Grant Thornton

Annual Audit Report for Aberdeenshire Council (Issued to Audit Committee)

Financial year ended 31 March 2023

Prepared for those Charged with Governance and the Controller of Audit

December 2023

Contents

Your key Grant Thornton team members are:

Mark Stocks
Engagement Leader
T +44 (0)121 232 5437
E mark.c.stocks@uk.gt.com

Cathy Smith
Engagement Manager
T +44 (0)141 223 0657
E cathy.smith@uk.gt.com

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

Executive Summary (1)

This table summarises the key findings and other matters arising from the external audit of Aberdeenshire Council and its Group and the preparation of the financial statements for the year ended 31 March 2023 for those charged with governance (Aberdeenshire Council Audit Committee) and the Controller of Audit.

Financial Statements

Requirements

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

- The Group and Council financial statements give a true and fair view of the state of affairs of the Council and its group as at 31 March 2023 and of the income and expenditure of the Council and its Group for the year then ended;
- the Group and Council financial statements have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Code;
- the Group and Council financial statements have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

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

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

Draft financial statements

The draft financial statements were authorised and presented for audit by the 30 June 2023 deadline.

The financial statements contained a number of errors with regard to asset valuation, group accounts, and internal recharges. These matters took a significant amount of time to resolve and delayed our audit. The Council will need to improve its controls in these areas to ensure a timely completion of the audit for 2023/24.

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

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

Governance statement

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

Executive Summary (2)

Financial Statements (continued)

Property, plant and equipment (PPE)

We identified a number of issues with regard to the accounting for and valuation of PPE. The Council needs to strengthen its arrangements for the valuation of its general fund assets and for the valuation of its housing. The issues identified include:

- PPE depreciation - The asset lives are outside of accounting policy range and do not appear reasonable. These have been restated.
- PPE Private Finance Initiative (PFI) - PFI Lifecycle costs are incorrectly recorded in opening balance as an asset, c£22m. This has been restated and a prior period adjustment (PPA) made. This has not impacted the Council's useable reserves.
- PPE Housing - Council dwelling revaluations were not uplifted to reflect changes in market conditions, c£37m. This has been restated and a PPA made. This has not impacted the Council's useable reserves.
- PPE Other land and buildings - we identified a number of issues relating to the valuation of schools, c£6m and a number of assets that had not been revalued, c£4m. This has not been restated but does not impact the Council's useable reserves.
- PPE disclosures – the revaluation schedule table required updating to match the valuation report (£373m) and to remove £30m of fully depreciated council dwellings. This has been restated.

The issues identified have significantly delayed our audit work and have required increased audit input. A number of amendments have been made to the accounts. These are detailed in the Audit of Annual Report and Accounts Section of this report and in Appendix 1. They are material to the financial statements.

Other significant issues

In addition to those issues discussed above, the following added to the complexity of the 2022/23 audit:

- Pension Fund – the Council Pension scheme moved into a surplus position as at 31 March 2023, c£326m. The Council reviewed the surplus against the requirements of IFRIC14 and concluded that it should not recognise this as an asset. We agree with this view. During the audit the accounts have been adjusted for an error in NESPF IAS19 figures c£1m net (made by the actuary) and the incorrect offsetting of unfunded benefit schemes, c£15m;
- Group accounts - The draft financial statements presented for audit consolidated only included the Aberdeenshire Integration Joint Board into the group accounts. We identified that Create Homes Aberdeenshire LLP, the Common Good Funds and the Trusts and Endowments were jointly material to the group accounts. The group accounts have now been restated to include these items. Prior period accounts have also been restated to reflect the revised consolidation;
- Cash and bank reconciliations – not all of these reconciliations have been appropriately completed. The amounts are not material (with the largest balance being £1.6m) but we consider that, due to the nature of these assets, cash and bank reconciliation processes should be strengthened;

(Continued overleaf)

Executive Summary (3)

Financial Statements (continued)

Other significant issues (continued)

In addition to those issues discussed above, the following added to the complexity of the 2022/23 audit:

- Debtors and creditors - both the short-term debtors (c£1m) and short-term creditors (c£4m) included significant 'aged' balances which could not be appropriately identified. Additionally, the creditors breakdown in particular was presented with a large number of debits and credits which had not been appropriately matched to show the creditor balances due for payment at the year end. We note that these balances are not material but consider that the Council should review these balances at the earliest opportunity to understand whether balances are recoverable/payable.
- Council tax bad debt provision – we reviewed the provision and concluded that there was a risk that is could be understated by c£4m due to the age of some of the Council Tax debt.
- Internal recharge - The Council's ledger includes £118.700m of internal recharges, not all of which could be appropriately identified. Internal recharges inflate both the income and the expenditure of the Council, but do not affect the net position reported.

Other comments

We note that this was the first year of our audit and we would anticipate that the introduction of a new audit approach would result in additional audit work for ourselves and the Council. We also note that a number of matters identified, such as Group Accounts, are now resolved and we would not anticipate these reoccurring.

We consider that the main areas of focus for the Council in preparing its future accounts should be:

- Improving its arrangements for the valuation and accounting for PPE
- Strengthening cash procedures
- Improving arrangements and reporting for old debtors and creditors.

Impact on reserves

We note that if the adjustments to debtors and creditors were made that this would increase the Council's reserves by £2.110m.

Adjustments to the primary financial statements

We have identified a significant number of adjustments to the financial statements of Aberdeenshire Council and Group. Further detail is set out in Appendix 1.

We also identified a number of unadjusted misstatements during the audit from our testing. Most of these have arisen as a result of judgements made in calculating provisions, and from aged debtor and creditor balances which could not be appropriately identified. They are not individually or cumulatively material. Management have decided not to adjust the financial statements for these misstatements as they are estimated and have no material impact on the financial statements.

(Continued overleaf)

Executive Summary (4)

Financial Statements (continued)

Adjustments to the primary financial statements (continued)

We identified a number of disclosure errors and issues. We recommend that the Council strengthens its arrangements for oversight and quality review of its financial statements.

Further detail is set out in Appendix 1.

Recommendations

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

Our follow up of the recommendations made by the predecessor auditor last year are detailed in Appendix 4.

Acknowledgement

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

Introduction (1)

Scope of our audit work

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

The core elements of our audit work in 2022/23 have been:

- An audit of the Council and Group's annual report and accounts for the financial year ended 31 March 2023 [findings reported within this report];
- Consideration of the wider dimensions that frame the scope of public audit as set out in Audit Scotland's Code of Audit Practice 2021 ('the Code') [within this report];
- An audit of the following charitable trusts for which the Council is sole Trustee.
    - Aberdeenshire Charities Trust (ACT 2)
    - Aberdeenshire Educational Trust
    - Anderson & Woodman Library Trust
    - McDonald Public Park Endowment
- Certification of the NDR return (Non- Domestic Rates);
- Monitoring the Council's participation in the National Fraud Initiative (NFI); and
- Any other work requested by Audit Scotland.

Note that the following work is also required, and is currently in progress:

- Certification of Housing Benefits subsidiary claim. The audit deadline for this work is by 31 January 2024 and our work is on target to meet this deadline.

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

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

Responsibilities

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

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

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

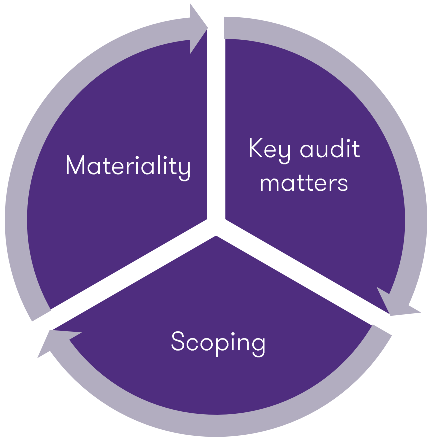
Introduction (2)

Adding value through our audit work

As the newly appointed auditor we brought new challenge and scrutiny to the Council's financial statement arrangements. Our approach identified areas in the accounts which were incorrect in prior year and a need for the Council to enhance broader financial controls as well as the preparation of the financial statements and ability, to present suitable audit evidence to the team. These recommendations will allow the Council to improve the quality of the financial statements, and the underlying controls in future years.

Audit of the annual report and accounts (1)

Our approach to the audit of the financial statements



Overall materiality

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

We set overall materiality at £16.800m (Group: £16.850m) which represents 1.50% of the Council's 2021-22 gross expenditure.

Key audit matters

The key audit matters were identified as:

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

Significant risks

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

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

Internal control environment

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

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

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

We have also undertaken a review of the Council's IT controls. We identified a number of areas where controls could be strengthened. These are detailed on pages 44 and 45 of this report.

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

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

Audit of the annual report and accounts (2)

Status of audit work

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

At the date of writing the following areas of work are ongoing:

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

Audit of the annual report and accounts (3)

Our application of materiality

As communicated in our Audit Plan dated 28 March 2023, we determined materiality at the planning stage based the gross expenditure as per the 2021-22 audited financial statements. At year-end, we have reconsidered planning materiality based on the 2022-23 draft financial statements and have increased our materiality levels. These revised levels are set out below.

We report to you all misstatements identified in excess of £250,000, in addition to any matters considered to be qualitatively material.

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

Materiality was determined as follows:

Financial statement materiality threshold	Financial statement materiality has been set at £16.800m (Group: £16.850m) which represents 1.50% of the Council's 2021-22 gross expenditure. Financial Statement materiality is £0.15m lower than the materiality level set by the predecessor auditor in 2021-22.
Performance materiality threshold	Performance materiality for the year has been set at £10.920m (Group: £10.953m) which represents 65% of financial statement materiality. Performance materiality is £0.751m higher than the materiality level set by the predecessor auditor in 2021-22.
Significant judgements made by auditor in determining materiality	The determination of materiality involves the exercise of professional judgement. In determining materiality, we made significant judgements in selecting the appropriate benchmark of expenditure and selecting the appropriate percentage to apply to the benchmark.
Significant revision(s) of materiality threshold that were made as the audit progressed	We calculated materiality during the planning stage of the audit and the during the course of our audit, we re-assessed initial materiality based on actual gross expenditure for the year ended 31 March 2023 and adjusted our audit procedures accordingly.

Audit of the annual report and accounts (4)

An overview of the scope of our audit

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

- Understanding the group, the Council, and its components, and their environments, including group-wide controls. The engagement team obtained an understanding of the Council, the group and its environment, including group-wide controls, and assessed the risks of material misstatement at the group and Council only level;
- Identifying significant components. We evaluated the significance of each component of the group and determined the planned audit response based on a measure of materiality;
- Work to be performed on financial information of Council and other components (including how it addressed the key audit matters). A full scope audit was performed for Aberdeenshire Council. Specified procedures were performed over material balances of significant components, and an analytical approach was applied for other components. No additional key audit matters were identified in group transactions;
- A full scope audit was conducted for Aberdeenshire Council. Our work has covered all material balances and transactions in expenditure, income, assets, liabilities and reserves as well as other primary statements and disclosure notes. Specific procedures were conducted on material balances of property, plant and equipment and investments within the common goods and trust funds consolidation, including any material reserves.
- Create Homes Aberdeenshire LLP, the common good fund, trusts and endowments have been added to the group consolidation as a result of audit findings. This is our first year of audit.

Audit of the annual report and accounts (5)

Detecting irregularities, including fraud

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to Aberdeenshire Council and its Group and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2022/23 Local Government Accounting Code of Practice.
- We enquired of Senior Officers and the Chair of the Aberdeenshire Council Audit Committee, concerning the Council's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Senior Officers and the Chair of the Aberdeenshire Council Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Council and its group financial statements to material misstatement, including how fraud might occur, by evaluating officers incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered the Council's financial performance for the year and potential management bias in determining accounting estimates in relation to the valuation of land and the estimations in respect of the Council's defined pension liability. Our audit procedures are documented within our response to the significant risk of management override of controls below.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in in certain account balances and significant accounting estimates.

Audit of the annual report and accounts (6)

Detecting irregularities, including fraud (continued)

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

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

Audit of the annual report and accounts (7)

Group audit approach

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

Component	Significant	Scope – planning	Scope – final	Auditor	Status	Comments
Aberdeenshire Council	Yes	■	■	Grant Thornton UK	● Amber	The status of our audit of the Council is set out on page 10 of this report.
Aberdeenshire Integration Joint Board	No	▨	▨	Grant Thornton UK	● Green	The audit team performed analytical procedures.
Create Homes Aberdeenshire LLP	No	▨	▨	Unaudited to date	● Amber	The audit team performed analytical procedures.
Trusts and Endowments	No	▨	▨	Grant Thornton UK	● Green	The audit team performed analytical procedures.
Common Good Funds	No	▨	▨	Grant Thornton UK	● Green	The audit team performed analytical procedures.

■	Full scope audit procedures will be performed to component materiality, either by the group audit team or by component auditors.
▦	Audit of specified financial statement line items to component materiality, either by the group audit team or by component auditors.
▧	Audit of specified financial statement line items will be performed by the Group audit team to group materiality.
▨	Out of scope components are subject to analytical procedures performed by the Group audit team to group materiality.
● Green	Planned procedures are substantially complete with no significant issues outstanding.
● Amber	Planned procedures are ongoing/subject to review with no known significant issues.
● Red	Planned procedures are incomplete and/or significant issues have been identified that require resolution.

Audit of the annual report and accounts (8)

Overview of audit risks

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

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

↑	Assessed risk increase since Audit Plan	● Green	Not considered likely to result in material adjustment or change to disclosures within the financial statements
↔	Assessed risk consistent with Audit Plan	● Amber	Potential to result in material adjustment or significant change to disclosures within the financial statements
↓	Assessed risk decrease since Audit Plan	● Red within the	Likely to or has resulted in material adjustment or significant change to disclosures financial statements

Audit of the annual report and accounts (8)

Significant risks and Key Audit Matters (continued)

Key audit matters identified in our Audit Plan

Risk 1: Valuation of land, buildings and council dwellings

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

Aberdeenshire Council employs an internal valuer to undertake a rolling programme of valuations across their asset base, valuing land, buildings and council dwellings at least once every five years. In the intervening periods Aberdeenshire Council carries out a desktop review to assess the material accuracy of the assets not revalued.

As at 31 March 2022, Aberdeenshire Council held PPE of £2,303.268 million including land, buildings of £1,278.478 million and council dwellings of £556.284 million.

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

How our scope addressed the matter

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

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

Audit of the annual report and accounts (9)

Significant risks and Key Audit Matters (continued)

Key audit matters identified in our Audit Plan

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

Relevant disclosures in the Statement of Accounts for the year ended 31 March 2023 are;

Note 13 – Property, Plant and Equipment (PPE)

Our results

We identified a number of issues with the valuation of the Council's general fund property and houses.

Fixed Asset Register

The Council has a single fixed asset register but is not able to produce a single report that reconciles directly to the financial statements. Multiple reports are needed from the CIPFA system to reconcile to the balances in the financial statements. Initially we were unable to reconcile these reports to the draft financial statements. Officers provided a reconciliation which included a number of manual adjustments. As part of this reconciliation process we identified a £30m error in the HRA value in the financial statements. This relates to an error in the historic cost values. This disclosure error has now been amended for.

Valuation report

The initial valuation report was provided to us at the start of July. We were issued with an updated report on 19 July (as the initial report contained errors). Upon reconciliation of the valuer's report to the draft accounts we identified a number of disclosure errors, including one for £377m. The £377 million difference relates to the mis-categorisation of assets as historical cost (HC) within the asset register system rather than as revalued assets. The Council has amended its accounts for these disclosure errors.

