is not the case, the rationale should be articulated in public council papers. We are not aware of a public paper which set out the reasons in this case.

90. In addition, a new chief internal auditor was appointed in November 2021. The post has been filled on an interim basis since the retirement of the former incumbent in summer 2020. An internal recruitment process was run in late 2020 but no appointment was made. A further round which was subject to external competition was undertaken in summer 2021 and this process resulted in an appointment.

91. The process was prolonged and this was contributed to by plans to change the line management responsibility for the role from Director of Business Services to Head of Finance. In response, the Audit Committee raised concerns about the perceived demotion in the status of internal audit and consequently, the status quo was retained.

Scrutiny arrangements were reviewed during the year

92. The council has undertaken a review of its scrutiny arrangements which was concluded in September 2021. While it is content with the underlying processes, it has opted to change the language used and in future will refer to improvement activities rather than scrutiny activities. Reporting templates will also make it clearer to elected members what is expected from them e.g. a decision or scrutiny. More focus will be placed on services to identify and monitor improvements and report back to elected members. In order to co-ordinate this activity, service transformation boards have been refreshed and in turn, these will be overseen by the Strategic Change Board. We will monitor the operation and interaction of the boards activities in the year ahead.

Good improvement observed in the operation of the audit committee and positive steps taken to widen its engagement

93. We have observed improvement in the operation of the audit committee since it was formed in 2017. The quality of scrutiny and challenge has improved but it can be inconsistent. While there is a solid core of engaged members, effectiveness of the committee can at times depend on the chair and vice chair. This can often be linked with the number of substitute members on the day of the meeting. We do acknowledge that being a substitute can be challenging role on any committee but probably more so on the audit committee.

94. The committee has initiated scrutiny in a number of important areas as a result of findings in audit reports. Over the last year, this led to further assurance being sought in respect of the operation of the payroll system, a care home’s response to an inspection report, procurement, contracts register and building maintenance stock taking arrangements.

95. Initial steps have also been taken by the committee to widen its engagement with policy committees and support a shared understanding of the roles of respective committees in the council's governance arrangements. This was agreed in principle a couple of years ago but has taken some time to implement. In addition, the committee produced its first annual report in the summer and this sets out a summary of its activities over the last year. These are all examples of positive developments with scope for further refinement in the year ahead.

96. We are aware that elected members are contributing to an induction programme being prepared for incoming councillors in May 2022. In order to retain the progress made by the committee to date, any possible steps which can be taken to support succession planning would also be beneficial.

97. One of the scrutiny areas set out in the audit committee's remit is to review the effectiveness of the council's delivery of adult social care services. While the committee considers any internal audit reports on social care including relevant reports from the IJB audit committee, these are occasional rather than regular reports. We note that the Aberdeenshire Integration Joint Board's annual performance report is considered by full council and that quarterly performance information is considered by the communities committee.

98. With an annual budget in excess of £100m, adult social care forms a significant element of the council's budget. In our view, there is scope for the audit committee to have a more active role in the scrutiny of adult social care services. This would create dedicated space for scrutiny and provide the council with assurance on the effectiveness of the operation of delegated functions and a clearer mechanism to trigger any refresh of the integration scheme.

Recommendation 7

The audit committee should have a more active role in the scrutiny of adult social care services.

Elected members had limited opportunity to formally scrutinise performance against council priorities. New performance reporting arrangements have however recently commenced.

99. We acknowledge that significant work has been undertaken involving elected members and officers in the revision of the council's priorities and development of directorate and area plans. The first six monthly reports of performance against revised targets have been reported to council in the latest cycle of meetings during November/December 2021. Other than the Annual Performance Report in September 2021, limited performance information was publicly considered by elected members during 2020/21.

100. A performance monitoring report was provided to the Education and Children's Services Committee in December 2020 with a 6 monthly update on progress for the indicators supporting the former Council Plan 2017-2022. We are not aware of other committees receiving a similar report.

