

Aberdeenshire Council

2018/19 Annual Audit Report



 AUDIT SCOTLAND

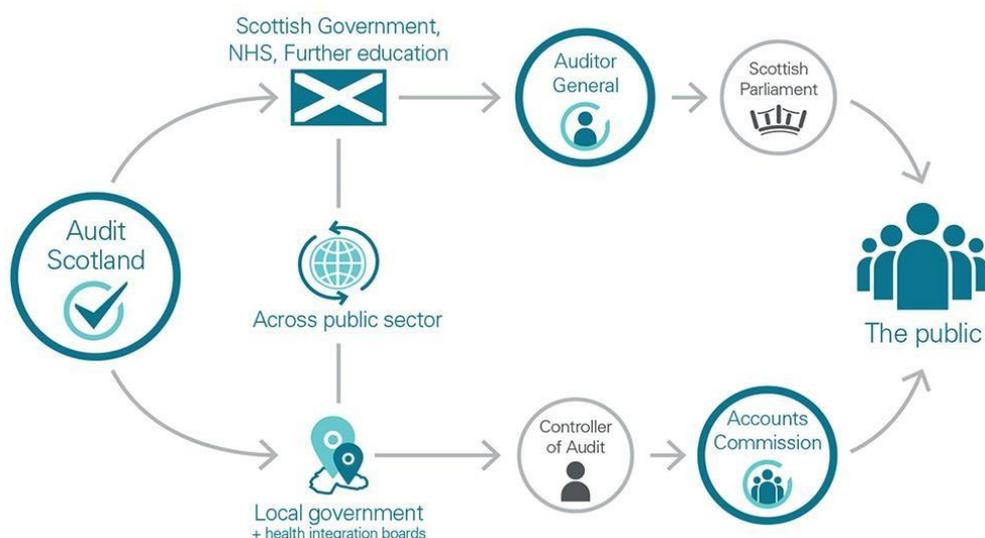
Prepared for the Members of Aberdeenshire Council and the Controller of Audit

19 September 2019

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

2018/19 annual accounts

- 1** Aberdeenshire Council (the council) and its group financial statements give a true and fair view and were properly prepared.
- 2** The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.
- 3** The statement of accounts of the five section 106 charities administered by the council are free from material misstatement.

Financial management

- 4** Financial management is effective, enabling the council to take appropriate action as required.
- 5** The council manages a medium term financial plan, a 15 year, £850m capital plan and a reserves policy, including earmarked balances, which allows a more strategic approach to financial planning and decision making.
- 6** A change in capital financing from capital from current revenue to borrowing was an important decision in ensuring a balanced outturn position was achieved. While the council's cost of borrowing remains low relative to other councils, any additional borrowing needs to be considered as part of overall borrowing requirements to ensure it remains affordable.

Financial sustainability

- 7** Through its medium term financial planning, the council is aware of its future funding shortfalls.
- 8** The council used around £6m of reserves, both planned and unplanned, to support the revenue position in the year. As the council already has one of the lowest levels of reserves in Scotland, it cannot depend on reserves indefinitely.

Governance and transparency

- 9** The audit committee should assess its effectiveness following an increase in committee business and changes in membership.
- 10** The governance self-evaluation activity has resulted in a comprehensive action plan for improvement.

- 11** The council demonstrates a commitment to transparency in the way it conducts its business.

Key messages

Value for money

- 12** The council has been slow to implement a performance framework to measure progress in delivering Council Priorities.
- 13** The council needs to do more to demonstrate that it is using scrutiny and performance information to assess impact and drive continuous improvement.
- 14** Performance against the Local Government Benchmarking Framework indicators is mixed, with similar levels above and below and improving or declining compared to the Scottish average.

Introduction

1. This report summarises the findings arising from the 2018/19 audit of Aberdeenshire Council and its group (the council).
2. The scope of the audit was set out in our 2018/19 Annual Audit Plan presented to the Audit Committee in March 2019. This report comprises the findings from:
 - an audit of the annual report and accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2018/19 have been:
 - an audit of the annual report and accounts of the council and its group and the statement of accounts of the five section 106 charities administered by the council including the issue of independent auditors' reports setting out our opinions
 - a review of the council's key financial systems
 - best value audit work covering the council's arrangements for supporting performance, outcomes and improvement
 - consideration of the four audit dimensions.