PPE depreciation

We reviewed the asset lives used by the Council for depreciating its assets. We concluded that the asset lives for infrastructure are relatively high at 60 years. We do not consider that this is likely to result in a material error in the financial statements but consider that these should be reviewed by the Council's engineers to determine whether they remain appropriate.

We also reviewed the asset lives used by the Council for depreciating its housing assets. We determined that the asset lives used are outside of accounting policy range and do not appear reasonable. Some are too low, for M&E can be as low as 1-5 years. Others are high, for example, timber structures have lives in excess of 100 years. The Council has restated the asset lives used as part of the general restatement of housing asset values (see below). We understand that the impact is a reduction in depreciation of c£7m.

Audit of the annual report and accounts (10)

Significant risks and Key Audit Matters (continued)

Key audit matters identified in our Audit Plan

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

Relevant disclosures in the Statement of Accounts for the year ended 31 March 2023 are;

Note 13 – Property, Plant and Equipment (PPE)

Our results

We identified a number of issues with the valuation of the Council’s general fund property and houses.

PPE additions

We were not able to obtain a breakdown of Fixed Assets Additions from the Fixed Asset Register and as such an alternative ledger breakdown was obtained for the purpose of substantive testing. This extended the time taken for our testing. Our testing did not identify any errors with regard to additions.

PPE Ownership and Existence

It took longer than anticipated for officers to identify the evidence to support the existence of assets. Our sample was provided in July. The initial response was in August but did not provide sufficient evidence. We discussed this with officers and received some of the required evidence in September. We completed our audit in November 2023. As part of our future audit planning, we will discuss with officers how this process can be shortened.

PPE - PFI

PFI Lifecycle costs are incorrectly recorded in the balance sheet as an asset. The Finance team have made adjustments of c£22m to closing balances. A Prior Period Adjustment has also been needed. This has resulted in a reduction in asset values.

Assets not revalued during the year

Valuations are undertaken on a five yearly cycle. As such there are a number of assets that are not valued on an annual basis. We identified the following matters. We identified two assets for £155k and £341k which were included in the accounts in error. We identified £3.7m of assets that should have been valued as at 31 March 2023 but which were omitted from the valuation cycle. We are satisfied that the balance is not materially misstated.

Audit of the annual report and accounts (11)

Significant risks and Key Audit Matters (continued)

Key audit matters identified in our Audit Plan

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

Relevant disclosures in the Statement of Accounts for the year ended 31 March 2023 are;

Note 13 – Property, Plant and Equipment (PPE)

Our results

We identified a number of issues with the valuation of the Council's general fund property and houses.

PPE Housing

Our initial discussions indicated that all Council Dwellings had been revalued at 31 March 2023. Our subsequent review of the valuations identified that this was not the case and that a desktop analysis has been performed to uplift the housing values (based on ratio of private vs public rental values). We reviewed the information supporting the private and public centre values and concluded that there was an insufficient evidence base to support the ratio. Our own assessment based on national indices available to us indicated that the value may be materially misstated. We have raised this with officers and are awaiting a response highlighting the following matters

The code Chapter 4.1.2.37 states:

"Where assets are revalued (i.e. the carrying amount is based on current value),revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period."

Chapter 4.1.2.38 continues,

"The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and the revaluations are kept up to date. A short period for property, plant and equipment is interpreted to mean that assets are normally measured once every five years for each class of assets, provided that current value meets the requirements of paragraph 4.1.2.37. Valuations shall be carried out at intervals of no more than five years."

Therefore, whilst the Council is able to implement a quinquennial revaluation, it may only do so if the carrying amount of the portfolio does not differ materially from the current value.

Continued.

Audit of the annual report and accounts (12)

Significant risks and Key Audit Matters (continued)

Key audit matters identified in our Audit Plan

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

Relevant disclosures in the Statement of Accounts for the year ended 31 March 2023 are; Note 13 – Property, Plant and Equipment (PPE)	Our results We identified a number of issues with the valuation of the Council's general fund property and houses. PPE Housing continued As parts of the housing stock had not been valued in year we considered available indices to determine whether there is an indication of error in the unvalued assets. We estimated that the value of housing stock was likely to be materially understated. We agreed with the Council that the Registers of Scotland (ROS) Index provided a reliable indication of the changes in current value. It showed that the average price of a property in Aberdeenshire on 31 March 2021 was £184,660. By 31 March 2023 this had risen to £198,494. This is a rise of 7.49% (6.40% rise in 2021-22, and 1.15% in 2022-23). The Council revisited its valuation including taking account of the issues with depreciation. A revised valuation of c£572m was provided for 2022/23 and £569m for 2021/22. This compares to the initial valuation of £535m and £525m respectively. In amending the financial statements the Council needed to adjust for a historical cost error of £30m in both gross book valuation and gross book depreciation. This transaction was difficult to understand and related to a revaluation adjustment made in 2019/20. The Council has adjusted for this matter. It has also processed a Prior Period Adjustment as the prior year accounts were incorrect.

Audit of the annual report and accounts (13)

Significant risks and Key Audit Matters (continued)

Key audit matters identified in our Audit Plan

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

Relevant disclosures in the Statement of Accounts for the year ended 31 March 2023 are;

Note 13 – Property, Plant and Equipment (PPE)

Our results

We identified a number of issues with the valuation of the Council's general fund property and houses.

Other land and buildings

Our audit of Other Land and Buildings involves the sample testing of a sample of assets and the assumptions used to value the assets. We selected a sample of 19 OLB assets for testing. For each we will need to test:

a. The accounting treatment, by recalculating and verifying the double entry charged for each asset in processing the valuation movement, and;

b. Each assumption made in the valuation of the asset by agreement back to source evidence.

We issued our sample in August but as at 28 October had not received the requested information. This was partially provided in early November with the accounting treatment information being provided in late November.

We identified a number of issues relating to the valuation of schools. The valuers have indicated that the impact on the 2022/23 valuations is c£6m. The error in the prior year c.£8.8m. We also identified an error of £705,000 relating to the accounting treatment for one asset (Inverurie Community Campus pitch) resulting in an incorrect charge to the revaluation reserve. The accounts have not been adjusted for these errors on the grounds of materiality.

Summary

The audit of PPE has been prolonged and we have identified a number of material account balances and disclosure errors. A number have resulted in Prior Period Adjustments. The accounts have needed to be restated for these matters. The additional work required by ourselves and the Council has resulted in significant delays to the audit process.

In preparation for the 2023/24 financial statement audit the Council should reviews its:

- Accounting procedures and quality control over PPE
- Valuation procedures and quality control over PPE.

Audit of the annual report and accounts (14)

Significant risks and Key Audit Matters (continued)

Key audit matters identified in our Audit Plan

Risk 2: Defined benefit pension scheme valuation

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

As at 31 March 2023 the Council had pension fund liabilities of £15.970 million relating to unfunded benefits, and pension fund assets of £326.480 million relating to funded benefits, which has been reduced to £nil after the application of an 'asset ceiling' in line with the requirements of IFRIC 14.

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

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

How our scope addressed the matter

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

- Evaluated management's processes and controls for the calculation of the gross asset and gross liability and estimates, the instructions issued to the actuarial expert and the scope of their work;
- Evaluated the assumptions made by Mercer Limited in the calculation of the estimate, using work performed by an auditor's expert commissioned on behalf of Audit Scotland;
- Evaluated the data used by management's experts in the calculation of the estimates;
- Performed substantive analytical procedures over the gross assets, gross liabilities and in year pension fund movements, investigating any deviations from audit expectations; and
- Assessed the accuracy and completeness of the IAS 19 estimates and related disclosures made within the Council's financial statements.

Audit of the annual report and accounts (15)

Significant risks and Key Audit Matters (continued)

Key audit matters identified in our Audit Plan

Risk 2: Defined benefit pension scheme valuation (continued)

Relevant disclosures in the Statement of Accounts for the year ended 31 March 2023 are;

Note 34 – Defined Benefit Pension Schemes

Our results

Our work identified that the Council has appropriate policies and procedures in place for calculating its pension assets and liabilities with the exception of the following matters.

Usually, local government pension scheme (LGPS) pension liabilities, calculated on an IAS 19 basis, exceed any pension assets and members of the LGPS recognise a net pension liability on their balance sheet. However, a net defined benefit asset may arise where the defined benefit plan has been overfunded or where actuarial gains have arisen. In 2022/23 there was a significant change in some of the assumptions use in calculating pension assets and liabilities, most notably a change in the discount rate. For the 2022/23 draft financial statements the change in these assumptions resulted in a notional pension asset of £311.499 million.

IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments. IFRIC 14 limits the measurement of the defined benefit asset to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The pension asset can be recognised at the lower of the net pension asset or the present value of any economic benefits available.

Prior to audit, the Council requested an IFRIC 14 assessment from the actuary and appropriately amended the pension asset in the balance sheet from £311.499 million to £nil. This was due to the assessment under IFRIC 14 that the present value of the economic benefits available were lower than the net pension asset. The draft accounts presented for audit showed a £nil net pension fund asset.

Continued

Audit of the annual report and accounts (16)

Significant risks and Key Audit Matters (continued)

Key audit matters identified in our Audit Plan

Risk 2: Defined benefit pension scheme valuation (continued)

Relevant disclosures in the Statement of Accounts for the year ended 31 March 2023 are; Note 34 – Defined Benefit Pension Schemes	Our results (continued) In early August the Council were notified by the NESPF that there had been an error in the IAS 19 figures originally provided by the scheme actuary. The figures were recalculated and the Council were provided with a new IAS 19 report. The Council have updated the financial statements to incorporate the change. The effect of the change was to decrease the present value of the defined benefit obligation by £2.529 million and decrease the fair value of plan assets by £3.518 million. The net decrease in the net asset was absorbed by an equal movement in the IFRIC 14 asset ceiling from £311.499 million to £310.510 million. In calculating the asset ceiling to be applied under IFRIC 14, the Council's actuary offset the present value of the defined benefit obligation arising from unfunded benefits against the net surplus of the funded benefits. IAS 19 paragraph 131 only permits offsetting where there is a legal right to use a surplus in one plan to settle obligations in another plan, and this is not the case with the unfunded benefits. A revised IAS 19 report was obtained from the Council's actuary, Mercer Limited, to show the calculation of the asset ceiling without offsetting the funded and unfunded benefits of the scheme. This exercise increased the value of the asset ceiling from £310.510 million to £326.480 million, to leave a net pension deficit of £15.970 million. Summary The pension fund accounts have been restated to show a net pension deficit of £15.970m.

Audit of the annual report and accounts (17)

Significant risks and Key Audit Matters (continued)

Other significant risks identified in our Audit Plan

Risk 3: Management override of controls

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

How our scope addressed the matter

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

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

Our results

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

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

Audit of the annual report and accounts (18)

Significant risks and Key Audit Matters (continued)

Other significant risks identified in our Audit Plan

Risk 4: Risk of fraud in revenue

As set out in ISA (UK) 240 (Revised May 2021) there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

(rebutted)

Auditing standards require us to consider the risk of fraud in Revenue. This is considered a presumed risk in all entities.

Having considered the risk factors set out in ISA (UK) 240 and the nature of the revenue streams at Aberdeenshire Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted as there is deemed to be little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are deemed to be limited.

Our results

Our work has not identified any material issues to raise in relation to revenue recognition. We have identified some non-material issues – see page 30.

Risk 5: Risk of fraud in expenditure

As set out in practice note 10 (Revised 2022) ‘The Audit of Public sector Financial Statements’, issued by the Public Audit Forum, which applies to all public sector entities, we consider there to be an inherent risk of fraud in expenditure recognition.

(rebutted)

Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at Aberdeenshire Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted as there is deemed to be little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are deemed to be limited.

As part of our work on expenditure we have undertaken sample based substantive testing of transactions before and after the year-end to confirm transactions are recorded in the correct period. We have also reviewed expenditure recognition accounting policies and relevant disclosures.

Our results

Our work has not identified any material issues to raise in relation to expenditure recognition. We have identified some non-material issues – see page 30.

Audit of the annual report and accounts (19)

Other areas impacting the audit

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

1. £Nil net book value assets

The Council's asset register includes 1,177 assets which are being held at £nil net book value as they have been fully depreciated. The gross book value of these assets is £102.736m.

The majority of these assets sit within infrastructure (£53.631m) and Vehicles, Plant, Furniture & Equipment (£46.931m).

Risk

There are two risks in relation to this issue:

1. if these assets are no longer operational, the gross cost and accumulated depreciation balance will be overstated; and
2. if these assets are operational, there is a risk that the Council is not assigning appropriate asset lives to its assets.

The potential impact of these risks is that the gross cost and accumulated depreciation disclosed Property, plant and equipment is overstated.

Conclusion

There is no impact upon the balance sheet as the balances are held at £nil value. Any impact of any assets not held would be in the classification in the Property, Plant and Equipment note only.

We have performed testing over the depreciation charged by the Council in year and identified issues with the useful economic lives being applied. An audit adjustment has been made in respect of this issue, as reported in Appendix 1. This gives further credence to the presence of these risks.

We have raised an associated recommendation within Appendix 2 for the Council to perform a review of nil net book value assets.

Audit of the annual report and accounts (20)

Other areas impacting the audit (continued)

2. Internal recharges

A total of £118.700m of internal recharges have been removed from the income and expenditure of the accounts (after adjusted audit misstatement 4, detailed in Appendix 1).

Of these, only £118.407m of the income and only £49.451m of the expenditure was identifiable. Therefore, we have been unable to test the remaining £69.249m of expenditure.

The untested expenditure recharges are substantial in value, and we have had to place reliance on our testing of the income leg of the internal recharges to gain sufficient assurance over them.

Additionally, we have had to perform additional testing over the 'other expenditure' due to not being able to remove the recharges from our testing population, which has taken additional time.

In addition, we identified that the HRA incorrectly includes HRA income recharges for £6.290 million within HRA Other income. This is being adjusted for.

Risk

Inability to identify internal recharge transactions presents a risk that they have been incorrectly removed from the financial statements and inhibits our ability to audit them.

Conclusion

The Council should improve its controls over internal recharges to ensure that both income and expenditure recharges can be appropriately identified and removed from the financial statements. This will ensure that the accounts are correctly stated.

Additional internal recharges amounting to £6.290 million have been removed from the accounts by the Council, as reported in Appendix 1.

We have raised an associated recommendation within Appendix 2 for the Council to ensure that internal recharges can all be accurately identified.

Audit of the annual report and accounts (21)

Other areas impacting the audit (continued)

3. Debtors

The following issues have been identified from our testing below:

– Opening balances - Included within short term debtors of £78.240m was £1.384m of 'opening balances' for which no breakdown was provided. We have been unable to identify what the debtors are and will report this as an error.

– Errors – we have identified minor errors in trade debtors (£145,764) and prepayments (£41,348, extrapolated error: £401,166)

We consider that this is an uncertainty. If the transactions were released this would decrease the Council's reserves.

Risk

There is a risk that debtors balances are overstated and that the Council has less reserves available to it.

Conclusion

It is important that aged debt debtor balances are reviewed on a regular basis to ensure that they are collectible. We note that the items identified are not material to the financial statements.

4. Creditors

We have had difficulty in obtaining appropriate breakdowns the of Creditors balance. For example, for part of the creditors balance (£85m) we were presented with a population of CRs £192.897m and DRs £107.087m. This has delayed our audit.

For older creditor balances (£7.8m) prior to and including 2019/20 the listing we were provided with details £68.671m of debits and £76.478m of credits . There are 12,623 individual transactions, with some dating back as far as 1999/2000. We have not been able to determine which transactions form the year end creditor and have not therefore tested the balance. Given the age of the creditors we are uncertain as to whether these balances remain a liability to the Council. We consider that this is an uncertainty. If the transactions were released this would increase the Council's reserves.

