Aberdeenshire Council

2021/22 Annual Audit Report

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

15 December 2022

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Key messages

2021/22 annual accounts

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

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 need to be improved to ensure compliance with relevant statutory guidance and a co-ordinated approach for reporting the council's performance.

Financial management and sustainability

3 Capacity within the finance function needs to be strengthened and may require the council to consider innovative solutions. Given the challenges experienced across the public sector in delivering capital programmes, there is scope for more transparency in setting out a more achievable capital plan and the financial implications of slippage and delays. Financial management arrangements were otherwise largely appropriate.

4 The council continues to prepare 5-year indicative budgets as part of its Medium Term Financial Strategy (MTFS). The latest forecast has identified a cumulative funding gap of £48m to 2026/27. A refresh of the processes used to develop the MTFS has commenced.

Governance and transparency

5 A comprehensive induction programme was prepared to support elected members.

6 We have observed positive changes in the operation of internal audit and the new audit committee has made a good start in handling its business.

7 Services have been slow to develop workforce plans and need to do more to demonstrate workforce needs, challenges and potential solutions.

Best Value

8 New council priorities, agreed in November 2022, are clearer in their intention. The identification of associated performance indicators, to be reported from 2023, should enable the council to report on progress against priorities and identify where improvement is necessary. Targets have yet to be set for each indicator but the council intends to do this at pace.

9 Comprehensive directorate plans were developed to support the council's 2021/22 priorities. However, limited progress has been made in demonstrating whether the council is delivering on its priorities. It was also difficult for the council to give a clear picture of its performance through its annual public performance reporting.

10 The council has an increased awareness of the need for continuous improvement, there is more evidence of the use of performance information and benchmarking and this needs to become embedded as part of decision making.

11 The pace of change, in response to the council's Best Value Assurance Report, has been slower than anticipated due in part to the need to divert resources to major incidents. Whilst some good foundations have been established, more focus in now required on delivering outcomes and demonstrating impact.

Introduction

1. This report summarises the findings arising from the 2021/22 audit of Aberdeenshire Council (the council) and its group.

2. The scope of the audit was set out in our 2021/22 Annual Audit Plan presented to the Audit Committee on 31 March 2022. 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 2021/22 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 and the issue of independent auditors' reports setting out our opinions
- 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.

Adding value through the audit

4. 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 (Appendix 3) 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

5. 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.

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

7. 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.

8. 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 and,
- Best Value arrangements.

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

10. 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.

11. Our annual audit report contains an agreed action plan at Appendix 1 setting out specific recommendations, responsible officers and dates for implementation. An update on outstanding actions from previous year audits and the steps being taken to implement them was provided to the Audit Committee in June 2022

Auditor independence

12. 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 2021/22 audit fee of £416,450 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

13. 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.

Audit appointment from 2022/23

14. The Accounts Commission is responsible for the appointment of external auditors to local government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

15. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Grant Thornton UK LLP will be the appointed auditor for Aberdeenshire Council. We will work closely with the new auditors to ensure a smooth transition.

16. We would like to thank Members, Audit Committee members, Chief Executive and Directors, and other staff, particularly those in finance for their co-operation and assistance over the last six years.

1. Audit of 2021/22 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 need to be improved to ensure compliance with relevant statutory guidance and a co-ordinated approach for reporting the council's performance.

Our audit opinions on the annual accounts are unmodified

17. The accounts for the council and its group for the year ended 31 March 2022 were approved by the Audit Committee on 15 December 2022. 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.

Our audit opinions on Section 106 charities were unmodified

18. 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.

19. 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 charities' 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.

20. 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 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.

21. The Trustees of Mcdonald Public Park Endowment agreed to disburse all funds to support remedial work in the park in the aftermath of winter 2021/22 storm damage. Aberdeenshire Educational Trust has committed to a review in 2022/23 to modernise the trust so that it reflects current educational practice and work will continue to publicise the different grants available to ensure that the uptake of grants is increased.

The accounts were submitted in line with our agreed audit timetable

22. The unaudited accounts were formally considered by the Audit Committee on 29 June 2022. The annual accounts were approved on 15 December 2022, this was a month later than the date originally agreed with the council and later than the 31 October target deadline approved by the Accounts Commission for submission of 2021/22 audited accounts. The delay has arisen due to resource challenges for the processing and audit of changes to the annual accounts.

23. 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.

Overall materiality is £17 million

24. We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatement 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 including fraud risks.

26. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and reviewed on receipt of the unaudited annual accounts. 2021/22 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.	£17 million
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.	£10 million
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 2021/22

Significant risks of material misstatement and our audit work performed to address these

27. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. Exhibit 2 sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2
Significant risks of material misstatement to the financial statements

Audit risk	Assurance procedures	Results and conclusions
1. Management override of controls As stated in International Standard on Auditing 240, management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise are operating effectively.	• Assessed the design and implementation of controls over journal entry processing. • Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Tested journals at the year-end and post-closing entries with focus on significant risk areas. • Considered the need to test journal entries and other adjustments during the period. • Evaluated significant transactions outside the normal course of business. • Assessed the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Undertook substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.	**Conclusion: Satisfactory** The completion of the assurance procedures did not identify any evidence of management override of controls.

Audit risk	Assurance procedures	Results and conclusions
	• Focused testing of accounting accruals and prepayments.	
2. Estimation in the valuation of land and buildings Aberdeenshire Council held land and buildings with a Net Book Value of £1,852m as at 31 March 2021. An internal valuer carries out valuations of land and buildings on a five-year rolling basis. There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.	• Evaluated the competence, capabilities, and objectivity of the professional valuer. • Assessed the adequacy of management's involvement in the valuation process e.g. completeness of the instruction to the valuer, adequacy of management oversight of the process. • Reviewed valuation opinions and supporting evidence and ensured that the updated amounts are correctly reflected in the financial statements, asset register and other relevant supporting records. • Challenged the carrying values of assets not subject to revaluation in the year, management's view on the robustness of those valuations and confirmed to what extent indices are used between formal valuations. • Reviewed the adequacy of the council's disclosures regarding the underlying assumptions which support valuation activities.	**Conclusion: Satisfactory** The completion of the assurance procedures confirmed that property valuations are RICS compliant and that appropriate review has taken place to consider all assets not due to be subject to formal review as part of rolling programme. Therefore, we concluded that the valuation of property assets is not materially misstated.

Source: Audit Scotland

Other areas of audit focus

28. We identified in our 2021/22 Annual Audit Plan areas where we considered there to be other risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider these to represent significant risks. The areas of specific audit focus were:

- **The value of the net pension liability**: There is a degree of subjectivity in the measurement and valuation of the pension liability due to the specialist and management assumptions adopted. Changes in the assumptions could result in material changes in the valuation. Our work in this area includes using the work of an expert. In this case, we draw assurances from the work of actuaries. Refer to paragraphs 29-30.