101. A performance management framework was approved by the council in June 2021. We reviewed the framework and found that it covers monitoring of targets and indicators but did not extend to wider performance management activities such as scrutiny and self-evaluation. An 'Embedding Continuous Improvement Framework' was also agreed by the senior leadership team in June 2021.

102. The first 6 monthly performance reports against the new directorate action plans have recently been considered by Business Services and Infrastructure Services Committees. It is expected that the other policy committees will receive their first performance reports in the next committee cycle. We are not aware of any performance reporting to Area Committees to date. We intend to consider these reports as part of our 2021/22 best value follow up activity.

More timely budget monitoring reporting introduced but with scope for further refinement

103. From April 2021, the council implemented new arrangements to provide policy committees with 2021/22 financial information at the most recent month end. In the past, quarterly reports were prepared which could be some weeks out of date by the committee meeting depending on its position in the cycle of committee meetings.

104. During 2020/21, Education and Children's Services Committee (ECSC) only received budget monitoring reports for quarters one and two. All other policy committees received three quarterly reports. We also note that quarter four, the year end monitoring reports, were provided to committees as a Bulletin Report and therefore they did not form part of formal committee business.

105. In our 2019/20 Annual Audit Report, we indicated that elected members needed to receive more robust budget monitoring reports in a timely manner in order that effective scrutiny arrangements can be put in place. We have seen positive changes in the format and content of budget monitoring reports. In ECSC for example, the number of budget lines routinely reported have doubled from 13 to 28 but 60% of the overall service budget is still contained within two budget lines. Elected members have access to live data online which is an innovative step but it is important the public scrutiny of financial information is consistent across services and further refined where appropriate.

5. Best Value

Using resources effectively and continually improving services.

Main judgements

Work undertaken in response to the Best Value Assurance Report provides a good foundation to go forward. The new arrangements need to be refined and embedded to enable a culture of continuous improvement to be demonstrated and supported.

Momentum needs to continue having laid good foundations to support best value

106. Aberdeenshire Council's Best Value Assurance Report (BVAR) was published by the Accounts Commission in October 2020. Our audit work this year has concentrated on following up the council's response to the BVAR.

107. Officers developed an action plan to address the recommendations contained in the BVAR and these were endorsed by the council in November 2020. The BVAR action plan was subsequently incorporated into the council's corporate improvement plan. With the passage of time, there was slippage in the council's delivery of the improvement plan.

108. In considering the extent of follow up as part of the 2020/21 audit, we were guided by the level of intended progress set out in the council's corporate improvement plan. The key areas covered were council priorities and outcomes, performance management arrangements, self-evaluation and scrutiny.

109. We reported our findings to the Audit Committee in November 2021. The key messages from our review were:

- The work undertaken to date provides a good foundation to go forward but it is important the momentum is not lost. The new arrangements need to be refined and embedded to enable a culture of continuous improvement to be demonstrated and supported.
- The council approved and set out a clearer intention of its priorities. While performance measures have been identified, there has been limited formal reporting of progress against priorities during the year. This needs to be promptly addressed to assist elected members in demonstrating progress. Plans to implement the recently agreed changes to the council's scrutiny and self-evaluation arrangements need to be swiftly progressed if the impact of the changes is to be assessed prior to the local government election in May 2022.

- Delivery of the council's priorities involves services and areas working together with partners and communities. How these priorities will be achieved has been explained in a suite of directorate and area plans. The combined set of plans provides a reasonable framework to support improvement. A focus needs to be maintained however, on ensuring actions are SMART, are realistic rather than aspirational and that improvement actions are informed by forthcoming public scrutiny discussion of performance against priorities.

- The connections being refreshed between the council's senior leadership team, strategic change board, service transformation boards and collaboration board are encouraging in the development of a continuous improvement culture.