Risk

There is a risk that creditor balances are overstated and that the Council has additional reserves available to it.

Conclusion

It is important that aged creditor balances are reviewed on a regular basis to ensure that they are payable. We note that the items identified are not material to the financial statements.

Audit of the annual report and accounts (22)

Other areas impacting the audit (continued)

5. Cash

We consider that the cash and bank reconciliations and processes can be improved. Key matters are:

- We have noted unusually large unreconciled balances for £1.63 million at year end re one account. The amount shown in the accounts is £1,649,334 but the reconciled amount is £362,013
- Unreconciled balance £180k comprising of:
    - Interest earned in two bank accounts for £91K (in total), was reflected in bank statement as at 31st March 2023 but was not shown in ledger.
    - For the foreign currency bank account, the euro to pound conversion as at 31st March 2023 resulted in an unreconciled balance of £81K. The Council have not translated the foreign currency balance at the year end, all transaction have instead been recorded in the ledger at the spot rate on the day of the transaction, resulting in the variance seen.

Risk

There is a risk that cash balances are not appropriately understood increasing the risk of fraud and error in the financial statements.

Conclusion

It is important that bank accounts are fully reconciled to the ledger on a monthly basis. Unreconciled balances should be investigated and resolved at the earliest opportunity.

Audit of the annual report and accounts (23)

Other areas impacting the audit (continued)

6. Group

The Code of Practice states "Authorities with interests in subsidiaries, associates and/or joint ventures shall prepare group accounts in addition to single entity financial statements, unless their interest is not considered material."

We determined that in addition to the entities consolidated that the Trusts and Endowments, Create Homes Aberdeenshire LLP and Common Good Funds were cumulatively material. The accounts are being adjusted for this and a PPA is required.

We also reviewed the IJB accounts and disclosures. We concluded that these were appropriately disclosed.

Risk

The group accounts are misstated and do not reflect the activity of the Council.

Conclusion

The accounts have been restated to reflect the Trusts and Endowments, Create Homes Aberdeenshire LLP and the Common Good Funds.

Audit of the annual report and accounts (24)

Key judgements and estimates

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

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

The estimate for PPE valuation including council dwellings has already been reported on pages 17 to 22 and the estimate for the pension asset on pages 23 to 25.

This section covers other material estimates within the financial statements.

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

Audit of the annual report and accounts (25)

Key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
1. Depreciation of property plant and equipment, including assessment of useful economic lives (UELs). £80.699 million	Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction). Depreciation is calculated using the straight-line method. Depreciation is not calculated in the year an asset is acquired but is calculated in the year of disposal. Where a material item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The UELs of council dwellings and other buildings are estimated by the Council's valuer. All other UELs are determined by a 'suitably qualified officer'.	We examined the estimate, considering the: • ISA (UK) 540 requirements; and • appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate. We have consulted with our auditor's expert in relation to this estimate. **Conclusion** We reviewed the asset lives used by the Council for depreciating its assets. We have reported our findings on page 18. We concluded that the asset lives for infrastructure are relatively high at 60 years. We consider that these should be reviewed by the Council's engineers to determine whether they remain appropriate. We also reviewed the asset lives used by the Council for depreciating its housing assets. We determined that the asset lives used are outside of accounting policy range and do not appear reasonable. The Council has adjusted these asset lives. Please also note the findings on page 28 regarding £nil net book value assets. See Appendix 1 for the details of adjustments made	Red

Audit of the annual report and accounts (26)

Key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
2. Council dwelling adjustment factor £9.588 million	The valuer applies an 'adjustment factor' to the cumulative total of all Beacon values to determine an Existing Use Value of Social Housing (EUV-SH). The 'adjustment factor' is a measure of the difference between private market rent and socially rented property within the Aberdeenshire Council area and is therefore the relationship between the capitalised net rent (investment value) of private dwellings and the equivalent public sector investment.	We examined the estimate, considering the: • ISA (UK) 540 requirements; and • appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate. We have consulted with our auditor's expert in relation to this estimate. **Conclusion** We are satisfied with the methodology for the calculation of the adjustment factor. However, we noted that the last full valuation of the council dwellings portfolio took place as at 31 March 2021. In the subsequent years, the valuer has updated the adjustment factor and applied the change as a valuation movement. We have concluded that this was an inadequate approach to maintain a materially accurate valuation in the financial statements. This has been reported in more detail on pages 20 and 21, and the associated audit adjustments and recommendations can be found in Appendix 1 and 2, respectively.	Red

Audit of the annual report and accounts (27)

Key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
3. Fair value of assets and liabilities (financial instruments) Financial assets: £42.006 million Financial liabilities: £1,106.129 million	Financial liabilities and financial assets represented by current and long-term debtors and creditors are carried in the Balance Sheet at amortised cost.	We examined the estimate, considering the: • ISA (UK) 540 requirements; and • appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate. **Conclusion** We are satisfied with the methodology for the calculation of the financial assets and liabilities. However, the financial instruments disclosure has undergone several adjustments due to the inclusion of non-contractual rights and obligations. Please refer to disclosure adjustment 10, in Appendix 1 for more detail.	Red
4. Asset decommissioning provision £6.656 million	The provision is an estimate of costs to dismantle, remove items and to restore the related sites for 14 Household Waste Recycling Centre (HWRC) sites; 6 waste transfer sites; 5 landfill sites and 2 quarries. Asset decommissioning costs were first recognised at the end of financial year 2015/16.	We examined the estimate, considering the: • ISA (UK) 540 requirements; and • appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate. **Conclusion** We are satisfied with the methodology for the calculation of the asset decommissioning provision. However, £1.837 million of the total £6.656 million asset decommissioning provision could not be supported by evidence. Therefore, this has been assumed to be an error. Please refer to unadjusted misstatement 7, in Appendix 1 for more detail.	Amber

Audit of the annual report and accounts (28)

Key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
5. Provisions for debt impairment Council tax provision: £17.546 million	The Council makes a provision for the estimated losses on the non-collection of council tax. The provision has been calculated based on a percentage of the council tax billed in year, as estimated by management.	We examined the estimate, considering the: • ISA (UK) 540 requirements; and • appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate. **Conclusion** We are satisfied with the methodology for the calculation of the council tax provision for council tax debtors raised in recent years. However, we have noted that council tax debtors dating from 2017/18 or earlier (back to 1998/99) amount to £14.513 million, and against these a provision of only £10.200 million has been made, leaving £4.313 million 'receivable'. We are uncertain as to the collectability of these debts and have recommended that the Council should seek to reduce this balance, either by collecting the debts, writing them off, or providing an increased provision. Please refer to unadjusted misstatement 5, in Appendix 1 for more detail. Additionally, we have noted that the council tax provision represents a material source of estimation uncertainty for the Council and should be disclosed as such in Note 4.	Amber

Audit of the annual report and accounts (29)

Key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Private Finance Initiative (PFI) liabilities £87.742 million	The Council is committed to four PFI and similar contracts, in respect of Education & Leisure facilities. These are accounted for under IFRIC 12, Service Concession Arrangements. The Council considers themselves to be in control of the services provided under the agreement for the provision of educational establishments, and that the assets will transfer to Council ownership at the end of the lease period. As such, the PFI assets have been accounted for **as "on-balance sheet" assets.** The accounting models are updated annually to reflect actual charges and RPI. Future years' service costs are estimated based on the latest actual charges and current RPI rates. Interest and finance lease liability charges are unaffected by changes in RPI.	We examined the estimate, considering the: • ISA (UK) 540 requirements; and • appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate. Additionally, we have: • performed a review of key assumptions input into the accounting models; • used specialist software to gain assurance that the PFI model has been appropriately updated for the period ended 31 March 2023; • agreed that accounting entries from the accounting model have been accurately recorded in the Council's accounts. Conclusion We are satisfied with the methodology for the calculation of the PFI liabilities.	Green

Audit of the annual report and accounts (30)

Key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Holiday pay accrual £12.319 million	The Council accrues for annual leave balances which have been earnt by staff, but not yet taken by 31 March 2023. The Council base the estimate upon a sampled approach of outstanding leave and extrapolate the findings across the whole population.	We examined the estimate, considering the: • ISA (UK) 540 requirements; and • appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate. **Conclusion** We are satisfied with the methodology for the calculation of the holiday pay accrual.	Green

Audit of the annual report and accounts (31)

Other key elements of the financial statements

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

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

Audit of the annual report and accounts (32)

Other key elements of the financial statements (continued)

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

Audit of the annual report and accounts (33)

Other key elements of the financial statements (continued)

Issue	Commentary
National Fraud Initiative	The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Participating bodies, including the Council, receive matches for investigation.
WGA return	For local government audits we are required to complete Whole of Government Accounts (WGA) work, and provide an assurance statement on Aberdeenshire Council's WGA return as mandated by Audit Scotland. Aberdeenshire Council does not exceed Audit Scotland's prescribed testing threshold so we will complete the relevant specified procedures and prepare and submit a partial assurance statement once we have completed all our work on your financial statements.
Grants	In accordance with Audit Scotland planning guidance, as appointed auditors we undertake grant certification work on behalf of the Council. For 2022/23 we are required to provide the following certifications: • National Non-Domestic Rates Income Return (NDR) and • Housing Benefit certification The certification of the NDR return is complete and the certification of the housing benefit subsidiary claim will be started during November.
Section 106 Charities	Our audit appointment as the Council's auditor includes the audit of any trust funds falling within Section 106 of the Local Government (Scotland) Act 1973 that are registered charities. For Aberdeenshire Council we have therefore been appointed as auditors of four charitable trusts. This work is nearing completion, and it is anticipated that it will be concluded in early December 2023.
Other returns to Audit Scotland	In accordance with the Audit Scotland Planning Guidance, as appointed auditors we have prepared and submitted Fraud Returns and Current Issues Returns to Audit Scotland and we have contributed to housing benefit performance audits, the Shared Risk Assessment, sector annual reports, shared intelligence on health and social care, sector meetings and Technical Guidance Notes. There is nothing we need to bring to your attention in this respect.

Audit of the annual report and accounts (34)

Other findings – prior period adjustments

The following prior period adjustments were made to the comparative figures in the financial statements.

Issue	Commentary
Costs of Asset Disposals	Costs associated with asset disposals, where sales were not completed in prior years, were previously being accounted for through an accruals adjustment. The costs should be processed alongside the sale. An adjustment of £502,000 has been made to the Capital Adjustment Account.
Flexi Leave / TOIL	A Prior Year Adjustment of £530,000 has been made to reflect national guidance.
Council dwellings	Opening Balances Restated for Dwellings - The 2020/21 Statement of Accounts included an adjustment that was processed accounting for the Dwellings revaluations which resulted in opening balances were incorrectly stated. This opening and closing balance has been adjusted in the audited 2022/23 Statement of Accounts by £30m. This only impacts on the accounts disclosure.
Council dwellings	Valuations for Dwellings were last carried out in 2020/21. Following a review of market data including Registers of Scotland indices it was decided that the Dwellings valuation should be revised using an indexation uplift, pending a full valuation review in 2023/24. Together with a review of the Useful Economic Life of the Beacons used for calculating depreciation, this results in a restated 2021/22 Net Book Value of £569.271m, an upward movement of £43.491m.
PFI Life Cycle costs	Prior to 2022/23 Lifecycle Maintenance assets with a Net Book Value of £19.64m were being accounted for on a Historic Cost basis which was separate from the individual PFI/PPP schools. This led to the Historic Cost element being double counted. The duplicated assets have been removed from the PPE Balance Sheet. The movements are £18m in 2020/21, £19m in 2021/22, and £22m in 2022/23.
Aberdeenshire IJB	Final audit changes to the 2021/22 IJB Annual Accounts necessitated adjustments to the Council's accounts in respect of the IJB. These included an additional expenditure accrual of £4.2m in relation to Sustainability Payments to be funded by COVID 19 reserves.

Audit of the annual report and accounts (35)

Other findings – information technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas. These systems have been subject to a separate IT audit conducted by our internal experts. This has highlighted some recommendations in relation to the Oracle EBS ledger and CIPFA systems, which have been communicated in a separate report.

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

Assessment

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

Audit of the annual report and accounts (36)

Other findings – information technology (continued)

Key matters noted from our IT audit are:

- There is a Lack of segregation of duties between CIPFA system administrators and business users. We consider that the combination of system administrative privileges and privileges that are required to perform regular business functions creates a risk that system-enforced internal controls can be bypassed.
- A user access was not terminated on timely basis in Oracle EBS and its database. Without timely terminating user access when it is no longer required, such as user leaving the organisation, it increases the unauthorised access to system resources
- there is a lack of review of information security/audit logs in CIPFA. We did not identify any security incidents in the year but consider that these logs should be reviewed on a timely basis.
- The password policy configured in Oracle EBS and CIPFA were not aligned to Council's standard. This deficiency is not considered to be significant as there are other user administration controls (joiner, movers, leavers) which were found to be designed effectively. Also, there are sufficient other password settings at the application layer to authenticate the user.

Risk

There is a risk that inadequate IT security will allow unauthorised access to Council systems/

Conclusion

The Council should take action to improve segregation of duties for the CIPFA system and to ensure timely termination of user access to Oracle EBS when it is no longer needed.

Wider scope conclusions

Wider scope audit (1)

This section of our report sets out our conclusions from our audit work on the wider scope audit dimensions. We take a risk-based audit approach to wider scope. Within our audit plan we identified one wider scope risk in relation to financial sustainability.

As part of our ongoing audit planning audit work during the year we have not identified any additional wider scope audit risks.

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Financial Management Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	No significant risks identified.	Council Financial Management Arrangement's The financial performance monitoring process is reported to Policy Committees and then to Council as part of the Medium-Term Financial Strategy and future budget setting process. It compares the assumptions that were used to develop the budget to the actual expenditure incurred or income received. It identifies where the assumptions used to set the budget differ from the reality faced during the year and ensures the monitoring and reporting of risks that crystallised during the financial year. This information helps inform the following years budget setting process. Revenue outturn reports are presented to each full Council meeting to review financial performance of actuals compared to budget. Variances are clearly explained within the outturn reports with actions identified to resolve any adverse variances. This provides members with the opportunity to review, challenge and scrutinise financial performance. All budgetary and financial information submitted to members/officers is produced by the Financial Manager and reviewed by the Director of Business services for technical accuracy. The finance team within the Council have access to real time information through the finance ledger systems to provide accurate and timely financial monitoring reports. The Council has a scheme of governance which includes a number of documents to ensure good and proper financial stewardship. This includes standing orders, list of committee powers, list of officer powers, financial regulations, scrutiny and improvement at Aberdeenshire, procurement guidance and financial delegation tables to name a few. These have been reviewed and we are satisfied the financial regulations are comprehensive, current and promoted within the body. Financial Performance- Revenue The Council set an original budget of £661.563m for 2022/23. However, this was revised to £696.084m during the year due to additional Scottish Government funding received and draw down from reserves. The year end outturn was total expenditure of £700.009m resulting in a £3.925m overspend. This overspend was funded through £1.536m of additional income from Scottish Government, £2.253m of Council tax income and £136k draw down of reserves.	We are satisfied that key Council policies relating to financial management are reviewed and updated on a regular basis. Overall, we are satisfied that the Council have appropriate financial management arrangements in place.