- **Management Commentary**: The Management Commentary included in the 2020/21 unaudited accounts needed significant revision to comply with the requirements set out in statutory guidance. When planning this year's audit, we identified a risk that the Management Commentary may not meet minimum requirements leading to a modified audit opinion. Our audit findings in respect of this matter are set out within the first section of Exhibit 3.

- **Manual authorisation of supplier invoices**: In previous years, we identified payment of invoices which are not initiated by an electronic purchase order as an area of audit risk. Officers were approving invoices for amounts which exceeded approved authorisation limits and because of the delay between approving, for example, a contract and authorising an associated invoice for payment, there is a potential risk of misstatement. Having undertaken appropriate audit procedures, we have no matters to bring to your attention.

- **Completeness of Common Good assets**: Work is ongoing by the council to review its estate to identify any further assets held by the council but which are properly owned by the Common Good. This review has identified a number of potential issues, and these are now subject to further legal review.

Misstatements of £48.8m were adjusted in the audited accounts

29. The main adjustment to the accounts related to the valuation of the net pension liability following the council's receipt of a revised actuarial report. The revised information was received by the council after the accounts had been submitted for audit but before audit fieldwork had commenced and given the scale of the changes, we agreed with the Head of Finance that the accounts be amended prior to the audit commencing.

30. The change had been initiated by North East Scotland Pension Fund who identified that the estimate provided to the actuary for pension contributions paid in the year was incorrect. The actuary opted to update and re-issue the valuation. In so doing, they undertook a review of the impact of the war in Ukraine on the financial markets in the final quarter of 2021/22. Pension asset values were found to have fallen by £59.1m and this represented the majority of the change in the actuary's report. As a result, the net pension liability increased and unusable reserves reduced by £59.1m.

31. Other adjustments made in the accounts amounted to £10.3m and related to an understatement in the revaluation of council dwellings and an overstatement of the untaken leave accrual. This reduced net expenditure in the

Comprehensive Income and Expenditure Statement (CIES) by £10.3m and increased net assets in the Balance Sheet by the same amount. More detail on these adjustments is included in Exhibit 3.

32. 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.

33. Management opted not to adjust for the misstatements set out in Appendix 2, as the amounts were not considered material in the context of the accounts. Had the accounts been adjusted, the net impact would have been to increase net expenditure on the CIES by £6.3m with a corresponding decrease in Net Assets.

Significant findings from the audit in accordance with ISA 260

34. 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. In Exhibit 3, we report significant findings in respect of the management commentary. Otherwise, there were no major issues identified in respect of the qualitative aspects of the annual accounts process

35. The significant findings are summarised in Exhibit 3. Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 has been included.

Exhibit 3
Significant findings from the audit of financial statements

Issue

1. Management Commentary

The Local Authority Accounts (Scotland) Regulations 2014 require the annual accounts to include a management commentary prepared in accordance with statutory guidance. We have reported weaknesses in the content of the council's management commentary for several years and included the matter as an area of risk in our 2021/22 Annual Audit Plan.

Having reviewed the content of the 2021/22 management commentary against the statutory guidance, we concluded that it fell short of the requirements in a number of significant areas.

Resolution

The matter was discussed with the Head of Finance who wished to have the opportunity to revise the management commentary to meet the requirements of the statutory guidance. In order to provide appropriate space for the update and our subsequent consideration of the revised management commentary, it was agreed to delay the Audit Committee's consideration of the audited accounts until its meeting on 15 December 2022 (a delay of 5 weeks). We provided the Head of Finance with guidance on the matters which needed to be

Issue
addressed on 2 November 2022 and a revised management commentary was received for audit on 25 November 2022. While we concluded that the revised management commentary included sufficient information to meet the requirements of the statutory guidance, there is scope for further improvement in the content and for the council to introduce mechanisms to ensure there is co-ordination between officers in the development of this and other annual performance reporting. **Recommendation 1**
2. Valuation of property 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. To address this, the council requested that its property valuer prepare a market review as at 31 March 2022 to identify any potential material movements in the valuation of property that had not been subject to revaluation in the year as part of the council's 5-year rolling programme. As a result of this review, a formal valuation was provided for most types of property including key categories such as dwellings, schools and offices. This provided clear assurance that the valuation of property, plant and equipment was fairly stated at year end. However, when we reviewed the council's asset register to confirm it agreed to the valuer's certificate, we identified that for some assets, mainly dwellings, the revaluation had been incorrectly processed. This resulted in the value of property, plant and equipment being understated by £9m. **Resolution** The revised accounts have been amended to reflect the property valuation.
3. Infrastructure assets Infrastructure assets are inalienable assets, expenditure on which is only recoverable by continued use of the asset created. They include carriageways, structures, street lighting, street furniture and traffic management systems, and are measured in the accounting code at historical cost. The Code requires that where a component of an asset is replaced, the carrying amount (i.e. net book value) of the old component shall be derecognised to avoid double counting and the new component shall be reflected in the carrying amount of the infrastructure asset. Concerns with regards to subsequent expenditure on infrastructure assets have been raised by auditors throughout the UK. This is particularly the case in relation to roads, where the engineering records used for maintenance may not map against identifiable components. As a result, and without resolution, there is a significant risk that local authority financial statements could be subject to qualified audit opinions in this area. CIPFA/LASAAC (The Local Authority (Scotland) Accounts Advisory Committee) attempted to resolve the issues and undertook an urgent consultation in summer 2022 on temporary

Issue
changes to the accounting code. However, it was unable to agree an approach that addressed the concerns of all stakeholders whilst also supporting high quality financial reporting. CIPFA/LASAAC therefore requested the Scottish Government (and governments in England and Wales) to intervene. Finance Circular 9/2022 set out two temporary statutory overrides to the requirements of the Code while a permanent solution is developed. A local authority may choose to apply either one or both of the two statutory overrides. **Resolution:** The council opted to apply both statutory overrides. This results in a modification to disclosures with no impact on the council's financial position.
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 £13.8m to reflect this balance. Our review of the calculation indicated that the accrual was overstated by £1.5m. **Resolution** The revised accounts have been amended.
5. Grant income During 2021/22, the Scottish Government continued to provide councils with a range of Covid-19 funding to support not only councils themselves, but also businesses and individuals within their areas. The key 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 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 £18m was classified as principal and included as grant income with a further £30m classified as agency arrangements. **Resolution** We are satisfied with the principal/agency classification and the accounting treatment of grant income received.
6. Contingent liabilities We reviewed contingent liabilities included in the unaudited accounts and held regular discussions with finance staff to determine the amounts involved and whether they should more appropriately be reflected in provisions/creditors. The Code requires that a contingent liability be disclosed where: • there is a present obligation, but it is not probable that an outflow of resources will be required or the amount cannot be reliably measured • there is a possible obligation arising from past events whose existence will be confirmed by uncertain future events not wholly within the body's control.

Issue
Where the council has agreed a settlement, we concluded that the amount should be classified as a creditor. In another case, a reasonable estimate of the potential costs has been identified and should therefore be included as a provision. In other regards, we were satisfied those contingent liabilities were valid. **Resolution:** As the amounts involved were not material, the accounts have not been amended for the creditor and provision respectively. The amounts have however been included on the summary of uncorrected misstatements at Appendix 2.