- The overall pace of change has been slower than intended by the council. Looking ahead to the election in May 2022, it is important that the new council builds on the foundations which are currently being put in place. While there may be some reprioritising of council aims, the time already invested in developing the underlying governance processes should not be lost. The council needs to embed what has been achieved and focus on delivering priorities and improving services.

110. The Controller of Audit will consider the results of this follow up work and report to the Accounts Commission on the extent of improvements made.

Recommendation 8

There has been a focus by elected members and officers on monitoring the progress of the corporate improvement plan. Now that a range of those actions are nearing completion, the next steps need to be considered. There is more to do, directorate and area improvement plans need to be further developed, the pace of performance reporting needs to increase and workforce planning needs to consider the medium and longer term.

Public performance reporting needs to provide a more balanced picture of service performance and planned improvements

111. The council published its annual performance report in September 2021. It provides a mix of narrative and tables of performance data. There is reporting against the former and new council plans and in addition, there is a summary of local government benchmarking data. (The previous Council Plan 2017-22 was formally closed down in July 2020 and a new Council Plan 2020-22 was agreed in October 2020.)

112. The report is an important element of the council's public performance reporting to citizens. It contains a wide range of data but there is little in the way of narrative to guide citizens on what has gone well, where the council is content with performance and where it wishes to make improvement e.g. there are 24 indicators for the Council Plan 2020-22 that are ‘significantly below target’ but no explanatory narrative has been provided.

113. We acknowledge that 2020/21 was a unique year and that performance needs to be considered in the context of Covid-19. In that regard, we noted that a section on the ‘Challenges and impact of Covid’ focuses on community testing and vaccination programmes and the impact on education services.

114. The report collates much of the information expected by the Direction given by Accounts Commission on the publication of Statutory Performance Information (para 115-116) but does not clearly identify key messages and conclusions for citizens.

Statutory performance indicators (SPIs)

115. 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.

116. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which requires a council to report:

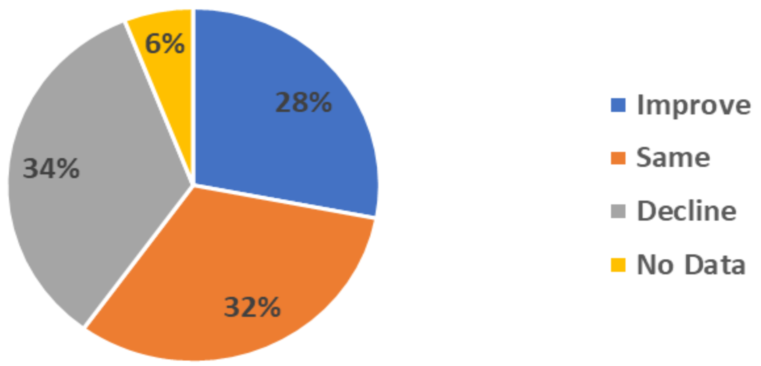
- its performance in improving local public services provided by the council (on its own and with its partners and communities), and progress against agreed desired outcomes
- its own assessment and independent audit assessments of how it is performing against its duty of Best Value, its plans to improve these assessments and how it (with its partners where appropriate) has engaged with and responded to its diverse communities.

117. For 2020/21, the council identified a total of 72 indicators of which 22 provided context only. A summary of the council’s performance results compared with the prior year is set out in Exhibit 7 and overall, shows that despite the impact of Covid-19, performance held up with 60% of indicators improving or staying at the same level as the prior year.

The council published its 2021 Equalities Mainstreaming report

118. The Equality Act 2010 sets out the public sector general equality duty that requires public authorities to pay due regard to the need to eliminate unlawful discrimination, victimisation and harassment; advance equality of opportunity; and foster good relations. The Scottish Government introduced specific duties for public authorities, to enable better performance of the public sector equality duty.

Exhibit 7
Performance compared to prior year



Source: Audit analysis of Aberdeenshire Council's SPIs

119. The council has a dedicated section on its website which contains details of the Act and the duties placed on the council. It also provides links to reports and other documents which demonstrate the council's response. Public accessibility to this information would be improved by the addition of a direct link from the council's home page.