Wider scope audit (2)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion

Financial management (continued)

Financial Performance- Revenue (continued)

Final outturn figures can be found in the table below:

Revenue Outturn	Revised Budget £m	Outturn £m	Under/(Over) budget £m
Expenditure	£696.084	£700.009	(£3.925)
Income	(£690.861)	(£694.650)	£3.789
Underlying (Surplus)/Deficit	£5.223	£5.359	(£0.136)
Transfer to/(from) Reserves	(£5.223)	(£5.359)	£0.136
Reported Deficit	0	0	0

The Council holds a large housing revenue account (HRA) owning or leasing around 13,207 housing properties. The Council recorded income of £66.2m and expenditure of £51m for the year ended 31 March 2023 in relation to the HRA. Total net income on the housing revenue account amounted to £15.16m. This was £3.9m less than budgeted, largely due to premises costs which was £6m over budget. A third of this overspend was due to increased contract costs and changes to the scope of Hard Facilities Management contract. Repair costs also increased significant in the year due to inflationary pressures with the Council experiencing prices rises of around 40% for repair and maintenance quotes. Rising energy prices also contributed to the overspend position. The Council agreed to increase charges at the start of the year to tenants however the increase originally agreed at the start of the year were lower than the actual cost increases that occurred during the year. The Council has increased charges for 23/24 to ensure cost recovery against rising energy costs. The overspend in premises costs was offset with an underspend in finance costs due to greater levels of interest received on investment income from interest rate rises.

The Council's financial position is well set out in the annual report and accounts narrative, with good use of infographics and tables to show spend compared with budget and explanations of key movements to inform the users of the accounts. The narrative report also outlines key financial indicators and comparisons from the prior financial year. Council tax collection rates have increased slightly from the prior year, while usable reserves as a percentage of the Council's annual budgeted revenue has decreased and percentage of invoices paid within 30 days has also decreased.

The Council has achieved a balanced budget for 2022/23 and there has not been any indication of significant under or overspends during the year in relation to the revenue budget.

From our review of KPIs we are satisfied there are no significant risks relating to the financial management of the Council however we do recognise the fact that usable reserves as a percentage of Council's annual budgeted revenue is beginning to decline which links with the risk recognised relating to financial sustainability (see Financial Sustainability section of this report).

Wider scope audit (3)

Wider scope dimension | **Plan risk** | **Wider scope audit response and findings** | **Conclusion**

Financial management (continued)

Financial Performance- Capital

The Capital Budget for 2022/23 was set at £136.063m. The Council agreed to reprofile £4.955m between financial years; to include £37,000 for new projects; and to add in £5.922m of new grant funded projects which took the revised budget to £146.977m. In 2022/23 the Council spent £84.439m on Capital projects, this was £62.538m below the revised budgeted position or 43% lower than had been planned. The forecast position reported to Council on 19 January 2023 indicated that spend was going to be lower than budget and most of this slippage was incorporated into the 2023/24 Capital Plan that was approved at Council on 9 March 2023, however some further slippage has been identified as part of the year end processes which will require to be added to the programme of works for 2023/24.

The projects contributing to the majority of the underspend relates to; Energy from Waste (£12.1m), Carbon Reduction (£3.2m), Early Learning Childcare (1140 Hours Project) (£4.3m), Aberdeen Western Peripheral Route (£4.2m), E&CS Projects (£3.3m). Other projects have also identified a number of underspends but the most significant are included above. The Energy from Waste project has encountered various delays however accepted its first delivery of waste materials in February and expected to become fully operational later in 2023. Milestone payments planned for 22/23 will now fall into 2023/244.

The lower than planned spend extended across many projects within the capital plan. The Council have explained this is due to supply chain challenges around shortages of labour, product, and raw materials, which has resulted in delays in project timelines.

The table below illustrates the underspends incurred by the Council in the previous five years.

	2022/23	2021/22	2020/21	2019/20	2018/19
	£m	£m	£m	£m	£m
Budget	146.977	145.542	160.071	158.361	102.891
Spend	84.439	91.255	79.305	104.327	84.999
(Under)/Over Spend	-62.538	-54.287	-80.766	-54.034	-17.892
Underspend as a percentage of total budget	43%	37%	50%	34%	17%

Conclusion

There is a theme of recurring capital underspends at the Council and therefore it is important the Council look to ensure that the budget provides a realistic reflection of the anticipated spend for the year. Where projects look to be slipping, members should ensure there is appropriate challenge and scrutiny of delivery to ensure projects are delivered on time and to budget. This will help to avoid projects slipping into future years which impacts on future capital planning and financing. While we recognise that shortages of labour and rising inflation has impacted delivery of projects the Council will need to find solutions to these issues if it is to avoid further capital programme slippage.

A prior year recommendation was made by Audit Scotland in relation to "*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.*" We have not obtained appropriate assurance that this action has been resolved and believe this recommendation continues to remain relevant to the Council.

Wider scope audit (4)

Wider scope dimension

Financial sustainability

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

Plan risk

Significant risk identified:

There is a risk that where savings and transformation plans are not identified and delivered in the short to medium term this could provide financial sustainability challenges for the council.

Wider scope audit response and findings

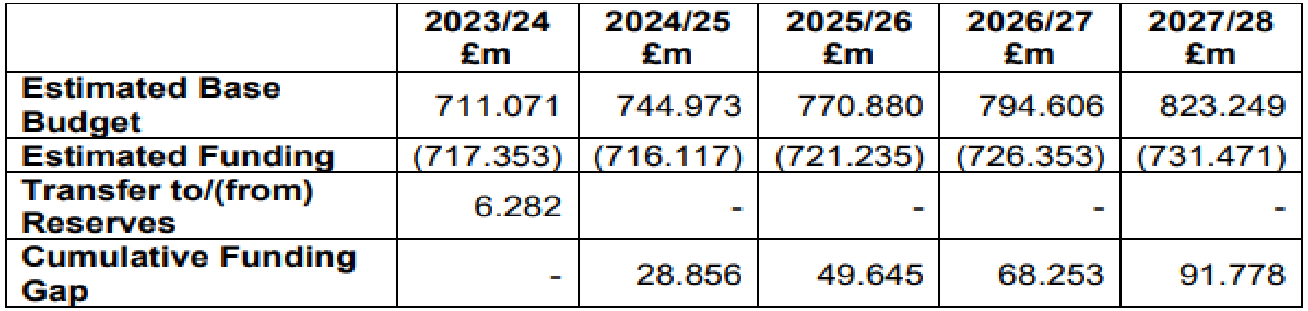
Background

While the Council reported strong financial performance in 2021/22, there are significant funding gaps identified from 2023/24 and beyond. The Council faces significant challenges in dealing with these gaps and the Council will need to identify and deliver significant savings and transformation to reduce funding gaps and to protect key services and Council priorities. There is a risk that where savings and transformation plans are not delivered that this will provide financial sustainability challenges for the Council.

Aberdeenshire Council, like all Councils across Scotland, is facing unprecedented financial challenges. Last year, the Council predicted a budget gap in 2023/24 of £21million and this has risen dramatically due to challenges out with the Council's control; ongoing economic challenges, recovery from the pandemic, and Russia's war in Ukraine has had a global impact driving a cost of living crisis. The economy is experiencing volatility in supply chains and interest rates continue to rise as the Bank of England seeks to manage inflation. These external factors coupled with increasing demands for local services provide a difficult operating environment for local authority bodies.

Medium Term Financial Strategy

Aberdeenshire Council approved the 2023/24 Revenue and Capital budgets in March 2023 as part of agreeing the wider Medium Term Financial Strategy (MTFS). The MTFS was developed to set out the financial framework to support the delivery of the Council Plan and associated priorities over the medium term. The MTFS is based on a financial forecast over a rolling timeframe from 2023/24 to 2027/28. A balanced budget has been set for 2023/24 however the MTFS identifies a funding gap of £91.778million over the next five-year period.



	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Estimated Base Budget	711.071	744.973	770.880	794.606	823.249
Estimated Funding	(717.353)	(716.117)	(721.235)	(726.353)	(731.471)
Transfer to/(from) Reserves	6.282	-	-	-	-
Cumulative Funding Gap	-	28.856	49.645	68.253	91.778

Risks such as potential reduction in future local government funding settlements, pay negotiations, rising inflation, cost of living crises and supply chain pressures are embedded within the MTFS. However, it is not possible to predict all future events and given the economic uncertainty the funding gap could grow further.

Conclusion

Aberdeenshire Council has undergone a review and refresh of its financial plans and the medium-term financial plans, this has identified a significant increase in the forecast funding gap from 2024/25 onwards. The budget set for 2023/24 requires the management of £16m of risk not built into the budget and the delivery of £18m of savings. This more significant than in previous years Council and therefore brings about some risk of delivery.

Wider scope audit (5)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)		Medium Term Financial Strategy (continued) Savings A total funding gap of £66.844m was identified for 2023/24 from the original budgeting process. This was revised down to £18.629million after Council tax increases and additional income was identified. We note that Directorates revised estimates and identified solutions to mitigate pressures which reduced the original funding gap by £16.067m. There is a risk that this £16.067m could crystalise if pressures are unable to be absorbed or mitigated. The Council has brought in a budget risk register to manage this risk. To bring about a balanced budget position in 2023/24, the Council will need to deliver £18.629million of savings on top of managing the risk of the £16.067m cost pressures. The savings plans include vacancy management, meaning that services will not automatically fill posts and only those most critical will be recruited to. Savings are also expected to be generated through renegotiating contracted spend with suppliers, whilst further savings look to be generated from the investment in digital innovation. The Council delivered £8.837m of savings in 2022/23 out of a budgeted savings plan of £11.603m (£5.1m recurring and £6.5m non-recurring). The shortfall in savings not delivered was utilised from reserves to bring the budget into balance. Transformation Plans The increase in the cumulative funding gap position in the next five years is significant and outlines serious concerns over the future financial sustainability of Aberdeenshire Council. The Council will have to balance its financial sustainability with ensuring it continues its service delivery to meet Council priorities.	There is a significant risk that the Council could under deliver on its savings target for 2023/24 which would place further reliance on reserves and further sustainability challenges. It is also important to note that circa 70% of the savings delivered in 22/23 are non-recurrent and therefore will not be available as efficiencies in future years. This provides a heightened risk of delivering financial sustainability as the limitation to increase savings and efficiencies in future years minimises through non-recurrent savings already utilised as well as the fact savings plans for 2024/25 are not yet in place.
		In order to reduce the current funding gap a major transformation programme is being developed. The Council has recognized the fact that it will require substantial transformation to reduce future funding gaps and to reshape service delivery. A transformation programme has been launched in April 2023 with business cases being developed by officers setting out proposals for the transformation of what services are Council provided and how they are provided alongside likely financial savings. Transformation plans are currently under development. The Council are currently working on the transformation vision and framework which will be ready for discussion with Councillors once they return from recess to take forward. A team has been created within the Business Change Team to support transformation activity, a cross service team delivered workshops for senior officers and members as well as shaping the leadership forum. Workshop activities were undertaken in June to engage with key stakeholders and drive ideas and innovation for change. Almost 800 individual ideas were submitted by participants during the workshops. A timetable has been set out which looks to develop a vision for transformation as well as developing an associated framework for delivery, developing a communications strategy and stakeholder map and three-year programme of transformation activity, all of which is planned to be undertaken by December 2023.	Transformation programmes are at a very early stage at the Council and therefore a depth of pace is needed to develop and deliver the programme. Given the critical nature of the programme to the Council's financial sustainability both the Council and policy committees will need to monitor progress and delivery. **An action plan recommendation has been raised in Appendix XX.**

Wider scope audit (6)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)		Reserves Reserves are a key performance indicator of monitoring the financial health of a body. At 31 March 2023 the Council held £86.073m of Reserves. This is split between £11m general reserves, £3m statutory funds and £72m earmarked reserves. £26.498m was transferred into reserves in 2022/23 comprising unspent grants and earmarked income. During 2022/23 £24.092m of reserves were then utilised to fund the delivery of services for which the reserves were earmarked. Total reserves have increased by £2.4m from the prior year. General Reserves continue to be maintained at £11m. In January 2023 a forecast over budget position of £6.999m was reported to Council with options to meet this from reserves. Due to additional income received in year the position was absorbed within the in-year budget with a full drawdown of reserves not required to balance the year end budget. A total of £917k was utilized from reserves to balance the budget. The MTFS forecasts that general reserves will continue to be kept at a level of £11m over the next six years. Earmarked reserves however are due to increase then reduce again over time (see table below)	The Council currently hold circa 5% of revenue reserves (general and earmarked) against gross revenue expenditure. We believe this is a sufficient level of reserves. We note that a significant percentage of this are earmarked for specific purposes of revenue expenditure and therefore should not be utilized to bridge funding gaps. The projected funding gap over the next 5 years is £91.88m with no confirmed savings plans in place at the current time to bridge this gap. The Council will have limited flexibility to place reliance on reserves to bridge future funding gaps. The Council will need to continue to maintain adequate general reserves and should not use reserves to cover recurrent funding gaps or as a substitute for Council transformation.

	31 March 2023 ACTUALS £million	31 March 2024 £million	31 March 2025 £million	31 March 2026 £million	31 March 2027 £million	31 March 2028 £million
General Reserves	(11,000)	(11,000)	(11,000)	(11,000)	(11,000)	(11,000)
Statutory Funds	(2,933)	(2,432)	(2,432)	(2,432)	(2,432)	(2,432)
Capital Earmarked Reserves	(14,918)	(12,071)	(12,071)	(12,071)	(12,071)	(12,071)
Revenue Earmarked Reserves	(57,222)	(76,829)	(72,580)	(72,950)	(73,479)	(74,308)
Total Reserves	(86,073)	(102,332)	(98,083)	(98,453)	(98,982)	(99,811)

Wider scope audit (7)

Wider scope dimension

Plan risk

Wider scope audit response and findings

Conclusion

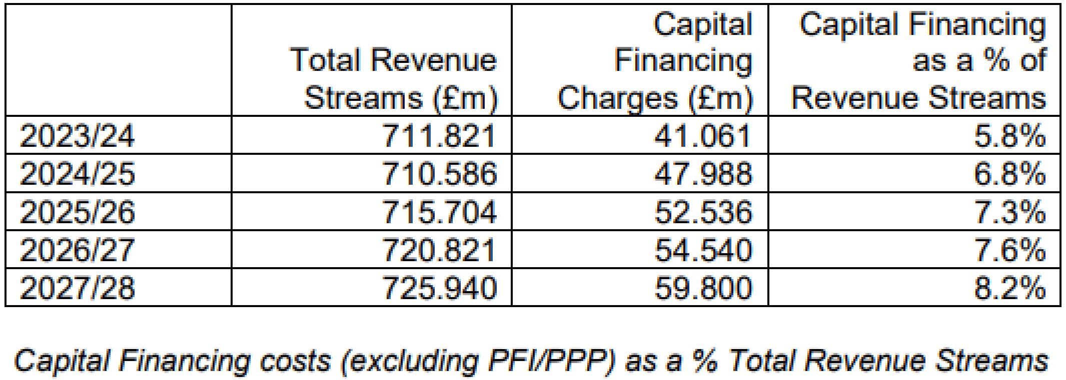
Financial sustainability (continued)

Capital and Long-Term Borrowings

The Council have an asset strategy which spans a five-year period to 2027/28. The capital plan was approved at March full Council meeting alongside the revenue budget and MTFS. The capital plan shows a total expenditure of £563.956m between 2023/24 and 2027/28. The council expects to fund £124m through SG funding, £20m through UK Government funding, £30m from internal financing and £389.608m (69%) is planned to be financed through cash and prudential borrowing. This is a significant amount of planned borrowing and therefore will be revenue implications for the Council. The Council estimates that there will be £255.925m of associated revenue costs to fund the proposed capital plan across the next five years, with the assumption that interest rates remain below 4.5%.This will create additional pressures for the council with the current projected funding gaps.