Source: Audit Scotland

Annual Governance Statement

36. The Local Authority Accounts (Scotland) Regulations 2014 require the annual accounts to include an annual governance statement that is consistent with the disclosures made in the financial statements.

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. We were satisfied that the annual governance statement was prepared in accordance with the regulations.

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 needs to be strengthened and may require the council to consider innovative solutions. Financial management arrangements are largely appropriate. Given the challenges experienced across the public sector in delivering capital programmes, there is scope to be more transparent in reporting both in terms of an achievable capital plan and the financial implications of slippage and delays.

We have obtained audit assurances over the wider audit dimension risks relating to financial management identified in our 2021/22 Annual Audit Plan

38. Exhibit 4 sets out the audit dimension risks relating to financial management we identified in our 2021/22 audit. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 4

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedures	Results and conclusions
1. Capacity of Finance function 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.	• Discussions with officers. • Considered the outcome of the service review. • Reviewed reports to management and the Audit Committee.	**Conclusion:** There continues to be significant challenges within the Finance team due to the absence of appropriately experienced staff to support the Head of Finance. Due to recruitment difficulties across the public sector, the council may need to consider alternative innovative solutions instead of the standard recruitment process. **Recommendation 2**

Financial Performance 2021/22

39. On a statutory basis, the council reported a deficit of £53.9m on the provision of services in 2021/22. 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 £13.5m. The surplus is largely a consequence of a planned transfer to reserves to carry forward additional funding provided by the Scottish Government to mitigate the impact of Covid-19 and to support future recovery.

40. After taking account of other transfers to and from reserves, the final outturn was an overspend of £0.4m as shown in Exhibit 5.

Exhibit 5
Reported 2021/22 Revenue Outturn

Revenue Outturn	Revised budget - £m	Actual- £m	Diff - £m
Expenditure	650.4	656.6	(6.2)
Income	(666.7)	(670.1)	3.4
Underlying (Surplus)/Deficit	(16.3)	(13.5)	2.8
Transfer to Reserves	16.3	13.9	2.4
Reported Deficit	**0.0**	**0.4**	**0.4**

Source: Aberdeenshire Council – Year End Monitoring Report 2021/22

41. Total net income on the housing revenue account amounted to £18.5m. This was less than budget by £2.5m, largely due to increased capital financing costs arising from previous capital expenditure, and an increase in repairs and maintenance costs on void properties but also more generally due to storm damage.

The Covid-19 pandemic continues to have a significant financial impact

42. The council's financial ledger includes £15.7m (2020/21 - £23.8m) of expenditure which has been directly attributable to the response to Covid including the impact of lockdowns and other restrictions. This includes £10m of additional staff costs. In total, the gross cost of services increased by £37.0m year on year, although this was offset by an increase in service income of £26.0m.

43. As Covid-19 restrictions eased, this resulted in cost increases as the council was able to re-start services such as roads and landscape maintenance and schools reopened. This was offset by an increase in income sources such as catering and car parks.

44. The council received around £22.5m (2020/21 - £64.3m) in additional funding from the Scottish Government to support ongoing recovery. It also continued to provide a range of Covid-19 related grant support for both businesses and individuals on an agency basis on behalf of the government.

45. In total, Aberdeenshire Council disbursed £33m of such grants in the year. The main element of these were Business Restart Grants (£15m), £500 Thank You Payment for Social Care Staff (£5m) and Self Isolation Support Grants (£3m). We are satisfied that the council has correctly treated these grants on an agency basis within its annual accounts.

More transparency required around slippage in capital programmes

46. In March 2021, the council approved a 15-year General Fund Capital Plan to provide capital investment of approx. £972m over the period to 2036. During the year, the 2021/22 General Fund capital budget was revised upwards from £121m to £146m to include those projects carried forward from the previous year and additional grant awarded during the year.

47. Actual General Fund capital expenditure for the year was £91m, some £54m less than the revised budget. The underspend was largely attributable to slower than anticipated take up of land compensation payments in respect of the Aberdeen Western Peripheral Route, difficulties in sourcing and delivery of supplies for a range of construction activities in particular the Energy from Waste project and revision to the Infrastructure programme of works.

48. The Housing Revenue Account capital programme for 2021/22 was also affected by restrictions in the construction industry. The capital outturn of £60m was £34m less than planned mainly due to a reduction in the council’s new build housing programme.

49. Although these underspends against capital budgets have been exacerbated in the last 2 years due to Covid, the council has regularly experienced slippage in its planned capital programme throughout the course of our audit appointment. Underspends from prior year are routinely carried forward and added to the current year’s plan. Whilst it is accepted that the nature of large capital projects means that some slippage is always a possibility, the council should be reviewing its asset planning processes to ensure a more achievable annual capital plan is prepared.

50. There are regular capital monitoring reports prepared for council and committees but there is little evidence where slippage is identified of the action being taken by the council to bring forward expenditure on a different project. The capital plan does not stand in isolation, unexpected delays in projects may have revenue implications for services and where this is the case, there needs to be more transparency through capital monitoring reports. For example the council entered into an agreement with Aberdeen City and Moray Councils for the design, build and operation of an energy from waste plant. This was due to be operational by 31 October 2022 but is currently estimated to be approximately 9 months behind schedule. As a result, the council will face additional costs to dispose of Aberdeenshire waste until the facility is operational. The project will have significant implications for financial planning.

Recommendation 3

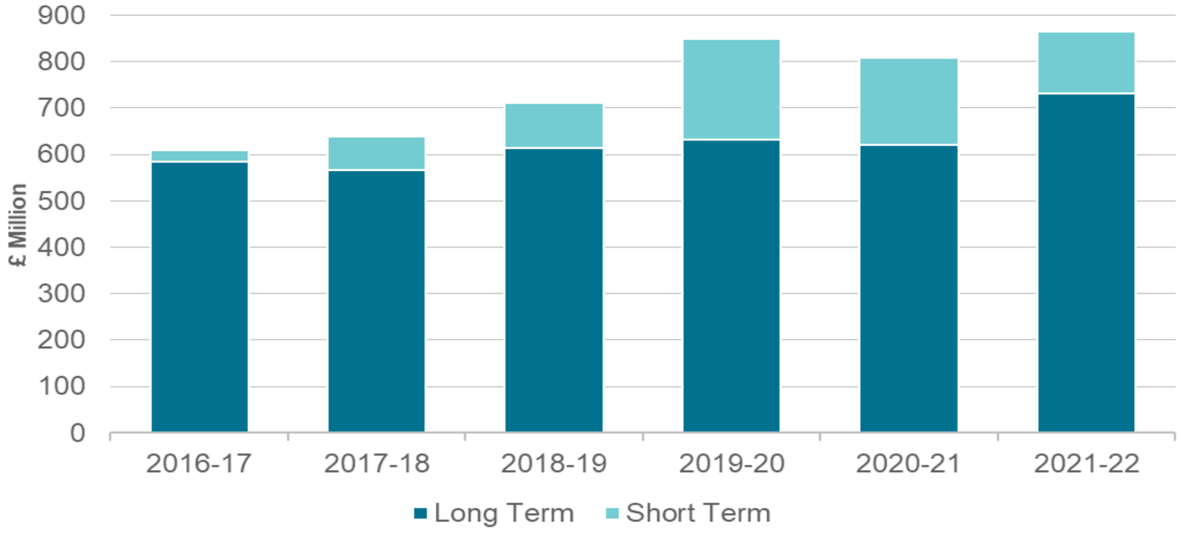
The council should be more transparent in reporting on the capital plan both in setting out a more achievable capital plan with a clear ranking of those projects which can be added if there is slippage and inclusion of the capital and revenue financial implications of slippage and delays.