120. In September 2021, the council published its Equality Mainstreaming and Outcomes Report 2021 which sets out how it has responded to the outcomes set in 2017 and establishes new priorities for 2021-25. Six new priority outcomes have been identified from work undertaken to inform new council plans. This work included two comprehensive community impact assessments and the activities of the citizens panel.

Community impact evidence will usefully inform service planning

121. In collaboration with the Aberdeenshire Community Planning Partnership (CPP), the council has undertaken two community impact assessments (CIA) to assess the impact of the Covid-19 pandemic on the residents and communities of Aberdeenshire. A CIA is a standard process which is undertaken when a critical incident has been called to better understand how a community and statutory partners can work towards recovery and next steps. The data collected has been used by the council and CPP partners to inform plans and support decision making.

122. The first CIA was carried out in August 2020 via an online survey to gather data on the impact of the pandemic on people, community groups and the community. Findings from the assessment informed the development of the new Council Priorities last autumn.

123. A second impact assessment was undertaken in summer 2021 with a focus on education and training, personal finance, physical and mental wellbeing and transport and travel. Policy and area committees received reports and services will report back on their responses to the assessment and set out how the findings will inform service planning.

National performance audit reports

124. Audit Scotland carries out a national programme of performance audits on behalf of the Accounts Commission and the Auditor General for Scotland. During 2020/21, Audit Scotland published a number of reports which are available from on our website: www.audit-scotland.gov.uk. Those of most interest to councils include:

- Affordable housing – April 2020
- Local government in Scotland Overview 2020 – June 2020
- The National Fraud Initiative in Scotland 2018/19 – July 2020
- Housing Benefit Performance audit: annual update 2020 – December 2020
- Digital progress in local government – January 2021
- Local government in Scotland: Financial overview 2019/20 – January 2021
- Improving outcomes for young people through school education – March 2021

Appendix 1

Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1.Accounting and valuation arrangements for non-current assets The council revalues elements of non-current assets over a 5-year rolling programme, with different classes of asset being revalued each year. Risk: There is a risk of large valuation movements between each year's annual accounts.	Management should consider a valuation methodology whereby 20 per cent of each class of asset is revalued each year, with all assets still being revalued once over a 5-year period.	**Agreed in principle, for implementation in respect of the 2022/23 annual accounts.** A scoping exercise will be undertaken by Finance with input from the Valuer within Property Services to consider how to achieve the recommended 20 per cent to ensure that a representative sample of all asset classes is considered on an annual basis. The results of this exercise will be reported to the Audit Committee in September 2022 to allow the release of the asset list to the Valuer in October 2022. **Agreed action for 2021/22 annual accounts.** The assets identified for review in 2021/22 have already been provided to the Valuer and include a total of 145 properties. Finance will work with the Property Service to ensure that the values of assets not subject to revaluation in 2021/22 are still relevant and that there have been no significant changes that would require a change in valuation in an asset class. This review will be completed by 31 March 2022.

Issue/risk	Recommendation	Agreed management action/timing
	We also suggest a review of the accounting arrangements for non-current assets be undertaken. (This is due to the regular findings we have reported in respect of non-current assets.)	Strategic Finance staff will be provided with guidance, training and a reporting process to ensure that information that could impact on the treatment of non-current assets is captured and considered by the Capital Team to ensure correct treatment in the annual accounts. A professional development session will be arranged prior to 31 March 2022 where the Capital Team will provide training on the issues and future requirements.
2.Judicial review decision on Common Good assets A judicial review decision in 2020 concluded that all assets built on Common Good land cannot be considered as owned separately from the land they stand on and are therefore Common Good assets. Inverurie Town Hall is being extended as part of the council's office space strategy. This was identified as being on Common Good land and therefore should be regarded as a Common Good asset. Risk: While the council's accounting policies and legal agreements regarding this asset do not comply with this legal ruling, it may have other operational assets which also stand on Common Good land.	The council should: • identify the full list of assets on Common Good land which are now legally considered Common Good assets rather than council owned assets • review its accounting policies for use of these assets, including responsibility for maintenance costs, rental payments; and determine exit strategies for when assets are no longer used by the council for service delivery, or reach the end of their useful lives.	A scoping exercise will be undertaken to consider the work and timeframe required to review all the council's operational assets to identify any others that stand on Common Good land and ensure that any such assets are reflected in the Common Good asset register and a leasing arrangement developed. The outcome of this scoping exercise will be reported to the Audit Committee in September 2022.