Added value through the audit

4. We add value to the council through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations for improvement that have been accepted by management
 - providing clear and focused conclusions on the appropriateness, effectiveness and impact of financial management, financial sustainability, governance and transparency, and value for money
 - reporting our findings and conclusions in public
 - sharing intelligence and good practice through our national reports and good practice guides.
5. In so doing, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources. **Responsibilities and reporting**
6. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.
7. The council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
8. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.
9. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the governance arrangements, financial management, financial sustainability and arrangements for securing value for money. In doing this, we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.
10. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.
11. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out recommendations, responsible officers and dates for implementation.
12. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2018/19 audit fee of £393,590 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

course.

14. We would like to thank all management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual accounts



Main judgements

Aberdeenshire Council (the council) and its group financial statements give a true and fair view and were properly prepared.

The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.

The statement of accounts of the five section 106 charities administered by the council are free from material misstatement.

The council and its group annual accounts are the principal means of accounting for the stewardship of resources and performance in the use of resources.

Audit opinions on the annual accounts

15. The annual accounts for the council and its group for the year ended 31 March 2019 were approved by the Audit Committee on 19 September 2019. We reported, within the independent auditor's report, that the:

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

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

Audit opinions on section 106 charities

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

- Aberdeenshire Charities Trust (known as ACT2)

- Aberdeenshire Educational Trust
- Anderson and Woodman Library Trust
- Andrew Cooper History Prize Fund
- McDonald Public Park Endowment.

Part 1 Audit of 2018/19 annual accounts

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

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

Submission of the council and its group annual accounts for audit

19. We received the unaudited annual accounts on 17 June 2019 in line with the audit timetable set out in our 2018/19 Annual Audit Plan. Supporting working papers were largely provided within agreed timescales. They were of a good standard and finance staff provided satisfactory support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly.

Risk of material misstatement

20. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

Materiality

- 21.** Misstatements are material if they could reasonably be expected to influence the economic decisions taken by users based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.
- 22.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.
- 23.** On receipt of the annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£14.9m
Performance materiality	£11.2m

Reporting threshold

£250,000

Source: Audit Scotland, Annual Audit Plan 2018/19

How we evaluate misstatements

24. Misstatements identified during the audit which were amended in the accounts had the overall effect of increasing net expenditure on the comprehensive income and expenditure statement (CIES) by £13.4m and reducing Net Assets by £57.4m. The two key adjustments related to additional pension liabilities arising as a result of the recent McCloud/Sergeant rulings in the Supreme Court and changes required to reflect the correct accounting treatment for the council's funding contribution toward the construction of the Aberdeen Western Peripheral Route (AWPR). More details on these matters are included in [Exhibit 3](#).
25. A number of other misstatements were identified during the course of our audit and while it is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, the final decision on this lies with those charged with governance, taking into account advice from senior officers and materiality. Management do not propose to adjust for the misstatements set out in [Appendix 3](#) as the amounts are not considered material in the context of the accounts. Had the accounts been adjusted, the net impact would have been to increase net expenditure in the CIES by £1.1m with a corresponding increase in Net Assets.

Significant findings from the audit in accordance with ISA 260

26. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.
27. The significant findings are summarised in [Exhibit 3](#).

Exhibit 3

Finding

1. Impact of McCloud/Sergeant rulings on Pension costs

The courts have ruled that the transitional protections provided as part of the 2015 public sector pension scheme changes discriminate on the grounds of age. (The cases are known as the 'McCloud/Sergeant' rulings.) All local government pension schemes are affected including the North East Scotland Pension Fund.

On 27 June 2019, the Supreme Court denied UK Government leave to appeal. The UK Government still had the option to appeal through the Employment Tribunal but declined to pursue that option and conceded the legal point that the protections in place were discriminatory on grounds of age. In accordance with International Accounting Standard (IAS) 37, this is an adjusting post balance sheet event as the court confirmed an obligation in relation to conditions which existed at 31 March 2019.