There are no other provisions for significant interest rate rises in future years and this is reflected as a risk within the Councils budget risk register.

The ratio of capital financing costs to the total revenue streams (Revenue Support Grant, business rates and Council tax) can be found in the table below. The impact on revenue increased from 5.8% to 8.2% within the 5-year period.



	Total Revenue Streams (£m)	Capital Financing Charges (£m)	Capital Financing as a % of Revenue Streams
2023/24	711.821	41.061	5.8%
2024/25	710.586	47.988	6.8%
2025/26	715.704	52.536	7.3%
2026/27	720.821	54.540	7.6%
2027/28	725.940	59.800	8.2%

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

The current planned level of borrowing and its impact on the revenue budget is not sustainable and reduction in the capital programme will be required in order to maintain financial sustainability. Discussions with officers indicate that they recognize this risk and that a review of the capital programme is planned.

The Council will need to review the affordability of the proposed capital plan and its revenue implications. A review of the capital plan and estates strategy should be carried out and identify through scenario planning and sensitivity analysis whether the proposed capital plan is affordable in the short to medium term. It is also important that the Council considers what is affordable to ensure continued financial sustainability as well as identify what capital priority areas are to ensure delivery of Council plan priorities. An action plan recommendation has been raised in Appendix XX.

Wider scope audit (8)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Vision, Leadership and Governance Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	Significant risk identified: No significant risks identified.	Leadership and committee effectiveness Following the local government elections, the new Council met for the first time on 19 May 2022. The political administration of the 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. As no majority party is in place at the Council it is important that the Council and leadership are able to put aside political differences to ensure key decisions and Council priorities are progressed. The complex local government environment means collaborative leadership, working with partners, communities and citizens to improve outcomes is more important than ever. All Members of Aberdeenshire Council sit on Full Council and are responsible for electing the Provost, Depute Provost and Committee Chairs and Vice Chairs. Full Council also sets the Council's budgets, Council tax, housing rents and approves strategic plans and other reserved matters. The Provost is the civic leader and chairs Council meetings. The Leader of the Council oversees the Council's priorities, working with its partners and Councillor's. Aberdeenshire has four policy committees; Business Services, Communities, Education and Services and Infrastructure. The policy committees have delegated power by the Council to decide on all policy issues and resource matters (within agreed budgets) relating to those functions which have not been reserved by full Council or specifically delegated to any other committee of the Council. The Council also has six area committees. These committees determine matters which directly affect their areas and make recommendations to policy committees on strategic matters and Council policy. There are a number of other committees in place which hold specific duties such as the Integration Joint Board, Aberdeen City Region Deal (Joint Committee) and Sustainability Committee. The Audit Committee is the committee which undertakes the role of Those Charged with Governance (TCWG) and looks to obtain assurance over internal control systems, compliance with laws and regulations, financial information and risk management and risk assessment arrangements. The Audit Committee will refer a matter of service delivery identified for improvement from audit reports to the appropriate policy committee to conduct a committee review process on a matter of service delivery which is reported back to the Audit Committee. We have observed and experienced appropriate debate and challenge provided at Audit Committee meetings in fulfilling their duty as Those Charged with Governance.	We conclude that overall, the Council has appropriate governance and leadership arrangements in place. We have not identified any significant issues relating to the leadership of council officers. We are satisfied that officers have identified the main risks facing the council including; financial challenges in the medium to longer term and workforce. Officers are responding to these risks by way of expanding the transformation programme and updating workforce plans.

Wider scope audit (9)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Vision, Leadership and Governance (continued)		Leadership and committee effectiveness (continued) The Council undertakes an annual self-evaluation in line with the Public Service Improvement Framework (PSIF) and to demonstrate compliance against the seven CIPFA Code of Principles for Delivering Good Governance. An increase in response from across the organization was noted from the prior year with a wider push and recognition from the Council to staff and members on the importance of this exercise. The evaluation found a number of key strengths including robust governance and systems of internal control as well as open and transparent decision making, embedded risk management and improved performed reporting. The evaluation also identified some areas for improvement including more stakeholder engagement on budget setting, focus on longer term financial planning and clarity on transformation programmes. A self-evaluation improvement plan has been created based on the findings and will be reported back to the audit committee for monitoring of progress.	
		Policies, procedures and controls The Council has in place a wide range of policies and procedures designed to ensure compliance with laws and regulations, including for example codes of conduct for members and staff and HR policies and procedures. The Equality Policy has not been updated since 2018 and therefore we have raised an improvement recommendation to review policies which have not been updated for a number of years and update where necessary. The Council's most recent Counter Fraud Strategy was approved at Business Services Committee in February 2020, following consultation with the Area and Policy Committees. The Policy was reviewed by the Chief Internal Auditor in early 2022 and in consultation with SLT it was agreed that a new approach to Counter Fraud would be rolled out, this has been taken forward by the Fraud Working Group. The Fraud Working Group has been created under the leadership of the Chief Internal Auditor and has been established to look at the Council's process for assessing and prioritising fraud referrals and any subsequent investigations. A new policy is in development and where the current strategy is deemed still relevant it will be replaced by the work of the group and a new Policy and Procedure. The Council also participate in the National Fraud Initiative (NFI) work that is undertaken every two years. An annual whistleblowing report is provided to the Audit Committee each September. The 2021/22 report noted that nil disclosures were made in the period 1 April 2021 to 31 March 2022, this is a reduction from two in the previous year. The Council should look to understand why nil disclosures were made in the year. Our review of the whistleblowing policy shows this was last updated in 2017 and previous annual audit reports have raised recommendations to review and refresh this policy however, the policy has not yet been updated. It is important that the Council look to update and refresh the policy and consider whether the policy is accessible and known to employees. An awareness campaign should be undertaken subsequent to a policy refresh to highlight this as an avenue for employees where required which may result in an increase in the disclosures within the annual whistleblowing report.	Overall, we are satisfied that the Council has a number of policies, procedures and controls in place to assist with governance arrangements. We note a some policies have not been updated for a number of years, we therefore recommend that a review of historic policies is undertaken and updated where required. An action plan recommendation has been raised in Appendix XX.

Wider scope audit (10)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Vision, Leadership and Governance (continued)		Monitoring and assessing risk A review of risk management has been undertaken by the Council in late 2021/22 and into 2022/23. In January 2022 the Risk Management Policy was approved by the Business Services Committee. The Risk Officer took forward implementation of the risk management policy, developed training and guidance and a new digital service risk register template. A refresh of the Risk appetite statement was drafted in consultation with the senior leadership team and elected members and approved at Business Services Committee in March 2023. Service risk registers are now in a digital format on the Councils performance management system which will assist with the visibility of risk for service and directorate teams as well as enhancing the risk management process. The update of Directorate and Corporate Risk Registers is planned for 2023/24. An internal audit review of the Council's risk management was undertaken in March 2023 with a reasonable assurance opinion provided. Internal audit noted the positive direction of travel the Council has been on to refresh its risk management practice as well as a strong baseline that has been developed for risk management. A recommendation has been made by internal audit to the Council to work to deliver the roll out of the new approach to risk management and ensure this is reviewed on a cyclical basis to ensure it continues to be fit for purpose. Corporate and Directorate risk registers are currently under review by the Council to improve current arrangements in place. A workshop is scheduled for September 2023 to inform members on updates and improvements to risk management within the Council.	The corporate risk register contains ten corporate risks which appears manageable and relevant to the organisation. We are satisfied risk management procedures are in place and operating effectively.
		Internal Audit Internal audit activity is established by the Audit Committee, with the assistance of the Director of Business services. The Audit Plan is discussed at the Audit Committee with members able to make specific comments or challenges on the proposed work. Internal audit's roles and responsibilities are defined in an internal audit charter. Its main responsibility is to support the entity to accomplish its objectives by evaluating and improving the effectiveness of Aberdeenshire Council's risk management, controls, and governance processes. Internal audit is ultimately accountable to Aberdeenshire Council, and report administratively to the Director of Business Services. Internal audits confirm, at least annually, the organisational independence of the internal audit activity. During the year, finalised internal audit reports are agreed with management and are presented at the Audit Committee. Internal audit follow-up on audit recommendations and report progress in implementing recommendations to the Audit Committee. The Audit Committee received quarterly audit and inspection reports from internal audit which outline the work undertaken in each quarter alongside any follow up audits and the results of the audits, this provides audit committee members the opportunity to gain assurance that internal controls are operating as expected. Internal audit also issues an Annual Report and Opinion, which sets out the work undertaken to be able to provide an annual opinion on the risk, governance and control arrangements in place at the Council. This report, which was presented to the Audit Committee in July 2023, gave an opinion that "*Aberdeenshire Council had an adequate and effective framework for Governance, Risk Management and Control, covering the period 1 April 2022 to 31 March 2023*".	From our review of internal audit reports and audit committee reports we have not identified any evidence of significant gaps in the assurance obtained by the audit committee in relation to the work programme undertaken.

Wider scope audit (11)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Vision, Leadership and Governance (continued)		Internal Audit (continued) The majority of Major risk issues arising from reviews undertaken in year stemmed from IA's work with the Aberdeenshire Integration Joint Board (IJB) and the review of Health and Social Care Partnership services that the Council leads on behalf of the IJB. We have identified from the prior year LGBF results that performance in the Council's Adult Social Work Services has decreased year on year with a number of performance metrics where the Council perform below the national average Council (refer to Performance Reporting section of this report). Although the Council do not hold responsibility for the governance of the IJB, the Council do have the responsibility to ensure the delivery of services of adult social care which is interlinked with the performance of the IJB and therefore it is important the Council ensure there are effective management functions and governance in place at the Council to ensure delivery of performance is improved for Adult Social Care Services.	
		Workforce Planning Aberdeenshire is competitive in terms of workforce with other industries able to pay in excess of the Council. This makes it difficult to recruit and retain people. Outsourcing is difficult as suppliers also struggle for resource. The Council are aware of these challenges and are currently undertaking a refresh of its workforce planning. From discussions with management, in the last few years, workforce planning is being seen by the Council as a priority area for services however has in the past not been as embedded within the Council as hoped. As a result, workforce plans will be included within the Head of service business plans. These will be included for each service and forecasted for up to three years providing a medium-term approach to workforce planning. Head of service business plans integrate Council priorities with service delivery and workforce planning and therefore is envisioned that this integration will help demonstrate and monitor that staff are in place with the skills required to deliver services in line with priorities. As previously mentioned, it is too early to assess the effectiveness of the workforce plans as the inclusion of this within Head of service business plans has only been formed at the time of drafting this report however, we believe that the integration of head of service plans alongside workforce plans is a positive step in ensuring plans are in place to help deliver services in line with priorities and with the workforce required. Our review of head of service business plans appropriately identifies the number of vacancies in the relevant service area as well as the strategy for delivery against the workforce priority areas. Key priorities and updates are provided within the head of service business plan alongside the issue/risk against that priority and the actions and progress/measures in place to achieve the priority with a target delivery date.	We are satisfied the workforce plan clearly identifies the skills or capacity gaps and the actions and progress taken to address workforce needs. Workforce plans are at an embryonic stage and the Council are focusing on this as part of the new head of service business plans. With future service demand and capacity challenges anticipated layered with financial challenges, the Council will need to ensure continued monitoring and progression of workforce plans to ensure effective service delivery for local communities.

Wider scope audit (12)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Use of Resources Bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness with financial and other resources and reporting performance against outcomes.	No significant risks identified.	Performance Reporting Aberdeenshire Council approved a performance management framework in June 2021 (updated in 2022) which includes the Council's key strategies and plans. The Council Plan and strategic priorities are utilised to help set out the direction of the Council. Services developed directorate plans which are used to support the delivery of the Council plan. A range of performance indicators are identified within the directorate plans and are reported on a 6 monthly basis to policy committees. Performance reports are undertaken for each of the four policy committees; business services, education and children's services, infrastructure services and communities. The performance targets are linked to each of the three priorities People, Environment and Economy. The performance indicators in these plans are also used to evidence how the Council is meeting the core outcomes identified in the Council plan. Each policy committee reviews a performance report for their area at least twice a year. The final year end performance report is also reviewed by full Council. Each of the reports is published on the Council website as part of the committee agenda papers for the public to review to ensure accountability and transparency. Annual performance reports are also published on the Performance Report section of the Council website on an annual basis. Within the new Council plan, full Council agreed a new set of six strategic priorities all of which have outcomes which Council services use to plan activity and deploy resources. Each strategic priority has a number of outcomes of which there is also key measures which set out how performance should be measured in order to achieve the strategic priority. Performance in these strategic areas is measured through Head of Service Business Plans. Following the approval of the Council Plan 2022-27, the senior leadership team (SLT) agreed in January 2023 that Directorate Plans would be discontinued and Head of Service Business Plans would be developed to set out the scope and standard of work each service would deliver, alongside work programmes to help achieve improvements against performance measures. Business Services' performance Responsibilities of the Business Services Committee includes; finance, ICT, legal services, property and facilities management, human resources and valuation and electoral registration. The committee also covers communication, improvement and emergency planning functions. The Business Services Directorate primarily contributes to the following three priorities: • Climate Change • Resilient Communities • Infrastructure and Public Assets	The Council have set out what performance they want to achieve against each priority area within the Council plan and have introduced new Head of Service Business Plans to ensure delivery of strategic priorities. It will be important that as progress against the Council plan is monitored that the Council is able to identify themes across a range of service areas in relation to performance, best practice and challenges or issues identified to mitigate any risks of silo working and ensure a holistic overview of progression against the Council plan. The key issues the council will require to address relate to financial sustainability and affordability of the capital plan.

Wider scope audit (13)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Use of Resources (continued)		Business Services' performance (continued) Performance in relation to the Business Services' Directorate Plan 2020-22, shows that almost all projects/actions are complete or nearly complete. The Estate Modernisation project has been replaced with Operation Oyne which supports the "Infrastructure & Public Assets" Strategic Priority. Outstanding/ongoing actions in respect of this work are being continued under the new project and are therefore not shown as complete. Performance in the year has identified good performance against KPIs in relation to resilient communities. However, one performance measure is off track relating to 'percentage revenue budget allocated via participatory budgeting (PB)'. This is a new measure agreed as part of the new Council plan. In 21/22 the 1% target for the Council was not met. The Scottish Government have set a target of 1% of a local authority's budget to be allocated by PB. It is important that the Council should ensure there is increased engagement with local citizens and communities. Two measures in relation to the infrastructure and public assets priority are off track. These relate to; '*the percentage of planned expenditure on the capital plan achieved*' (Refer to Financial Management section of this report) and '*proportion of operational buildings that are suitable for their current use percentage*'. Review of the LGBF for 2021/22 (latest available dataset) shows Aberdeenshire has made progress against this KPI however still falls significantly below the average Scottish Council. Operation Oyne is the key project supporting the creation of a Council Estate that is fit for purpose. The running costs associated with the Council's operational asset portfolio is the second highest revenue cost to the Council at circa £80m a year. The Council holds on average 85 vacant assets, with a further 80 operational assets within the asset disposal schedule and in addition 140 properties out with the current asset disposal schedule scheduled and identified for review. An asset disinvestment team has been set up which ensures implementation and progress of Operation Oyne and report to the Capital Plan Group every second month on the progress of the project. This implementation of this project has commenced in 2023 and therefore it is too early to comment on the performance and progress against outcomes for this project. We will follow up in our 2023/24 annual audit report as to whether this implementation of the project has had any further impact on the performance of this key metric.	We have not identified any significant concerns in relation to performance of the Business Services Committee however more focus to improve participatory budgeting performance is required. The Estate Modernisation project has been replaced by Operation Oyne. There is limited evidence that the Estate Modernisation programme had a significant impact on the Council's estates portfolio or costs and it is important that the Council ensures that Operation Oyne does reduce the Council's portfolio and delivers cost savings.