Issue/risk	Recommendation	Agreed management action/timing
3. Management commentary The management commentary that accompanies the financial statements should explain the results in simple terms and provide clarity to readers in order to help them understand how the council and its group has performed, both in financial terms against budget and non-financial terms against key service indicators. The 2020/21 ‘story’ was particularly complex because of the impact of Covid-19 on both income and expenditure but it was not clearly explained. Risk: The performance of the council and its group may not be transparent, and the reader may not fully understand key messages.	The process for the preparation of the management commentary requires review to ensure the document complies with Scottish Government guidance and the Code of Practice on Local Authority Accounting.	The council’s management commentary will be developed to ensure adherence with Scottish Government guidance and the Code of Practice on Local Authority Accounting. A summary of the key areas for compliance required by the guidance and Code, together with the draft Management Commentary, will be presented to Strategic Leadership Team in May 2022.
4. Financial capacity With changing roles, a loss of experience and ongoing pressures as a result of Covid-19 responses, there is a risk that the service will experience capacity issues and/or reduced performance.	The finance function should be reviewed to ensure there is sufficient capacity to meet the ongoing pressures arising from the impact of Covid-19. This should include ensuring there is sufficient management review in the structure and that staff in new roles have adequate support and training to operate effectively.	There continues to be significant challenges within several of the Finance Service Teams. Additional work has had to be absorbed by existing staff because of the payments of grants on behalf of the Scottish Government (e.g., Self Isolation and Business Grants). In addition to the appointment of a new Head of Finance and Strategic Finance Manager, there has been significant staffing turnover, with a significant loss of knowledge and experience. The Strategic Finance Manager was appointed in November 2021. He has been tasked to review the resourcing requirements of the team, to include numbers and grades of employees within

Issue/risk	Recommendation	Agreed management action/timing
		the team, training, and development requirements for each role as well seeking input from CIPFA/ACCA on the development of a programme of support. A report detailing the capacity and resource challenges within Finance will be presented to Strategic Leadership Team in March 2022.
5. Internal audit Due to a lack of resources, there is significant slippage in the internal audit plan. Risk: The chief internal auditor needs to modify his audit opinion due to the reduced programme of work delivered**.**	Taking account of organisational risk, audits should be prioritised to provide a wider understanding for the audit committee and officers of those which are critical to the annual audit opinion, those which may be subject to change if risks change and where there is more flexibility when resources are scarce.	A prioritisation exercise was completed in the current year to reassess each audit and our ability to deliver, balanced with the need to gain sufficient assurance to provide an annual opinion. Four audits have been formally deferred to next year. We are confident that we have sufficient assurance based on current year work, work from the previous year work and assurance from the first and second lines. For 2022-25, the plan has been prioritised into high, medium and low, with approval sought to move audits between years as required (defer, bring forward or add new reviews based on assurance needs). This authority will be requested of the Audit Committee in March 2022. The plan also contains slightly less reviews to facilitate the carried forward work and contingency for consultancy across the council to respond to emerging risks. An audit methodology refresh is also being carried out to look at individual audits on a more risk basis and carry this through to our annual planning going forward.
6. Medium term financial planning The council’s medium term financial strategy was developed several years ago and would merit a refresh.	Medium term financial planning should be refreshed, include financial modelling and scenarios to provide a fuller picture of the impact of changes	The budget for 2022/23 will form the basis for the 5-year Medium Term Financial Strategy. As part of the budget setting process for 2022/23, all directorates/services were invited to consider the adequacy of existing budgets and identify cost pressures for 2022/23 and the