Borrowing has increased to fund capital investment

51. Capital Investment for the year amounted to £152m and included key projects such as Early Learning Childcare projects (£5m), Energy from Waste (£20m) and Roads Resurfacing/Reconstruction (£12m), New Build Housing (£12m) and Housing Improvements (£36m). This investment has seen the council's total borrowing increase to £865m, an increase of £58m (7%) compared to prior year. Overall, since 2016/17 the council's level of borrowing has increased by £256.2m (42%). The majority of the council's borrowing is from the Public Works Loan Board (PWLB). Having compared the increase in PWLB borrowing between 2016/17 and 2021/22, we found the council's increase was similar to the Scottish average.

52. Through its Treasury Management Strategy, the council has reduced its short term borrowing to limit its exposure to interest rate changes as shown in Exhibit 6. This follows a period where the council was able to use cheaper short term borrowing to fund capital investment.

Exhibit 6
Total Borrowing



Source: Aberdeenshire Council

Financial systems of internal control operated effectively

53. 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.

54. 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. We concluded that the controls reviewed were operating effectively.

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

55. 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.

56. 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.

57. As reported last year, limited progress has been made against previous recommendations 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. Plans to refresh the strategy in 2021/22 were paused by the Finance team due to competing priorities. It is intended to restart the update in 2022/23 and develop an awareness campaign to draw staff attention to the new strategy.

- the development of a counter fraud annual report was agreed as part of the annual governance statement arrangements but no progress has been made. There has however been a refresh of the role of the corporate integrity group who have responsibility for these matters.

Recommendation 4

Previous agreed recommendations should be implemented.

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

The council continues to prepare 5-year indicative budgets as part of its Medium Term Financial Strategy (MTFS). The latest forecast has identified a cumulative funding gap of £48m to 2026/27. A refresh of the processes used to develop the MTFS has commenced.

The council continues to prepare 5-year indicative budgets

58. Through its Medium Term Financial Strategy (MTFS), the council continues to prepare 5-year indicative budgets which are annually updated. The MTFS is a key part of the council's annual budget setting framework which aims to ensure that all financial resources are directed towards the delivery of the council's priorities. A revised MTFS was approved in March 2022 as part of 2022/23 budget setting process.

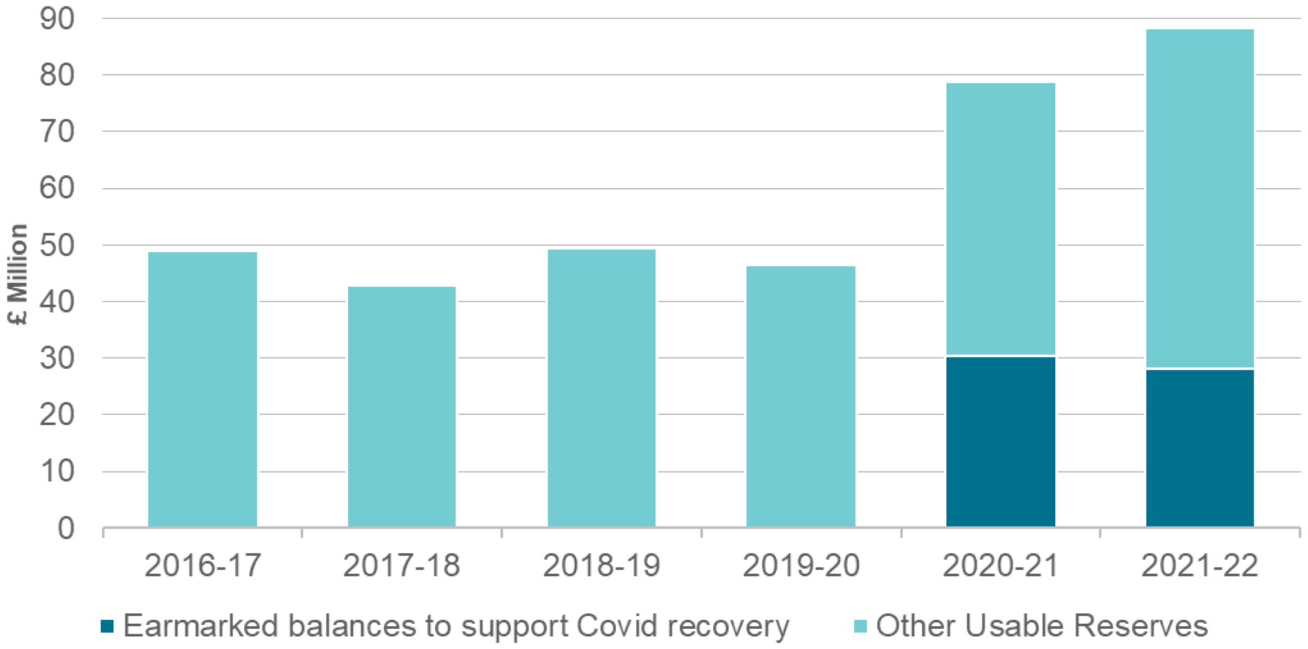
59. While council tax rates were approved in February as normal, the council delayed setting its 2022/23 £657m revenue budget until March 2022. In developing the budget, pressures of £13.9m were identified which are due to be met through identified savings and the use of reserves. Longer term, the cumulative funding gap to 2026/27 is £48m. This is a significant reduction on the estimated shortfall at March 2021 when the forecast 5-year cumulative funding gap was £65m.

Unspent Covid-19 funding has increased the level of General Fund reserves

60. One of the key measures of the financial health of a body is the level of reserves held. Exhibit 7 shows that the level of total usable reserves has increased by £9m from £79m in 2020/21 to £88m in 2021/22. This largely reflects the impact of additional funding from the Scottish Government to support recovery from Covid-19 which was unspent at the year end. During the year, the council agreed to use some of this additional funding to create earmarked reserves for specific issues, such as Resilience and Recovery (£14.3m), Tackling Poverty and Inequalities (£3.5m) and Education and Children's Services Holiday Recovery Programme (£1.6m).

61. The council reviews the level of its uncommitted reserves when setting the budget each year. In setting a policy, councils should take relevant risks into consideration. In March 2022, the council agreed to continue to hold a minimum working balance of £9m, representing 1.4% of the 2022/23 net revenue budget, to be held as a contingency fund to meet unexpected expenditure.