Wider scope audit (14)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Use of Resources (continued)		Education and children's services performance Responsibilities of the Education and Children's services committee includes; education, children's social work services and human resources support for teaching staff. The Education and Children's Services Directorate primarily contributes to the outcomes associated to the two priorities: • Learning for Life • Health and Wellbeing The year-end performance monitoring report for the education and children's services directorate shows 10 performance measures are on track, four are slightly off track and one classed as off track. The 'Off track' measure relates to the Percentage of reports submitted to Children's Reporter within target timescale (Investigation Report). The current value is 44% with a target of 75%. There has been an upward trend since 2019/20 (35.4%) however performance continues to be significantly below the target. Staff recruitment and retention has been deemed to be the cause with teams struggling with vacancies. Our review of the Local Government Benchmarking Framework (LGBF) for the Council within children's services shows that the Council performed well against the national average in areas such as proportion of adults satisfied with local schools, proportion of children meeting developmental milestones, school attendance rates, school exclusion rates and literacy attainment gap (P1,4,7 combined). Areas where the Council are below the national average include;, proportion of funded early years provision which is graded good/better, % of P1,4,7 pupils achieving expected CFE Level in literacy and numeracy attainment gap (P1,4,7 combined). Aberdeenshire Council is showing as the lowest performing Council in relation to the attainment gap for numeracy between the most and least deprived P1, P4 and P7 pupils in a Council. This is an area which has shown the Council has underperformed below the national average for a number of years. The Council are aware of the challenge in this area and in 2021/22 officers within the Council have taken a lead in this area with support from Education Scotland's attainment advisor. During 2022/23 sessions have been carried out with schools on key areas of underperformance and support provided to schools. Stretch aims have been implemented to support the most vulnerable learners in areas of literacy, numeracy and health and wellbeing with further support and training being provided. Looking forward to 2023/24 the Council are looking to establish a closer link between the Attainment Advisor and specific schools in areas considered as deprived with stretch aims for three years being set. The Council are also looking to appoint an authority lead teacher for literacy and numeracy to help as a key resource in supporting improvement in attainment and achievement.	We are satisfied the Council has appropriate arrangements in place in relation to performance monitoring and reporting in relation to the Education and Children's Services Committee. We note there are some performance measures that are off track. We are satisfied the Council understand and acknowledge the underperformance in the areas off track and are acting upon this and ensuring arrangements are put in place to improve performance in this area.

Wider scope audit (15)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Use of Resources (continued)		**Communities Services’ performance** The Communities Committee is responsible for adult social work services (except those delegated to the Integration Joint Board), community planning, housing, lifelong learning and leisure, matters relating to the Scottish Fire and Rescue Service and Scottish Police Authority and monitoring the Integration Joint Board for Health and Social Care. The council is managing the performance of housing well by taking forward a number of actions to respond to issues including sourcing external funding to assist tenants with arrears, sustaining tenancies and maximizing income for the Housing Revenue Account. The Housing service continues to adopt an early intervention approach to rent arrears, identifying tenants experiencing lower level of debt, to ensure referral to Money and Welfare Rights advice at an optimum time. Progress in reducing void rent loss continues and has improved over time. The Council outperforms against the national average in this area and is in the top percentile of Scottish Councils in relation to reducing void rent loss due to empty properties.	Our review of the performance of homelessness and housing at the council has not identified any concerns and performs well in managing this service.
		Health and Social Care performance The Communities Committee also has a role in monitoring performance related to the Health and Social Care Partnership (HSCP). Quarterly reports to the IJB provide the basis for six monthly performance reports submitted to the Communities Committee and Area Committee structures. Ultimate accountability for and scrutiny of performance is held by the IJB. The progress report reported to the March Communities Committee outlined that 20 projects were rated green (on track), 10 were rated amber (slightly off track) and 2 were rated red (off track). The two areas assessed as off track are in relation to; primary care mental health hub and digital strategy development. The trend of performance for Aberdeenshire is similar to other Councils in Scotland. Aberdeenshire faces the challenge of an increasing older population with a projected decline in working age population as well as staff recruitment challenges against a backdrop of significant financial challenge. Adult social care is widely publicised as being under pressure in all local government authorities, so this issue is not specific to Aberdeenshire Council. The increased demand has been considerable, with particular pressure on care at home capacity. Aberdeenshire has historically found it difficult to recruit to home care with issues particular to the area which impact on provider sustainability and in-house recruitment and retention including the job market of other industries, rurality and geography, travel costs and the cost of rural housing. The HSCP has implemented a Social Care Sustainability Programme to seek to address systemic issues including recruitment and retention via the In-House Care at Home workstream. The Council will need to ensure that it is able to continue to deliver safe and effective adult services in light of the challenging financial background faced alongside a growing aging demographic. Recruitment challenges alongside an ageing demographic and increased demand for adult social care has put significant pressure on delivery of adult social care and is an issue that is not specific to Aberdeenshire and is something the Council are aware of. The challenging financial backdrop will impact on not just the Council but also the IJB and therefore as outlined in the financial sustainability section of this report transformation and redesign of delivery of services will be key to ensure services can continue to be delivered without impacting performance.	Our review of the performance reporting for the HSCP has highlighted that the format of the reports could be further improved to provide members with further detail on performance measure targets/KPI’s and what is considered as on or off track for each performance measure. Where targets are off track it is unclear what the timescales are to implement mitigating actions and ensure performance is improved. We understand the format of the report continues to be subject to review and it is important IJB members continue to be involved in this process to obtain the information they require in order to support continuous improvement.

Wider scope audit (16)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Use of Resources (continued)		Health and Social Care performance (continued) The prior year LGBF results indicate that performance in the Council's Adult Social Work Services has decreased year on year. In some instances, the performance metrics Council are below the national average Council. High risk governance recommendations were also raised by internal audit with regard to the IJB. Although the Council do not hold responsibility for the governance of the IJB, the Council do have the responsibility to ensure the delivery of services of adult social care which is interlinked with the performance of the IJB.	Overall, the health and social care partnership is performing well however there are some performance measures to focus on improvement. It is important the Council ensure there are effective management functions and governance in place at the Council to ensure delivery of performance is improved for Adult Social Care Services. An action plan recommendation has been raised in Appendix XX.
		Infrastructure Services Performance The Infrastructure Services Committee is responsible for; economic development and protective services, planning and building standards, transportation, and roads, landscape services and waste management and matters relating to the Aberdeen City Region Deal and visitor attractions. Infrastructure services primarily monitor performance in relation to economic development, environment and connectivity. As at quarter 4 2022/23, 53% of measures are on track with 32% of measures assessed as being off track or below target. Our review of the latest LGBF data has not shown the Council to be a major outlier in these areas. The LGBF shows that the Council is outperforming other Councils in relation to roads and maintenance of roads.	We do not have significant concerns over the performance of infrastructure services.
		Partnership Working Aberdeen City Region Deal The Aberdeen City Region Deal is the agreement between the UK Government and the Scottish Government with Aberdeen City Council, Aberdeenshire Council and Opportunity North East (ONE) which focuses on supporting the evolution of the region's key sectors, sustainable business growth and creating green jobs for the future. The terms of the deal commit both the UK Government and Scottish Government to jointly investing up to £250m whilst Aberdeen City Council, Aberdeenshire Council and local partners are committed to investing up to £44m over the next decade.	Overall, the city region deal is largely on track with delivery of benefits already being realised for a number of projects.
		The funding mechanisms of the deal are centrally managed by Aberdeenshire Council Finance Service, with support from the PMO and oversight by the Programme Board. The deal is continuing to grow from £826.2m to £1.008bn due to additional investment from the private sector for the net zero technology centre, digital, Aberdeen South Harbour and BioHub projects. The financial outturn position for the deal at quarter four shows an allocated budget of £142.029m with outturn expenditure of £135.335m outturn presenting an underspend of £6.694m. Give the size and scale of the deal and the budget allocated this is a positive result and we have not identified any significant variances against budget during the year.	

Wider scope audit (17)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Use of Resources (continued)		Aberdeen City Region Deal (continued) The deal has been running for seven years and is due to complete by 2025/26. To date £815.194m has been spent on the deal with £193m expected to be spent over the next three years. There are currently ten projects encompassed within the delivery of the deal, two of these projects have been completed with a large proportion of benefits already being delivered and realised. Two projects are on track and in the final phase with four projects currently on track. Two projects are rated as amber, one being the strategic transport appraisal where £4.6m of funding allocation is contingent on business case approval and another project, External links to Aberdeen South Harbour which is likely to extend beyond the funding window of the deal. The financial outturn report highlights the risk that "*Until remaining business cases and associated timelines are finalized and agreed there is a risk that funding will be required post deal. Partners have started exploring options with both Governments on how this risk can be mitigated.*". The grant letter also states that "*The Grantee and the individual partners will bear the costs of any financial overruns or increased spend on their respective Projects funded as part of the Programme.*". The committee have recognised this as an amber risk within the progress updates and we therefore gain some assurance that the committee are aware of the risks involved and the importance of mitigating any overspends and overruns where individual partners would have to pick up the costs. The External Links to Aberdeen South Harbour project is one that is currently flagging amber and has a number of risks attached including the strong possibility that the project extends beyond the agreed funding window (2026/27).	Risks relating to the Aberdeen South Harbour project have been highlighted and mitigations put in place to reduce the likelihood and impact of the risks crystalising. It is important that the committee continue to monitor this position closely and that the control measures put in place to mitigate the risks are tracked. It is important that the committee plan for a worst-case scenario including the potential impact on partners if funding is not agreed and/or the project overruns.

Wider scope audit (18)

	Plan risk	Conclusion
Other wider scope areas	We did not identify any specific risks in relation to climate change at Aberdeenshire Council.	Climate Change We have not identified any significant risks in respect of climate change. As part of the Council's commitment to climate change mitigation, Aberdeenshire Council set their first carbon budget for 2017/18. The Council are the first local authority in Scotland to implement such a budget. This approach is to make sure that the Council are placing as much focus on their carbon footprint as they do on their financial budgets. An annual carbon budget figure is also set each year to keep the Council on track for its commitment to reduce emissions by 75% by 2030 and Net Zero by 2045 using 2010/11 as a baseline year. Management of the necessary annual reduction in emissions is the responsibility of the Senior Leadership Team with support from key services and the Sustainability Team. The carbon budget is set in February each year at the same time as the financial budget and is monitored throughout the year by the Sustainability Committee. We are satisfied that the Council have a climate change action plan 'Route map to 2030 and beyond' in place which sets out how the Council intend to achieve its targets. There are appropriate arrangements in place for internal monitoring and progress is reported externally on the Council's website. We are also satisfied that the Council includes climate change in its narrative reporting which accompanies the financial statements. As at November 2022 (latest available data) Aberdeenshire had reduced its emissions target to 49,304 (tCOe) against a target of 50,614 (tCO2e) and therefore progressing against target as expected. In order to meet its target of 75% reduction by 2030 the council will need to invest in its estate. There is a risk over the affordability of the current capital plan which may have knock on implications for delivery of the climate change strategy.
	We did not identify any specific risks in relation to cyber security at Aberdeenshire Council.	Cyber Security We have considered risks related to cyber security at Aberdeenshire Council as part during our audit of Aberdeenshire Council's financial statements in line with the guidance issued by Audit Scotland's Digital Audit team. We have not identified any significant issues in relation to cyber security or the arrangements in place at the Council in relation to cyber security.

Best Value (1)

Best Value audit response and findings

Under the new Code of Audit Practice, the audit of Best Value in Councils is fully integrated within the annual audit work performed by appointed auditors and their teams. Auditors are required to evaluate and report on the performance of Councils in meeting their Best Value duties. As part of our integrated wider-scope annual audit work, we use a risk-based approach to assess and report whether the audited body has made proper arrangements for securing Best Value and is complying with its community planning duties, including reporting progress against previous Best Value findings and recommendations.

We have not identified any significant risks in relation to Aberdeenshire Council's Best Value arrangements.

As part of our review of arrangements embedded within our wider scope work for Use of Resources to Improve Outcomes, we have reviewed the theme of partnership and collaborative working and the arrangements the Council has in place to meet outcomes and improvement objectives through partnerships and collaborative working. Our work in this area can be found within 'Use of Resource to Improve Outcomes- Partnership Working'. We are satisfied that appropriate arrangements are in place at the Council to ensure effective partnership and collaborative working.

Best Value Thematic

Auditors are required to report on Best Value or related themes prescribed by the Accounts Commission. The thematic work for 2022/23 requires auditors to carry out an overview of the effectiveness of Council leadership (officers and elected members) in developing new local strategic priorities following the elections in May 2022.

A summary of our conclusion reported within the Best Value Thematic can be found below:

1. How clear is the new Council vision and its priorities?

Conclusion: We are satisfied that the new Council plan includes a clear vision with clear priorities for the Council and that this has been communicated effectively to its staff, citizens and partners. We are also satisfied that Council priorities have been informed and developed in conjunction with a range of stakeholders. We have identified a low-level best practice improvement recommendation to ensure that as progress against the council plan is monitored, the council is able to identify themes across a range of service areas in relation to performance, best practice and challenges. This will support cross department working and an overview of progression against the council plan.

2. How effectively have the views of citizens and communities been reflected in the priorities and decisions taken by the Council?

Conclusion: The Council has had due regard to the importance of ensuring the views of citizens and communities are reflected in the priorities and decisions taken by the Council. This is evident through priorities and outcomes set out in the Council plan and the integration of the strategic assessment informed by local citizens and communities. It is positive to note the steps the Council are taking to ensure communities are a key focus of the Council's decision-making process and that views are heard and acted upon. We note that the adoption of a place-based strategy is in its formative stages and will require sufficient resource to implement and deliver this strategy.

Best Value (2)

Best Value Thematic (continued)

3. How effectively do the Council priorities reflect the need to reduce inequalities and climate change?

Conclusion: We are satisfied that the Council plan clearly articulates the importance of reducing inequalities and of ensuring that stakeholders have been involved in identifying local needs and inequalities to inform priorities. We are also satisfied that the Council plan reflects the importance of a sustainable environment and the prevention of climate change. We have identified a low-level best practice improvement recommendation in relation to integrated impact assessments to ensure assessments are used as a key consideration when informing strategic decision making.

4. How good are the delivery plans and is there alignment of financial, workforce, asset and digital plans with the Council's priorities?

Conclusion: We are satisfied that the Council has appropriate delivery plans and that there is alignment of financial, workforce, asset and digital plans with Council priorities. We note that:

- One of the biggest challenges that the Council will face in the medium to longer term relates to capital investment in Council services. The capital plan is currently unaffordable and the Council will need to reduce the size and prioritise capital projects to avoid the risk of wider financial challenges.
- We have also identified a recommendation to ensure financial sustainability for the medium to longer term. The Council will need to ensure that it is able to deliver increased productivity and efficiency initiatives in order to reduce costs and deliver financial benefits. The Council will also need to use transformation to re-prioritise resources to priority areas and either reduce or stop expenditure in non-priority areas.

5. Overall, how effective has the leadership been (political and officer) in setting clear priorities and a sustainable approach to delivering them?