Issue/risk	Recommendation	Agreed management action/timing
Risk: The assumptions and risks which underpin the strategy may be out of date and do not reflect the impact of Covid-19.	in income and expenditure streams, and provide a link with the council's priorities.	following four financial years. All pressures were subject to a peer review through the officer Collaboration Board and a review by the Strategic Leadership Team. The review undertaken by services considered inflationary price increases, the cost of implementing new Scottish Government guidance and expected reductions in income, as well as changes in demography. A review was also undertaken on the anticipated cost increases associated with pay and national insurance following the settlement of the Local Government Pay Award in 2021/22. Scenario planning, as part of the budget setting process, has been undertaken on the following distinct cost bases: staff costs, Scottish Government grant, general inflation on discretionary spend etc. For the 2023/24 budget setting process, a more multi-dimensional approach will be taken to capture the impact of changes over several cost bases to ensure that the overall quantum of financial risks is considered. This will be reported to Strategic Leadership Team in September 2022. **Management considers this recommendation to be complete.**
7.**Scrutiny of adult social care services** The adult social care budget is in excess of £100m and forms a significant part of the council's budget but there is limited formal scrutiny by the council. Risk: There is insufficient oversight/unable to demonstrate if delegated functions are operating effectively.	The audit committee should have a more active role in the scrutiny of adult social care services.	Officers will embed the recent changes made to the Scheme of Governance and scope what further improvements can be made to improve the scrutiny role of the audit committee on the council's delivery of adult social care services under Direction from the IJB by September 2022.

Issue/risk	Recommendation	Agreed management action/timing
8.Best Value The council's action plan in response to the BVAR is nearing completion but there is still work to do to embed the new arrangements which have been introduced and ensure they work effectively as part of the council's routine governance arrangements. Risk: The pace of change will be too slow and the required improvements will not be delivered**.**	There has been a focus by elected members and officers on monitoring the progress of the corporate improvement plan. Now that a range of those actions are nearing completion, the next steps need to be considered. There is more to do, directorate and area improvement plans need to be further developed, the pace of performance reporting needs to increase and workforce planning needs to consider the medium and longer term.	Officers recognise the importance of continuing the progress that has been made in terms of best value action plans and work is continuing to: • embed the performance reporting schedule as set out in the performance management framework • implement the new self-evaluation regime (PSIF) • develop data driven workforce planning analysis and decision making. A new Council Plan will be considered by the first meeting of full council following the local election in May. Directorate and area plans will be further developed in conjunction with this.
9.Public performance reporting The annual report and the council's website provide a lot of information from a range of sources but there is little narrative to guide citizens though the detail, draw conclusions or highlight areas of good and poorer performance. Risk: There is a lack of transparency on the council's performance and the action it intends to take.	Public performance reporting needs to provide a more balanced picture on service performance and planned improvements.	The development of the annual performance report is currently being reviewed to ensure that citizens are provided with this detail. Two additional strands of work are also being progressed: • creating a performance dashboard on the council website to provide transparency and accountability • working with communications officers to refresh the council's approach for publishing performance reporting on social media channels. This work will be completed by September 2022.

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk during the audit in arriving at our conclusions. The risks relate to areas where we considered there was a risk of material misstatement in the annual accounts. We did not identify any significant risks relating to our wider scope responsibility under the Code of Audit Practice 2016.