Exhibit 7
Total Usable Reserves



Source: Aberdeenshire Council

IJB reserves and single system working

62. In 2020/21, Aberdeenshire Integration Joint Board (IJB) in common with most other IJBs reported a significant surplus. It amounted to £20.6m and was mainly due to unspent funding from the Scottish Government for a range of earmarked purposes including support for Covid-19 recovery. A similar scenario occurred in 2021/22 when the IJB concluded the year with further unspent funding of £24.3m. This resulted in a significant reserve balance of £45m at 31 March 2022. Approx. 40% of the IJB's reserves relate to Covid-19 earmarked balances.

63. This funding was received late in the financial year and therefore it could not all be spent before 31 March 2022. The Scottish Government indicated that funds should be carried forward to 2022/23 by IJBs for investment in services impacted by the pandemic. Reference was made to the backlog of demand and increase in unmet need as a result of the disruption. The funding could provide support in the community and avoid unplanned admissions and the impacts on delayed discharges. This therefore suggests single system working to ensure the most effective use of resources. While the cost of living crisis has placed further pressures on public sector funding, this further supports the need for partners to manage resources effectively as part of single system working.

A refresh of the MTFS approach has commenced

64. In our 2020/21 Annual Audit Report, we recommended that the council refresh the processes for development of the MTFS to 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.

65. As part of the budget setting process for 2022/23, all directorates were required to review existing budgets and identify cost pressures and potential savings. All identified pressures and savings were subject to a peer review through the Collaboration Board with a final review by the Strategic Leadership Team. The review considered inflationary price increases, the cost of implementing new Scottish Government guidance and expected reductions in income, as well as changes in demography. Future inflationary increases have been refined: rather than simply use a standard rate, more specific rates have been applied to distinct costs. From this review, agreed cost pressures were incorporated into the budget. A listing of all agreed potential savings was provided to all political parties to allow each to prepare a balanced budget.

66. A further update is planned as part of the 2023/24 budget process including a review of risks and assumptions. More work is required to provide a clear link between the MTFS and council priorities.

Good practice points

67. An online staff suggestion platform 'Every Voice Counts' was launched in November 2021 to allow staff to share ideas of budget savings or things that could be done differently. The scheme has already generated over a hundred suggestions, of which 20 are being progressed and a further 40 have been included in wider programmes. These will inform the budget setting process for 2023/24 and future planning.

4. Governance and transparency

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

Main Judgements

A comprehensive induction programme was prepared to support elected members.

We have observed positive changes in the operation of internal audit and the new audit committee has made a good start in handling its business.

Services have been slow to develop workforce planning and need to do more to demonstrate workforce needs, challenges and potential solutions.

Changes in leadership

68. Following the local government elections, the new council met for the first time on 19 May 2022. The political administration of the new council remains as a coalition between Scottish Conservatives, Scottish Liberal Democrats and Independents. There has however been a change in the Leader, Deputy Leader and Provost and two out of four policy committees and four out of six area committees have new chairs. Of the total 70 Members, almost half are new to the council. A comprehensive induction programme was put in place to support the new council in responding to the challenges ahead and in making key decisions.

69. There was also significant change in the council's senior officers during 2021 with the following new appointments made:

- Director of Infrastructure Services (January 2021)
- Head of Finance/Section 95 Officer (January 2021)
- Chief Officer for Health and Social Care (May 2021)
- Chief Social Work Officer (July 2021).

The council has continued to operate remotely during the year

70. The council and committees have continued to meet virtually during the year. 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.

71. As restrictions began to ease, the council considered options for hybrid meeting arrangements and agreed to pilot a Choice Based Approach for fully virtual and hybrid meeting arrangements. Five hybrid meetings were held between September and December 2021, which identified a number of technical issues. The council therefore agreed in April 2022 to undertake an options appraisal of requirements to facilitate hybrid meetings. In the meantime, committees can individually agree the format of meetings including hybrid using existing technology.

Audit committee and internal audit activities are making an impact

72. 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. In response to a 2020/21 audit recommendation, the audit committee has taken positive steps to be more actively involved in the scrutiny of adult social care services. The committee has considered Aberdeenshire Integration Joint Board's (IJB) 2021/22 annual performance report and there has been initial engagement between the chair of audit committee and the chair of the IJB audit committee.

73. There was less engagement in 2021/22 around governance arrangements between the audit committee and policy committees but referrals of business matters did continue. Chairs did not routinely meet during the year and this was largely due to the council election in May 2022 but activities are expected to resume in respect of financial year 2022/23.

74. We have observed that the new audit committee has made a good start with handling its business and there is continuity in the chairing of the committee.

75. Following a lengthy recruitment process, a new Chief Internal Auditor was appointed in November 2021 and promptly initiated the following positive developments:

- An exercise was carried out to support management on closure of agreed recommendations arising from Internal Audit reports. This has significantly reduced the number of outstanding recommendations including many longstanding recommendations from 160 as at June 2022 to only 50 as at September 2022.
- There has been a refresh in the format of the Annual Report. Along with the Chief Internal Auditor's opinion on the adequacy and effectiveness of the council's arrangements, the report also highlights key findings

and lessons learned and provides an account of assurance activities undertaken during year.

- A 3-year Internal Audit plan covering 2022-25 was agreed in March 2022. Previously internal audit had routinely provided an annual plan to the audit committee. This helps the Audit Committee understand the wide range of areas and activities subject to audit, audit priorities and the impact of slippage on an audit plan.

More needs to be done to develop and embed workforce planning

76. In 2020/21, we commented that whilst an approach to workforce planning has been developed and that basic workforce data had been incorporated into directorate plans, more work was required by services on their medium and longer term workforce planning needs and challenges.

77. The intention was for individual services and teams to develop more detailed plans using a toolkit provided by the HR service. Plans are however at different stages of development. Whilst some services, such as Children's Services, have developed workforce plans, we have not seen evidence that this is widespread across the council. Where they have been developed, workforce plans are stand-alone rather than embedded in wider service plans. At this stage, there are no clear links between workforce planning and council priorities.

78. While there is a recognition of the significant challenges facing the council in terms of recruitment and retention and the likely skills shortages in the longer term, more needs to be done to ensure that services are consistently developing workforce planning linked to the council's priorities. For example, services should take into account the outcomes of service and self-evaluation reviews, succession planning, talent management and skills development. This will not only enable the council to demonstrate need but will also assist in assessing risks and identifying areas where solutions are needed.

79. The council should consider reviewing workforce planning in other councils. Recent Best Value Assurance Reports identified the following councils as having more developed workforce arrangements in place: East Dunbartonshire, Aberdeen City, Falkirk and North Ayrshire.

Recommendation 5

Services should do more to demonstrate workforce needs, challenges and potential solutions.