Conclusion: We have identified evidence of effective governance arrangements in place at the Council which has been reflected in the setting of clear priorities. The Council will need to continue its approach to harnessing good governance to ensure a sustainable approach to delivering on its priorities. The Council should ensure there is sufficient focus aimed at transformation including the depth and pace of transformation to ensure not only financial sustainability but sustainability of delivery of services in the midst of planned future funding gaps.

Best Value (3)

Service Improvement and Reporting

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

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

The Council is due to publish its Annual Performance Report 2022/23 in September 2023. Performance information has been included in the annual report for the council priorities outlined within the 2020-2022 Corporate Plan. The annual performance report also outlines performance in relation to the Community Planning Partnership Local Outcomes Improvement Plan (LOIP). We are satisfied that the council reports on its performance in improving local public services through its performance reporting against council priorities, as well as those provided with its partners and communities through the LOIP.

The annual performance plan also outlines how it is delivering best value through the corporate improvement plan and external audit. The annual performance report outlines how it has responded to the recommendations raised through Best Value reviews within the Corporate Improvement Plan as well as continuing areas for improvement.
We are therefore satisfied the annual performance report meets the requirements of the Statutory Performance Information Direction issued by the Accounts Commission.

The 2022/23 Annual Governance Statement outlines the council’s assessment of how it is performing against its duty of Best Value and the progress and status of recommendations raised in previous best value assurance reports.

Appendices

1. Audit Adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements made during the course of the audit are set out in the table below, together with their impact on the Comprehensive Income and Expenditure Statement (CIES), the Balance Sheet for the year ending 31 March 2023.

Detail	**CIES** **£'m**	**Balance Sheet** **£'m**
1. Group Consolidation Upon review of the entities excluded from the group consolidation, it was apparent that the group accounts were materially understated as a result of the exclusions. Therefore, the Council have completed a process of consolidating the Trusts and Endowments, Common Good Fund and Create Homes Aberdeenshire LLP		
2. Unfunded benefits The IFRIC 14 asset ceiling calculation has been performed with the funded and unfunded benefits of the NESPF netted off. There is no right to net these off and therefore the asset ceiling needed to be recalculated. The unfunded benefit liability at 31 March 2023 was £15.970m. Therefore, a pension liability of £15.970m has been recognised on the balance sheet (£22.566 when combined with the Teacher's pension scheme) and the asset ceiling has been increased by £15.970m, which will be debited through other Comprehensive Income and Expenditure (OCI).		
CR Long term liabilities – Pension liabilities		(15.970)
DR OCI – Actuarial (gains)/losses on pension assets/liabilities	15.970	

1. Audit Adjustments

Impact of adjusted misstatements (continued)

Detail	CIES £‘m	Balance Sheet £’m
3. Foreign currency transactions		
A euro bank account was not translated into GBP as at 31 March 2023. The Council has been translating all transactions at the spot rate on the day they occurred without retranslating the balance at the year end. Understatement in the cash and cash equivalents of ~ £0.089m.		
DR Current assets – Cash and cash equivalents		0.089
CR CIES	(0.089)	
4. HRA internal recharges		
Additional internal recharges were identified which had not been removed from the accounts by the Council. These related to HRA other income (£6.290m) and HRA repairs and maintenance expenditure (£2.621m) and HRA supervision and management expenditure (£3.669m). There is no net effect on the cost of services in the CIES, however the HRA service line shows expenditure and income both overstated by the £6.290m. Note 5 and the HRA note are also affected.		
DR CIES – Housing Revenue Account Income	6.290	
CR CIES – Housing Revenue Account Expenditure	(6.290)	
5. Housing Benefits		
As part of a review of the finance budgets during the budget process, the finance team noted that the last Rent Allowances payment file for financial year 2022/23 of £728,794.15 went through the April 2023 ledger and was not accrued back into 2022/23. This has been adjusted for.		
DR CIES expenditure	0.728	
CR General Fund Reserves		0.728

1. Audit Adjustments

Impact of adjusted misstatements (continued)

Detail	CIES £'m	Balance Sheet £'m
6. PPE – PFI		
PFI Lifecycle costs are incorrectly recorded in the balance sheet as an asset. The Finance team have made adjustments of c£22m to closing balances. A Prior Period Adjustment has also been needed. This has resulted in a reduction in asset values.		
DR Revaluation reserve		21.713
CR PPE		(21.713)
7. PPE – Housing		
As parts of the housing stock had not been valued in year we considered available indices to determine whether there is an indication of error in the unvalued assets. We estimated that the value of housing stock was likely to be materially understated. The Council revisited its valuation including taking account of the issues with depreciation. A revised valuation of c£572m was provided for 2022/23 and £569m for 2021/22. This compares to the initial valuation of £535m and £525m respectively.		
DR Housing Valuations		~37.000
CR Revaluation Reserve		~(37.000)
8. Asset not in use		
We identified an intangible asset which had incorrectly been classified as Other Land & Buildings. However, upon investigation it was identified that the asset was not in use, and therefore the asset has been completely written off from the balance sheet.		
CR Property, Plant and Equipment		(0.492)
DR CIES	0.492	

1. Audit Adjustments

Impact of unadjusted misstatements

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

Detail	**CIES £‘m**	**Balance Sheet £’m**
1. Group Consolidation		
The North East of Scotland Transport Partnership (Nestrans) and the Grampian Valuation Joint Board (GVJB) are group entities which have been excluded from the consolidated financial statements. We have estimated the impact on the group accounts of excluding these entities.		
DR Group current assets – Investments in associates		1.735
CR Group reserves – Share of associates’ reserves		(1.735)
2. Unidentified opening balances		
Included within short term debtors of £78.240m was £1.384m of 'opening balances' for which no breakdown was provided. If the Council cannot identify these balances and verify that they are collectible, these should be written off.		
CR Current assets – Short term debtors		(1.384)
DR CIES	1.384	
3. Prepayments error		
An error of £41,348 was identified as an overstatement in prepayments. This resulted from sample testing, and we estimate an extrapolated total error of £0.401m.		
CR Current assets – Short term debtors		(0.401)
DR Current liabilities – Short term creditors		0.401

1. Audit Adjustments

Impact of unadjusted misstatements (continued)

Detail	CIES £‘m	Balance Sheet £’m
4. Council tax provision		
Council tax debtors dating from 2017/18 or earlier (back to 1998/99) amount to £14.513m. Against these a provision of £10.200m has been made, leaving £4.313m 'receivable'. We have doubts over the collectability of the £4.313m. The Council should seek to reduce this balance, either by collecting the debts, or writing them off.		
CR Current assets – Short term debtors		(4.313)
DR CIES	4.313	
5. Aged creditor balances		
There are some £68.671m of debits and £76.478m of credits included in the short term creditors balance which date from 2019/20 or older. The net balance of £7.807m is made up of 12,623 individual transactions, with some dating back as far as 1999/2000. We have doubts over the validity and collectability of these balances. The Council should seek to reduce this balance, either by identifying and paying the creditors, or writing them off.		
DR Current liabilities – Short term creditors		7.807
CR CIES	(7.807)	
6. Asset decommissioning provision		
£1.837m of the total £6.656m asset decommissioning provision could not be supported by evidence. Therefore, this has been assumed to be an error.		
DR Long term liabilities – Provisions		1.837
CR Other land and buildings		(1.837)

1. Audit Adjustments

Impact of unadjusted misstatements (continued)

Detail	CIES £‘m	Balance Sheet £’m
7. Cash and bank reconciliations		
We identified 4 bank accounts for which no year-end reconciliation had been performed.		
Of these, 2 had effectively £nil balances held in the accounts, and this was mirrored in the ledger, therefore we are satisfied that the balances are correct. However, producing a formal reconciliation is still considered best practice, please refer to Recommendation 1, in Appendix 2.		
For the other 2 accounts there was a total difference of £0.091m between the year-end bank balances and the balance in the ledger for which no reconciliation had been produced to explain. The £0.091m relates to interest received at the end of the day on the 31 March which is shown as accrued income, rather than cash and cash equivalents, as the Council do not have access to the funds until 01 April. The evidence supplied shows that the cash formed part of the bank balance at 31 March 2023, therefore we are of the view that this should be presented as cash and cash equivalents.		
DR Current assets – Cash and cash equivalents		0.091
CR Current assets – Accrued income		(0.091)
8. School valuation errors		
We identified several errors in the Council's valuation of schools, relating to modern equivalent asset assumptions such as floor space and site areas, as well as incorrect application of key inputs such as physical and functional obsolescence.		
DR Other land and buildings		6.015
CR OCI – Revaluation Reserve	(6.015)	

1. Audit Adjustments

Impact of unadjusted misstatements (continued)

Detail	CIES £'m	Balance Sheet £'m
9. Depreciation charge		
The value of the Council Dwellings has been uplifted in both the current and prior year, as a result of adjusted error number 7 (please see page 71 for details). However, the depreciation charge for the year has not been updated to reflect the increase.		
DR CIES – Depreciation	~1.000	
CR Property, Plant and Equipment		~(1.000)
10. Assets not revalued at 31 March 2023		
Not all assets were revalued at 31 March 2023. We have estimated that these assets may be understated.		
DR Property, Plant and Equipment		5.914
CR OCI – Revaluation Reserve	(5.914)	
11. All-weather pitches		
We identified an issue in the accounting for the valuation of Inverurie Community Campus, whereby the increase in the value of the all-weather pitches had incorrectly not been off-set against the original campus asset. The increase was posted to the revaluation reserve when it should have reversed prior period losses through the CIES.		
DR OCI – Revaluation Reserve	0.705	
CR CIES – General Fund	(0.705)	
TOTAL UNADJUSTED ERRORS	(13.039)	13.039

1. Audit Adjustments

Impact of unadjusted misstatements in the prior year

The table below provides details of all unadjusted misstatements brought forward from the 2021/22 audit carried out by your predecessor auditor.

Detail	CIES £'m	Balance Sheet £'m
Audit Scotland identified CIES unadjusted errors of £6.2m. There are no additional unadjusted errors impacting the prior year. Audit Scotland also identified £6.2m of errors in the balance sheet. We note that c£1.5m relates to contingent liabilities that have not occurred. This results in an unadjusted balance sheet error of c£4.7m. We identified additional errors of c£8.8m (relating to an understatement of schools valuations). The total impact on the balance sheet is c. £13.6m. This is not material and we are satisfied that the prior year comparatives are not materially misstated.		
CIES	6,200	
Balance Sheet		13,600

1. Audit Adjustments

Misclassification and disclosure changes

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

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

Disclosure	**Adjusted?**
1. Pension adjustment In early August, the Council were notified by the NESPF that there had been an error in the IAS 19 figures originally provided by the scheme actuary. The figures were recalculated, and the Council were provided with a new IAS 19 report. The Council have updated the financial statements to incorporate the change. The effect of the change was to decrease the present value of the defined benefit obligation by £2.529 million and decrease the fair value of plan assets by £3.518 million. The net decrease in the net asset was absorbed by an equal movement in the IFRIC 14 asset ceiling from £311.499 million to £310.510 million.	Yes
2. GVJB pension disclosure The GVJB audit has concluded, and as a result the pension liability figures have been adjusted. Consequently, the disclosure in the Council's account will need to also be adjusted accordingly.	Yes
3. AIJB related party disclosure The disclosure of the transactions made in relation to integrated health a social care functions has been updated to include additional information about transactions and provide a clear reconciliation to the movement in the balance owed to the IJB at 31 March 2023.	Yes
4. Related party relationships The notes to the financial statements should be updated to state explicitly what the Council considers the relationship with each of its group entities to be, and why.	Yes

1. Audit Adjustments

Misclassification and disclosure changes (continued)

Disclosure	**Adjusted?**
5. Operating leases The Council was unable to provide documentation to support the annual charge associated with 1 sample item (B1478001.03). The value of the variance between the sample amount and the amount per provided documentation was £1,443,648. The documentation is not held electronically which has resulted in difficulty providing support. As we have not been able to verify this amount we have assumed it to be an error.	No
6. Transfer of HRA surplus to GF for 2022/23 pay award A debit transaction for £5.542m was miss posted against 'fees, charges and other service income' and should have been posted against 'government grants & contributions' in Note 5. No net impact on the CIES.	Yes
7. Note 5-Note 27 Reconciliation £10.382m relating to IJB government grant income was not included in the Note 27 Grant Income disclosure creating a mismatch between that note and Note 5 / the CIES.	Yes
8. Disclosure of material debtors and creditors The debtors and creditors notes did not provide sufficient detail to identify all material balances.	Yes
9. Identifying audited elements of the remuneration report Information contained with the remuneration report which is subject to audit should be clearly identified as such.	Yes
10. EFA The EFA had been presented as if it were a primary financial statement. This is not the case. The disclosure has been updated to clarify this.	Yes
11.a Financial Instruments The fair value of the PFI libailities has not been disclosed.	No

1. Audit Adjustments

Misclassification and disclosure changes (continued)

Disclosure	Adjusted?
11.b Financial instruments The financial assets has been updated to remove VAT debtors, prepayments and statutory maternity pay receivable with a total value of £33.561 million as these are non-contractual items which don't meet the definition of a financial instrument. Similarly, the financial liabilities have been updated to include PFI liabilities and finance leases with a total value of £96.732 million which were incorrectly excluded. Further, £33.117 million of current liabilities have now been removed from the financial instruments as these related to tax creditors, statutory payroll creditors and deferred grant funding, again these are non-contractual arrangements and so do not meet the definition of a financial instrument.	Yes
12. Material estimates and judgement The council tax provision and the estimation of future years' service costs on PFI schemes are both material, but have not been disclosed in Note 4 as material sources of estimation uncertainty.	No
13. Note 13 – HRA historical cost disclosure Note 13 includes a historical cost value of £30.5m relating to HRA. This is due to incorrect accounting for additions in previous years following an adjustment to the valuation balances. This disclosure error has now been amended for.	Yes
14. Note 13 – Other land and buildings This includes an historic cost balance of £411m. Of this £377m related to revalued assets and £23m related to PFI life cycle costs. The note has been amended for these errors.	Yes
15. Accounting policies Some of the disclosed accounting policies are not an accurate reflection of what is being applied in practice and do not disclose correct accounting treatment. We are comfortable that the treatment applied is appropriate and it is only the disclosure of the policies which is inaccurate.	No
In addition to the disclosure issues mentioned above, there were numerous disclosures where we felt that the level of detail provided was lacking.	No

2. Action plan and recommendations – Financial statements audit

We have identified 9 recommendations for Aberdeenshire Council and the Group during our audit of the financial statements for the year ended 31 March 2023. We have agreed our recommendations with management and will report on progress against these recommendations during our 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations and Reponses
Medium	1. Bank reconciliations Issue – Formal bank reconciliations are not being prepared for all of the Council's bank accounts. Furthermore, the year end bank reconciliations show some £1.626m of reconciling items. This appears to be excessively high. Risk – There is a risk that the cash and bank position could be misstated. Additionally, there is a risk that the Council will not have accurate information to inform appropriate cash management.	Bank reconciliations should be performed for all bank accounts, and the Council should make progress towards more accurate reconciliations with fewer reconciling items. Management response: Agreed. **Responsible officer**: Head of Finance/ Revenues Manager **Target date**: 31 March 2024