Audit risk	Assurance procedure	Results and conclusions
1. Risk of material misstatement due to fraud caused by the management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements. This risk also applies to the council's charities.	• Owing to the nature of this risk, assurances from management are not applicable in this instance.	**Our work did not identify any indicators of management bias or management fraud.** **Completed audit procedures included review and testing of journal entries, accruals, prepayments and estimates.** **Conclusion: Satisfactory.**
2. Risk of fraud over income and expenditure In addition to Scottish Government funding, the council receives a significant amount of income. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud. Potential areas of concern include council tax and business rates particularly in relation to discounts and exemptions, charges in respect of care packages provided and sundry debtor fees and charges.	• Schemes of delegation in place • No history of significant fraud • Appropriate processes for the authorisation, separation of duties and workflow associated with income and expenditure • Compliance with procurement regulations • Budgetary control arrangements	**No major concerns were identified from our testing of the council's key financial controls and samples of income and expenditure.** **Conclusion: Satisfactory.**

Audit risk	Assurance procedure	Results and conclusions
Financial Reporting Council Practice Note 10* expands the ISA assumption to advise there is also a risk of fraud over aspects of expenditure for public sector bodies which tend to have an overall net expenditure outturn. The council incurs significant expenditure in areas such as welfare benefits, social care payments and grants. The response to Covid-19 has seen changes to the normal pattern of income and expenditure and staff are now working from home. Although there have been no major changes in the controls over income and expenditure, the rapid change to homeworking would increase the potential risk of fraud and error. Risk of fraud over expenditure also applies to the council's charities. *Practice Note 10 relates to the audit of financial statements of public sector bodies in the UK.	• Regular financial monitoring by management and improved scrutiny by elected members through each cycle of committee reporting • Regular review of financial systems and internal controls by internal audit.	
3. Estimation and judgements There is a significant degree of subjectivity in the measurement and valuation of a number of material account areas including non-current assets, accruals, pensions and provisions. As the council will close the financial ledger in early April 2021, this will require tight management of the year end process, identification of commitments and appropriate processes for estimating accruals. In summer 2020, the new Inverurie Community Campus came into operational use and will require to be brought onto the council's Balance Sheet as a service concession arrangement.	• Use of clearly defined methodologies and procedures including experts, as appropriate, when making significant estimations and judgements • Financial modelling and advice in connection with the accounting treatment and required disclosures for Inverurie Community Campus • Management review by qualified finance staff.	**The valuation of council dwellings is covered at Exhibit 2 (item 1) on page 11.** **Satisfactory conclusions were reached in respect of accruals, pensions and provisions.** **The inclusion of Inverurie Community Campus on the Balance Sheet is covered at Exhibit 2 (item 2) on page 12.**

Audit risk	Assurance procedure	Results and conclusions
Subjectivity in the above matters represents an increased risk of misstatement in the financial statements.		
4. Management Commentary The Local Authority Accounts (Scotland) Regulations 2014 require the annual accounts to include a management commentary prepared in accordance with statutory guidance. The management commentary included in the 2019/20 unaudited accounts needed significant revision to ensure it complied with the requirements set out in statutory guidance. With new narrative required to tell the ‘Covid story’ and the changes in responsibility in the finance team, there is a risk that the management commentary does not meet the requirements and could result in a modified audit opinion.	• Plans for improvement will form part of the annual accounts timetable.	**This matter is covered at para 35-36 on page 14 where a recommendation for improvement has been made.**
5. Capacity of Finance team Due to interim management arrangements implemented by the council in January 2021, there have been significant changes in the finance team: • the Head of Finance has been appointed Interim Director of Infrastructure • the Strategic Finance Manager has been appointed interim Head of Finance (Section 95 Officer) • changes in two out of the four Business Partner roles which support other services. The changes were initially implemented for three months but may be subject to extension.	• Ongoing review by Strategic Leadership Team.	**This matter is covered at para 60-61 on page 19 where a recommendation for improvement has been made.**