Self-evaluation and scrutiny

80. The council agreed a self-evaluation framework in December 2021 using the Improvement Service's Public Service Improvement Framework (PSIF) methodology. PSIF uses a framework of self-assessment statements as a basis to challenge existing performance. The self-assessment process enables organisations to identify their strengths and the areas for improvement which will inform planning and define improvement initiatives. The council developed an initial two year corporate programme of reviews and while this is now well underway, there was limited activity completed in 2021/22 for us to consider.

81. Individual directorates also undertake self-evaluation exercises which are overseen by the respective service transformation boards. Examples include:

- Education & Children's Services continue to use the 'How Good Is Our' methodology. In 2021, topics reviewed were leadership and use of data. This has led to the development of 'data packs' for schools to support responses to Scottish Attainment challenges. There are two current self-evaluation projects: wellbeing and customer focus. There is no set programme for self-evaluation, topics are identified by the directorate management team.

- Within Environment and Infrastructure Services, Housing have very recently completed the fieldwork stage of a PSIF review. Work is ongoing to develop an action plan. We understand that the Planning and Economic Development service will shortly commence a review.

5. Best Value

Using resources effectively and continually improving services.

Main judgements

New council priorities, agreed in November 2022, are clearer in their intention. The identification of associated performance indicators to be reported from 2023 should enable the council to report on progress against priorities and identify where improvement is necessary. Targets have yet to be set for each indicator.

Comprehensive directorate plans were developed to support the council's 2021/22 priorities. However, limited progress has been made in demonstrating whether the council is delivering on its priorities. It was difficult for the council to give a clear picture of its performance through the annual performance report.

The council has an increased awareness of the need for continuous improvement, there is more evidence of the use of performance information and benchmarking but this needs to become embedded as part of decision making.

The pace of change, in response to the council's Best Value Assurance Report, has been slower than anticipated due in part to the need to divert resources to major incidents. Whilst some good foundations have been established, more focus in now required on delivering outcomes and demonstrating impact.

Best Value

82. Aberdeenshire Council's Best Value Assurance Report (BVAR) was published by the Accounts Commission in October 2020. The Commission's findings highlighted that *'Aberdeenshire is an area that enjoys relatively good outcomes for its communities. Council services largely perform well with good customer satisfaction. While the council has foundations in place to improve, we are firmly of the view that it will only realise its full potential through increasing its pace of improvement by addressing some crucial aspects of Best Value in how it determines its priorities and plans desired outcomes'.*

83. Since the publication of the BVAR, the council has implemented a number of the building blocks that are required to demonstrate Best Value. However, there is still some way to go before these are embedded into everyday routines.

84. The BVAR stated that council priorities as set out in the Council Plan 2017-22 were vague and not sufficiently focused. The council plan was refreshed in October 2020 and while there was some refinement, it continued to set out a number of high-level priorities. Following the council election in May 2022, a new Council Plan covering 2022-27 was published in November 2022. The new plan has focused on approx. 20 priorities, is clearer in its intention and has usefully identified the indicators which the council will use to measure and report performance from January 2023.

85. The council has also agreed that existing supporting plans and programmes will be aligned to the new Council Plan. Previously the council plan was supported by directorate plans which had been developed to demonstrate how services will contribute to the delivery of the council's priorities. We previously reported that performance measures had been set, but there was little in the way of clear targets against which performance could be monitored.

86. We have seen directorate plans become SMARTer, but some outcomes required clarity e.g. 'improved multi-agency working' (ECS), 'a more contemporary approach to the topic of income' (Business) or 'this action will contribute to improving the health and wellbeing of the people in Aberdeenshire' (Infrastructure). As plans are realigned, they need to be SMARTer, more focused and include measures and targets capable of demonstrating progress.

Strategic Change Board

87. The Strategic Change Board (SCB) comprises members of the Strategic Leadership Team and oversees the council's major projects. Following a refresh in June 2021, the SCB is currently overseeing seven projects and regularly considers a dashboard report with a status update for each project. In June 2021, SLT agreed a framework entitled 'Embedding Continuous Improvement' drawing on the 'Plan, Do, Learn, Act' cycle and since August 2021, the SCB has received updates from each of the service transformation boards. This is a useful forum to collate and share good practice across council services. The board could also consider how best to have oversight of impact and change in order that the council is better placed to demonstrate continuous improvement.

Service Transformation/Modernisation Boards

88. Each of the council's three directorates has a Service Transformation (Business Services and Education and Children's Services) or Modernisation (Environment and Infrastructure Services) Board. All operate slightly differently, but in essence, all are tasked with identifying areas for improvement and monitoring associated actions.

89. The Business Services Transformation Board regularly reviews a dashboard summary of all current change/improvement projects. Examples include customer contact centre performance, upgrades/improvements to various financial systems and developments to further support staff wellbeing.

90. In Education and Children's Services, the Transformation Board has mainly focused on taking forward self-evaluation projects. The board has developed a scoring methodology which is to be used to identify and select potential projects.

91. The Environment and Infrastructure Services Modernisation Board is overseeing a number of projects intended to enable the service to support future improvements such as the continued refresh of the directorate structure and introduction of a continuous improvement team.

Performance Reporting

92. Since the publication of the BVAR, the council has introduced 6-monthly performance reporting to both Policy and Area Committees, providing publicly available performance information. We have observed good engagement from elected members when considering these reports.

93. The Strategic Leadership Team received quarterly performance reports. Directorates have each agreed around 10 key indicators intended to give a high level overview of performance. Quarterly performance reports are prepared for the Education and Children's Services leadership team but we have not seen evidence of such regular reporting in other directorates.

94. Following approval of area plans in May 2021, a period of consultation was undertaken during summer 2021 to develop an Area Performance Framework and performance indicators for each of the six areas. These were approved by October 2021 and the first suite of six monthly performance repots were considered by area committees between January and March 2022. Performance reporting for the full year was more promptly available with directors reporting on the annual results to all six areas in June 2022.

95. Being the first of such reports presented to areas, we recognise it as a positive development. More work is now required to enable data to be collected and reported on an area basis, to consider indicators which measure issues specific to a particular area and to consistently link indicators with priorities. For example, of the 62 different indicators reported, 47 (76%) were reported on an Aberdeenshire wide basis.