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

2. Action plan and recommendations – Financial statements audit

Assessment	Issue and risk	Recommendations and Reponses
Medium	2. Internal recharges Issue – A total of £118.700m of internal recharges have been removed from the income and expenditure of the accounts (after adjusted audit misstatement 4, detailed in Appendix 1). Of these, only £118.407m of the income and only £49.451m of the expenditure was identifiable. Therefore, we have been unable to test the remaining £0.294m of income and £69.249m of expenditure. The untested expenditure recharges are substantial in value, and we have had to place reliance on our testing of the income leg of the internal recharges to gain sufficient assurance over them. Additionally, we have had to perform additional testing over the 'other expenditure' due to not being able to remove the recharges from our testing population, which has taken additional time. Risk - Inability to identify internal recharge transactions presents a risk that they have been incorrectly removed from the financial statements and inhibits our ability to audit them.	The Council should ensure that all recharges are identifiable and should work to reduce the quantity of internal recharges. Management response: Agreed. We will review the current structure and arrangements in place for internal recharges to ensure that there is a clear audit trail. **Responsible officer:** Head of Finance/ Strategic Finance Manager **Target date:** 31 March 2024

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

2. Action plan and recommendations – Financial statements audit

Assessment	Issue and risk	Recommendations and Reponses
High	**3. Market review for council dwellings** Issue – The Council's valuer performs a market review each year to assess the risk of material movement in the value of the Council's assets. For the council dwellings this review was largely directed towards a small portfolio of acquisitions made by the Council. Risk – It is our view that this presents a risk that the research is not representative of the wider housing market, and therefore presents a risk of material misstatement in the value of assets.	The Council should incorporate wider market data into their research when assessing market movements. Management response: It is the Council's view that whereas the exercise carried out by the Council was in relation to a limited number of comparable sales, the sales evidence considered was directly relevant to the valuation of the Council's properties. Any evidence that is not directly relevant to the Council's properties could be potentially misleading. Nevertheless, it is accepted that in future wider evidence will be considered in reaching a conclusion as to the value of the Council's dwellings. **Responsible officer**: Head of Finance/ Head of Property and Facilities **Target date**: 31 March 2024
High	**4. Review of assets not revalued in year** Issue – The Council did not produce a *quantified* assessment of the potential change in value of those assets which were not revalued at 31 March 2023. The Council is permitted, under the Code, to revalue assets on a rolling 5 year basis, only if the impact of doing so is not material. Without performing a quantified assessment the Council is unable to determine if this is the case. Risk – PPE values could be materially misstated.	The Council should perform a *quantified* assessment of the potential change in value of asset which they do not intend to value at 31 March, based on market research as appropriate. Management response: In future a quantified assessment will be produced. **Responsible officer**: Head of Finance/ Head of Property and Facilities **Target date**: 31 March 2024

2. Action plan and recommendations – Financial statements audit

Assessment	Issue and risk	Recommendations and Reponses
High	5. Fixed Asset Register, valuations and reconciliations Issue – Numerous issues and errors were identified with regard to PPE. These included: - The Council has a single fixed asset register but is not able to produce a single report that reconciles directly to the financial statements. - The Valuation report did not agree with the FAR or the disclosures in the financial statements. - Errors were identified with regard to PFI and depreciation. Risk – PPE values could be materially misstated.	In preparation for the 2023/24 financial statement audit the Council should reviews its: - Accounting procedures and quality control over PPE - Valuation procedures and quality control over PPE. Management response: Agreed. We will review both the accounting and valuation procedures and quality control over PPE in advance of the 2023/24 year-end. **Responsible officer:** Head of Finance/ Head of Property and Facilities **Target date:** 31 March 2024

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

2. Action plan and recommendations – Financial statements audit

Assessment	Issue and risk	Recommendations and Reponses
Medium	6. Aged creditor balances Issue – There are some £68.671m of debits and £76.478m of credits included in the short-term creditors balance which date from 2019/20 or older. The net balance of £7.807m is made up of 12,623 individual transactions, with some dating back as far as 1999/2000. Risk – There is a risk that these creditor balances are not genuine and therefore that creditors is overstated.	The Council should seek to reduce this balance, either by identifying and paying the creditors, or writing them off. Management response: Agreed. A full review of the aged creditors balance will be carried out in advance of the year-end. **Responsible officer:** Head of Finance/ Strategic Finance Manager **Target date:** 31 March 2024
Medium	7. Aged debtor balances Issue - Included within short term debtors of £78.240m was £1.384m of 'opening balances' for which no breakdown was provided. Risk - There is a risk that these debtor balances are not genuine and therefore that debtors is overstated.	The Council should seek to reduce this balance, either by identifying and collecting the debtors, or writing them off. Management response: Agreed. A full review of the aged debtors balance will be carried out in advance of the year-end. **Responsible officer:** Head of Finance/ Strategic Finance Manager **Target date:** 31 March 2024

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

2. Action plan and recommendations – Financial statements audit

Assessment	Issue and risk	Recommendations and Reposnes
Medium	8. Nil NBV assets Issue - The Council's asset register includes 1,177 assets which are being held at £nil net book value as they have been fully depreciated. The gross book value of these assets is £102.736m. Risk – There is a risk that the gross cost and accumulated depreciation are overstated, or that UELs are inappropriate.	The Council should perform a review of assets with £nil net book value to ensure that they remaining in use and, if they do, the Council should assess the appropriateness of the UELs applied. The Council should embed a formal process for reviewing assets which have outlived their useful economic lives on an annual basis, to ensure the assets are still in existence. Management response: Agreed. We will review all assets with £nil net book value to ensure they remain in use. **Responsible officer:** Head of Finance/ Estates Manager – Property and Facilities **Target date:** 31 March 2024

● High – Significant effect on financial statements

● Medium – Limited Effect on financial statements

● Low – Best practice

2. Action plan and recommendations – Financial statements audit

Assessment	Issue and risk	Recommendations and Reponses
Medium	9. Ledger mapping Issue - As part of our journals testing, we import the Council's general ledger transactions into our data analytics software, which enables us to run a number of routines to identify those transactions which might be most likely to be at risk from management override of controls. In order to run these routines effectively, we need to know where in the accounts a transaction has been posted to, or where the transactions are 'mapped' to. The Council were only able to provide a mapping document at a relatively high level. For example, showing transactions as being posted to Unusable Reserves, rather than those posted to the Revaluation Reserve, as opposed to the Capital Adjustment Account. Risk - There is a risk that instances of management override of controls which would otherwise have been detected by our testing could have gone unfound because our testing was inhibited by a lack of detailed mapping information.	The Council should work to provide a more detailed mapping document (subjective level) for the 2023/24 audit. Management response: A mapping process is already in place, however, we will work with the external auditors to agree a workable solution to provide a clearer link between the ledger and the annual accounts **Responsible officer:** Head of Finance/ Strategic Finance Manager **Target date:** 31 March 2024

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

3. Action plan and recommendations – Wider scope and Best Value (1)

We have set out below, based on our audit work undertaken in 2022/23, the key recommendations arising from our wider scope and Best Value audit work:

Recommendation	Agreed management response
1. Financial Sustainability - Transformation **Risk:** Transformation programmes are at a very early stage at the Council and therefore a depth of pace will need to be undertaken on the programme in order to ensure the Council can bridge the significant funding gap in a short space of time in order to remain financially sustainable. **Recommendation:** In order to ensure financial sustainability, the Council will need to ensure that its transformation programme is in place as soon as possible, and by December 2023 at the latest. The council and policy committees will need to monitor progress and delivery regularly.	Aberdeenshire Council at its meeting of Full Council of 23 November 2023 agreed a Transformation Strategy and associated governance framework. Policy committees play a key role within the framework monitoring their areas of responsibility with biannual (twice yearly) reporting to Full Council. Policy committees to monitor their areas of responsibility and twice yearly reporting will be provided to Full Council, with links to the MTFS.
2. Financial Sustainability - Capital **Risk:** The current capital plan is unaffordable and if not reviewed could have serious revenue implications and impact the financial sustainability of the Council. **Recommendation:** The Council should review the affordability of the proposed capital plan and its revenue implications. It is important that the Council considers what is affordable to ensure continued financial sustainability as well as ensuring that agreed capital spend supports the delivery of Council plan priorities.	A Sub Group of the Council's Capital Plan Group has been established to undertake the review of the Capital Plan, in terms of affordabilty, deliverability and impact of associated implications. As part of this work, a Capital Plan Strategy is in the process of being developed. The outputs of this review and associated Strategy will be reported as part of the part of the Council's budget setting process for 2024/2025.

3. Action plan and recommendations – Wider scope and Best Value (2)

We have set out below, based on our audit work undertaken in 2022/23, the key recommendations arising from our wider scope and Best Value audit work:

Recommendation	Agreed management response
3. Vision, Leadership and Governance – Updating Policies **Risk:** Policies such as whistleblowing and equality policies have not been updated for a number of years. There is a risk that policies become ineffective if these are not reviewed and updated on a regular basis. **Recommendation:** A review of historic policies should be undertaken and updated where required.	A review of polices shall be undertaken to ensure all externally facing policies are included in the corporate reporting framework.
4. Vision, Leadership and Governance- Adult Social Care **Risk:** The prior year LGBF results indicate that performance in the Council's Adult Social Work Services has decreased year on year. In some instances, the performance metrics Council are below the national average Council. High risk governance recommendations were also raised by internal audit with regard to the IJB. Although the Council do not hold responsibility for the governance of the IJB, the Council do have the responsibility to ensure the delivery of services of adult social care which is interlinked with the performance of the IJB. **Recommendation:** It is important the Council ensure there are effective management functions and governance in place at the Council to ensure delivery of performance is improved for Adult Social Care Services.	Internal Audit's report 'Assurance Review of IJB Governance' instigated the Committee Review Process and an action plan was developed for 15 recommendations. 10 are completed with 5 outstanding but on schedule to be closed by the deadline

4. Follow up of prior year recommendations (1)

Progress against prior year audit recommendations

The predecessor auditor identified the following issues in their 2021/22 audit of the Councils' financial statements, which resulted in 5 recommendations being reported in their 2021/22 Annual Audit Report.

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

Auditor assessment	Issue and risk previously communicated	Agreed management response
Ongoing	1. Management Commentary 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.	Improvements were made to the management commentary in the 2022/23 accounts
Ongoing	2. Financial capacity 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.	A permanent Strategic Finance Manager has recently been appointed and now in place. A review is planned of the Strategic Finance Team structure, and the creation of apprenticeship and/or graduate posts is continuing to be explored.

4. Follow up of prior year recommendations (2)

Progress against prior year audit recommendations (continued)

Auditor assessment	Issue and risk previously communicated	Agreed management response
Ongoing	3. Capital planning 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.	Slippage has continued to be experienced during 22/23, with considerable market volatility existing in the construction sector at present. Increasing energy prices; labour shortages, construction boom; material shortages, the war in Ukraine, economic uncertainty, inflation; significant material prices increase, risk allocation; an element of opportunism; legislative change in fuel duty has resulted in substantial tender prices increases and contractor claims, coupled with contractors unwilling to tender or hold prices for any length of time. Over the last year, there has been a 23% average increase in construction materials with some components e.g., steel rising 25% in a month. Tender cost returns have increased in the region of 40% over the past year with some of the projects more than that figure. In addition, at the post contract stage, the economic conditions have seen an increase in contractor claims, whereby contractors attempt to mitigate their costs increases incurred by them at the construction stage. As a result, the programme has not been delivered as anticipated albeit in hindsight there is a recognition that the programme was not deliverable and that has informed the recently approved capital plan. The approved Capital Plan for 23/24 presented a programme of works that was considerably lower than previously anticipated acknowledging the need for the plan to be affordable and deliverable. A detailed review of the capital plan is also being undertaken during 23/24 to develop a comprehensive, affordable and achievable capital plan for 24/25 onwards.

4. Follow up of prior year recommendations (3)

Progress against prior year audit recommendations (continued)

Auditor assessment	Issue and risk previously communicated	Agreed management response
Ongoing	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. 2021-22 recommendation that previously agreed recommendations should be implemented.	The Council's most recent Counter Fraud Policy was reviewed by the Chief Internal Auditor in early 2022 and in consultation with Strategic Leadership Team, it was agreed that a new approach to Counter Fraud would be rolled out, and this has been taken forward by the Fraud Working Group. A new policy is in development and where the current strategy approved in February 2020 is deemed still relevant it will be replaced by the work of the group and a new Policy and Procedure (currently in draft). Each Service will consider the risk of fraud as part of their own assessment of risk and will capture the impact and likelihood, as well as any potential mitigations, within their risk registers. These risk registers are currently being transferred to Pentana. A Fraud Working Group under the leadership of Jamie Dale, Chief Internal Auditor was established to look at the Council's process for assessing and prioritizing fraud referrals and any subsequent investigations. An updated process document setting out the Council's approach to assessing and prioritising fraud referrals and any subsequent investigation. The Council plans to highligh its approach to counter fraud through awareness raising during the next financial year.

4. Follow up of prior year recommendations (3)

Progress against prior year audit recommendations (continued)

Auditor assessment	Issue and risk previously communicated	Agreed management response
Ongoing	5. Workforce planning Services should do more to demonstrate workforce needs, challenges and potential solutions.	In February and March Heads of services were asked to complete a survey to determine their workforce planning support needs from the HR team this has now been completed and services have been categorized into three categories: 1. Requiring support to co-produce a workforce plan with HR partners. 2. Requires touch base points and access to all data and tools in order to independently produce a workforce plan. 3. Has the tools and can independently produce a workforce plan. In addition, Strategic Leadership Team took the decision in February to move away from Directorate plans and agreed a template annual business plan for all services to produce, this includes a 3-year workforce plan.. So, the HR support methodology outlined above will now be used to support the development of workforce planning within service business plans. A SharePoint page (linked below) of workforce planning resources has been developed and circulated. Examples of good practice have been developed in Legal and People, Customer and Digital service, Environment and Planning and Children's services, this will be added to the SharePoint page once approved. Initial plans will be ratified at services committees during April and May. HR will continue to work with services to improve data, analysis, strengthen outcomes and deliver real workforce transformation through the 3-year workforce planning elements of the business plans. https://aberdeenshire.sharepoint.com/sites/ResourcingTeamSharepoint/SitePages/Aberdeenshire-Council-Workforce-Plan.aspx?CT=1679432893477&OR=OWA-NT&CID=14235973-ae1b-8c7f-6a5d-ae9b53f59f87

5. Audit fees, ethics and independence (1)

Independence and ethics

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

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

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

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

5. Audit fees, ethics and independence (2)

Independence and ethics (continued)

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

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

Fees and non-audit services

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

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

External Audit Fee

Service	Audit Plan	Annual Audit Report
External Auditor Remuneration	£300,170	£414,170*
Contribution to PABV costs	£95,580	£95,580
Contribution to Audit Scotland support costs	£11,380	£11,380
Sectoral Cap Adjustment	£54,230	£54,230
2022/23 Audit Fee	£461,360	£575,360

Fees for other services

Service	Fees
Fee for audit of charitable trusts	£12,000
We confirm that for 2022/23, we did not receive any fees for non-audit services	Nil

* A £114,000 fee variation has been charged due to the various issues identified during the audit. The fee is subject to agreement by the Council and Audit Scotland. The fee is inclusive of VAT.

5. Audit fees, ethics and independence (3)

Independence and ethics (continued)

Financial statements

The fees do not reconcile directly to the financial statements. We have provided a reconciliation below for the fee on page 94. The figures are in round thousands as per the disclosure in Note 11 External Audit Costs.

	£'000
Note 11 External Audit Costs	471
Additional fee	114
VAT on charity fee	2
2022/23 Audit Fee per page 94	587

Client service

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

Transparency

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

6. Communication of audit matters

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

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

Grant Thornton

grantthornton.co.uk