Audit risk	Assurance procedure	Results and conclusions
With significant change and uncertainty in the finance team, at a time when there are increased pressures due to the impact of the pandemic, there is a risk that the service will experience capacity issues and/or reduced performance.		
6. Manual authorisation of invoices for payment In previous years, we identified payment of invoices which are not initiated by an electronic purchase order as an area of audit risk because officers are approving invoices which exceed their approved authorisation limits. The council's view is that the key control takes place when the purchase order or overall contract commitment is approved. However, as payments are initiated by invoices, in our opinion, a potential risk of fraud over expenditure remains because of the delay between approving, for example, a contract and authorising the individual invoices for expenditure arising in connection with that contract.	• Budgetary control arrangements.	**No major concerns were identified from our substantive testing of a sample of manually authorised invoices.** **Conclusion: Satisfactory.**
7. Presentation and disclosure of Covid-19 transactions As part of the Scottish Government's Covid-19 response, councils have distributed significant amounts of stimulus and sustainability funding. In this regard, Aberdeenshire Council has distributed approximately £60m to support the local economy. Depending on the nature of the arrangement, the council acts as either a principal or an agent and consequently, different accounting treatment applies: • as principal – funds should be recorded through the primary financial statements on an accruals basis	• Arrangements were put in place for each funding stream in consultation with peers from other councils • Local controls were designed and implemented for the payment and recording of transactions • Lessons were learnt and processes improved as officers became aware of national fraud cases	**Accounting for grant income is covered at Exhibit 2 (item 5) on page 13.** **Conclusion: Satisfactory.**

Audit risk	Assurance procedure	Results and conclusions
• on an agency basis – material cash receipts and payments should be disclosed as a note to the accounts with an appropriate audit trail (ie such payments are not included in the primary financial statements). There is a risk that the correct accounting treatment is not applied resulting in a material misstatement in the financial statements.	• Transactions will be reflected in the annual accounts in line with professional guidance.	
8. Integration Joint Board Aberdeenshire Integration Joint Board (IJB) is a joint venture between Aberdeenshire Council and NHS Grampian. IJB financial transactions rely on the council's ledger and other financial systems. There is a risk that the council does not have proper arrangements in place to ensure the completeness and correct classification of IJB related transactions in its ledger. As a result, there is a risk that income and expenditure is misstated in the council's and IJB's accounts.	• The financial ledger coding structure identifies all IJB transactions • Regular monitoring of financial information • Treatment of over- and underspends is set out in the Integration Scheme • Council, NHS Grampian and IJB finance staff liaise to resolve any financial challenges being experienced • Subject to the above, early agreement of balances between the council and IJB.	**Erroneous entries were made in the social care ledger when accounting for Covid-19 funding received but unspent at 31 March 2021. There was no impact on the bottom line and therefore there was no material impact on the reporting of social care within the council's accounts. There were however misstatements in the IJB accounts which required amendment.** **Conclusion: Satisfactory.**

Appendix 3

Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual accounts that are individually greater than our reporting threshold of £250,000 and request they be corrected.

The table below summarises uncorrected misstatements that were identified during our audit testing and following due consideration, management opted not to adjust the annual accounts. Cumulatively these errors are below our performance materiality level as explained in Exhibit 2.

Account areas	CIES*		Balance sheet	
	Dr £000	**Cr £000**	**Dr £000**	**Cr £000**
Non-current assets -Overstatement due to the duplication of assets in the asset register and the inclusion of additions based on actual spend rather than a formal valuation.			2,103	2,103
Income/Accounts Receivable -Incorrect recognition of income.	779			779
Expenditure/Accounts Payable -Overstatement due to the inclusion of an amount which had already been paid.		492	492	
Untaken leave accrual -Understatement due to misstatements in the calculation carried out.	937			937
Expenditure/Accruals -Understatement in respect of backdated pay award, personal protection equipment provided by NHS National Services Scotland and other miscellaneous accruals.	4,197	520		3,677
Totals	**5,913**	**1,012**	**2,595**	**7,496**
Net impact	**4,901**			**4,901**

*CIES – Comprehensive Income and Expenditure Statement

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