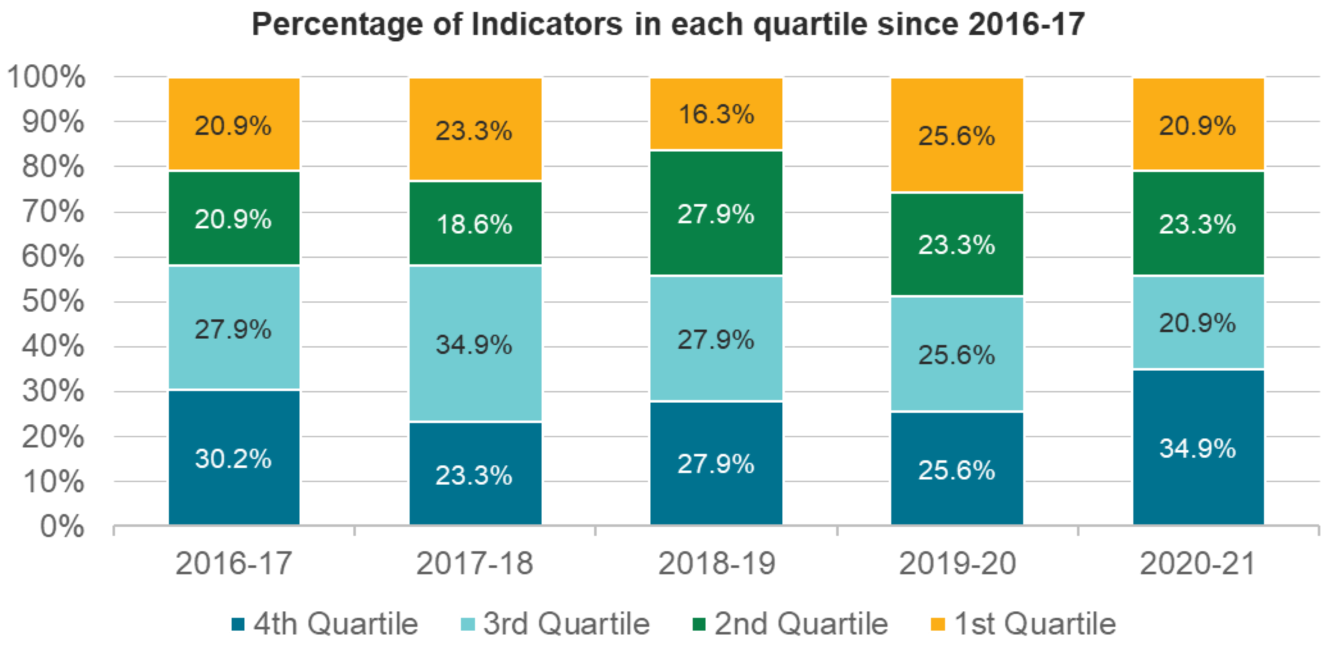
96. We updated our analysis of the council's performance over time against 43, mainly outcomes based, Local Government Benchmarking Framework (LGBF) indicators in Exhibit 8. Whilst there was an improvement in performance in 2019/20, this fell back in 2020/21 to a level similar to that identified for 2018/19. The analysis shows higher percentages of indicators in both Quartile 1 and Quartile 4. Also, when we compared the movement in individual indicators between 2018/19 and 2020/21, we found that just over half had improved. Overall, the council's performance is therefore similar to that reported when the BVAR was published.

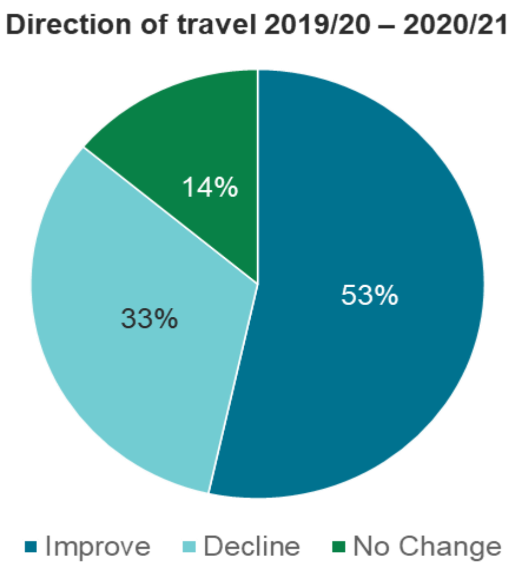
97. In the BVAR, we specifically commented on two indicators with poorer performance, education attainment for pupils from deprived areas and housing voids:

- Between 2018/19 and 2020/21, the council increased the percentage of pupils living in the 20% most deprived areas gaining 5+ awards at level 5 from 30% to 37%. While this is a significant improvement, it falls below the Scottish average of 49%.

- The percentage of rent due in the year lost due to voids has further deteriorated between 2018/19 and 2020/21. It is however at a level similar to the Scottish Average which indicates that other councils are also experiencing challenges in this area.

Exhibit 8
LGBF Performance compared to prior years





Source: Aberdeenshire Council – Local Government Benchmarking Framework

98. Each year the council is required to publish an Annual Performance Report. With a view to improvement and by building on past reports, a new approach was taken by the council in the preparation of the 2021/22 report. An overview of a mixture of actions and performance indicators was provided which align to council priorities. This combined approach was intended to demonstrate how the council is working towards its priorities. A significant number of actions are being regularly monitored by the council which demonstrate ongoing activity in priority areas.

99. We undertook a review of the performance indicators reported in the 2021/22 Annual Performance Report as part of our consideration of the council's performance against its 2021/22 priorities. We found that there was no performance information for 9 of the 28 council priorities and of the 102 separate indicators reported, 50 related to just 3 priorities as highlighted in Exhibit 9. By focusing on the performance indicators alone, it was not possible to get a clear picture of how well the council is delivering on its priorities.

Exhibit 9
Priorities and performance indicators

Priorities with no performance indicators:

- Waste and recycling service which supports our attractive environment and reduces emissions
- It's easy and safe to move around local areas using good-quality active travel routes, streets and roads
- Develop existing partnerships and build new ones with our key stakeholders
- Open spaces that encourage active, healthy lifestyle
- Ensuring that residents and business across Aberdeenshire are prepared to adapt to the effects of climate change including the risk of flooding
- Keeping communities connected through the provision of an affordable, reliable and well-connected passenger transport service
- Placemaking to meet the current and future needs of communities through Participatory Budgeting and Asset Transfer
- The gap between economic, environmental and social outcomes in Banff, Macduff, Fraserburgh and Peterhead and the Aberdeenshire average is closed and other towns at risk have avoided becoming regeneration priorities
- Supporting Aberdeenshire businesses through pandemic, Brexit and energy transition.

Priorities with a large number of performance indicators:

- To secure continuous improvement in outcomes for all children and young people (22 Indicators)
- Efficient and effective business support, advice and regulation (15)
- A road and street-lighting network which keeps people safe, encourages active lifestyles and increases active travel opportunities (13)

Source: Aberdeenshire Council – Annual Performance Report 2021/22

100. As stated at paragraph 84, the new council plan, approved in November 2022, is clearer in its intention and has usefully identified the indicators which the council will use to measure and report performance from 2023. This is further positive improvement and should support the council in its decision making and scrutiny of performance.

Statutory performance indicators (SPIs)

101. 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.

102. The Accounts Commission issued the 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, and how it plans to improve these assessments and how it (with its partners where appropriate) has engaged with and responded to its diverse communities.

103. The council published its Annual Performance Report 2021/22 in September 2022. As stated at paragraph 99, performance information has not been included in the annual report for a number of the council's priorities and therefore it is not possible to gauge progress against all desired outcomes. As required by the Direction, there is also scope to report more fully on improvement plans and engagement in the year with communities.

Partnership working and locality planning

104. A Performance Management Framework (PMF) was agreed by the Community Planning Partnership (CPP) Board in September 2021 to monitor progress against each of the three Local Outcome Improvement Plan priorities. A number of high level performance indicators were identified, based on nationally reported statistics and therefore the data is clear and readily available. Where appropriate, comparison is made with the Scottish and Aberdeenshire averages. The indicators, however, lack time based targets and therefore the rate of progress is not clear or whether performance is in line with expectations.

105. Indicators for 2020/21 were published in a 'Performance at a Glance' document while those for 2021/22 only included the indicators for the health and wellbeing priority. It is not clear why the CPP did not report the full set of agreed performance indicators in 2021/22. The performance report provides a good summary of some of the work carried out during the year. There should now be a focus on developing impact reporting.

106. When the BVAR was published, the locality plan for Banff and MacDuff had not been developed. This was concluded and approved by the CPP board in June 2021. We also noted that a revised locality plan was approved for Peterhead in March 2022.

National performance audit reports

107. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission. During 2021/22, Audit Scotland published a number of reports which may be of interest to the council. These are outlined in Appendix 3.

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. **Management Commentary** The management commentary initially submitted for audit fell short of the requirements set out in relevant statutory guidance in a number of key areas.	Arrangements for the preparation of the management commentary need to be improved to ensure compliance with relevant statutory guidance and a co-ordinated approach to reporting the council's performance. Similar comments can be made in respect of the performance reporting arrangements which apply to the council's annual performance report.	This will be reviewed as part of the 2022/23 Annual Accounts process. **Strategic Finance Manager / Team Leader (Revenue)** **Completion Date: 30 June 2023**
2. Financial capacity There continues to be significant challenges within the Finance team due to the absence of appropriately experienced staff to support the Head of Finance.	The council should strengthen capacity within the finance team. Due to recruitment difficulties across the public sector, the council may need to consider alternative innovative solutions instead of standard recruitment processes.	The post of Strategic Finance Manager has recently been advertised through existing channels and through social media platforms. Should this not be successful, the Legal and People Team have several options that will be explored such as a relocation incentive scheme, market forces supplement and the use of recruitment consultants. The Strategic Finance Service has recently been successful in recruiting two experienced accountants. The service also recognises that there is much talent existing within the council and

Issue/risk	Recommendation	Agreed management action/timing
		are currently offering a secondment opportunity to non-finance staff with relevant qualifications or experience. The service is also working with the Legal and People Team to develop apprenticeship posts as part of its workforce planning and to mitigate against single points of failure in specialist areas such as treasury and VAT. **Head of Finance** **Strategic Finance Manager** **Completion Date : July 2023**
3. Capital planning There was significant slippage in the capital plan. While the scale was larger this year, this is a recurring issue with the balance routinely carried forward and added to next year.	The council should be more transparent in reporting on the capital plan both in setting out a more achievable capital plan with a clear ranking of those projects which can be added if there is slippage and inclusion of the capital and revenue financial implications of slippage and delays.	It is acknowledged that there have been underspends in the capital plans. This situation has been exacerbated in recent years with programmes being paused during Covid and the impact of market volatility. However, whilst the budget spend was not as originally planned, there was still an expenditure of over £150m of capital works in 2021/22. Work has progressed to set capital plans that are both deliverable and affordable for 2023/24 and subsequent years. This will be coupled with an increased focus on cost monitoring and reporting of capital expenditure and programme pipelines. Some of the slippage has been as a result of significant tender cost increases and a finite capacity of both design and contracting resource experiences gained in recent

Issue/risk	Recommendation	Agreed management action/timing
		years will inform the scope and scale of future programmes. There will be quarterly performance monitoring to policy committees and council during financial year 2023/24. **Head of Finance** **Head of Property** **Completion Date: Budget Setting 2023/24 - March 2023**
4. Counter fraud arrangements Previous audit recommendations agreed with management covering a refresh of the counter fraud policy, a communication strategy for raising awareness of the revised policy with staff and the potential for an annual counter fraud report have not been progressed.	Previous agreed recommendations should be implemented.	There will be an annual review and refresh where appropriate of the Counter Fraud Strategy with revisions to guidance and promotion of changes to staff as required. This will be supported by the work of the Internal Audit Service. The Chief Internal Auditor currently includes Counter Fraud within the annual report. Audit Committee agreed in September to the refresh of the council’s approach to Counter Fraud. Going forward, internal audit will lead a fraud triage process that relies on support from services across the council, to enable a more balanced approach allowing for targeting of resources and prioritisation of cases based on several factors. Formal triage processes, triggers and risk factors will be determined with individual services as part of the roll out of the new model and a suite of resources made available

Issue/risk	Recommendation	Agreed management action/timing
		to counter fraud across the council. **Head of Finance** **Completion Date: September 2023**
5. Workforce planning There was some evidence of workforce planning in services but this is not being consistently undertaken.	Services should do more to demonstrate workforce needs, challenges and potential solutions.	In the last three years, workforce planning (WFP)actions have been consistently captured by services and are reported through Strategic Leadership Team, Strategic Change Board and committees on a six monthly basis. Whilst this progress has been noted, it is acknowledged that workforce planning is still rooted in the short to medium term and is relatively informal. Formal, discreet workforce service plans will improve the outcomes for services, ie longer planning cycle and transparent planning for all stakeholders. All tools are in place to allow services to progress these: ALDO training course, workforce data, Power Bi and a WFP Toolkit. The HR service will continue to support services depending on needs. As part of a rolling programme across the organisation from January 2023 to January 2026, all services will have a discreet 3-year workforce plan in place. **Directors** **Completion Date: January 2023-January 2026**

Appendix 2. 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 identified during our audit testing and have not been corrected by management. Cumulatively these errors are below our performance materiality level as explained in Exhibit 1 and do not have a material impact on the financial statements.

Account areas	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000	**Cr £000**	**Dr £000**	**Cr £000**
Non-current assets – overstatement of depreciation charge		267	267	
Short term debtors – understatement due to netting off credit balances			1,268	1,268
Short term creditors – under accrual	4,861			4,861
Short term creditors – incorrect treatment of unspent grant		393	393	
Short term creditors – capital grant incorrectly recognised as revenue			477	477
Short term creditors – debit balance incorrectly recognised as creditor	490			490
Contingent liabilities – sufficient information available to determine a reasonable estimate for a provision or creditor.	1,592			1,592
Total	**6,943**	**660**	**2,405**	**8,688**
Net impact	**6,283**			**6,283**

Appendix 3. Summary of 2021/22 national performance reports and briefing papers

2021

May

Local government in Scotland Overview 2021

June

Covid 19: Personal protective equipment

July

Community justice: Sustainable alternatives to custody

September

Covid 19: Vaccination programme

2022

January

Planning for skills

Social care briefing

February

NHS in Scotland 2021

March

Local government in Scotland: Financial Overview 20/21

Drug and alcohol: An update

Scotland's economy: Supporting businesses through the Covid 19 pandemic

Aberdeenshire Council

2021/22 Annual Audit Report

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