In June, the Government Actuary's Department (GAD) provided actuarial firms with a methodology for estimating the likely impact of the rulings on pension liabilities. In general, the size of pension liabilities across the UK will increase. In due course employers will likely experience a funding pressure through the additional employer contributions that may have to be paid to cover the increased liabilities.

Mercer, as the council's fund actuary, was requested to apply the GAD assumptions which resulted in an increase in the net pension liability of £25m. As this is a material amount, it will require to be amended in the accounts.

Resolution: The revised accounts have been amended to reflect the increased liability.

2. Accounting for the council's funding contribution to the AWPR

The council's contribution to the AWPR has been treated as assets under construction while the expenditure was being incurred. At 31 March 2019, with the AWPR in operational use, an amount of £45m was transferred from assets under construction to infrastructure assets.

We viewed the substance of the transaction as being to provide a funding contribution to support a third party's project, in this case Transport Scotland's project. As a consequence of the project, the council directly benefited by the enhancement of a number of council roads affected by the construction of the AWPR and a range of new highway assets such as junctions and roundabouts which provide access from existing roads to the new trunk road.

The council contributed £45m to the project over the period 2014 to 2019. The expenditure was correctly regarded as capital under statutory provisions but as it did not directly result in the creation of a council owned asset, it should have been charged to the CIES as it was incurred and been treated as Revenue Expenditure From Capital Under Statute (REFCUS) to the extent that it was funded by borrowing. Thereafter, a transfer between the General Fund and the Capital Adjustment Account is required to reverse the REFCUS amount charged to correctly mitigate against any impact on the level of council tax.

In order to capitalise expenditure, the Accounting Code requires a direct link between the expenditure incurred and the asset to be capitalised. As the council paid a share of the overall costs of the AWPR project, it was not possible to link the council's expenditure with the roads being enhanced as part of the AWPR project. As a result, we concluded that the enhancements should be regarded as donated assets and included in the accounts at their fair value.

A further amount of £3.4m was included in infrastructure assets which also related to the AWPR project. It had been separately identified as it related to funding provided by the council before 2013, in the preconstruction stage, and was therefore the subject of an earlier funding arrangement with the Scottish Government. For similar reasons as set out above, the amount should be removed from non-current assets and treated as expenditure in the CIES.

Resolution: The revised accounts were amended to reflect REFCUS of £5.1m in the 2018/19 CIES and £4.1m in the previous year. In addition, prior years have been adjusted to remove the council's contributions to the AWPR from property, plant and equipment with a transfer from the capital adjustment account within unusable reserves to correctly reverse the impact of REFCUS in previous years. The revised accounts have also been amended to reflect donated assets valued at £18.9m. These have been brought into the CIES as income with a compensating increase in non-current assets.

3. Council contributions to City Region Deal projects

A key project in the Aberdeen City Region Deal is the city south harbour development which is being managed by Aberdeen Harbour Board. During the year, the council contributed £3.6m to the development and included the costs in its assets under construction. As with the AWPR above, this amount should be treated as revenue expenditure funded from capital under statute and charged to the CIES. To the extent that it was funded by borrowing, a corresponding transfer is required from the capital adjustment account.

Resolution: The revised accounts have been amended to reflect this amount as REFCUS, it has been removed from non-current assets and a compensating transfer has been made from the capital adjustment account.

4. Non-domestic rates (NDR) debtors

At 31 March 2019, the council included NDR related debtors of £8m on its balance sheet. We are unclear on the content and rationale for this amount. The council acts as agent on behalf of Scottish Government with regard to NDR billing and collection. This means NDR taxpayers' arrears are not included on the council's balance sheet. Only the overall debtor/creditor between the council as agent and the Scottish Government should be reflected in the accounts.

Resolution: In order to allow officers the appropriate time to investigate the background and review the figures included in the accounts, we have agreed with finance to carry this matter forward for resolution in advance of the 2019/20 accounts. In total terms, the overall amount of £8m is not material but for completeness, the matter will be reported in a final accounts management report.

Finding

5. Housing Revenue Account (HRA)

There was a change in the way repairs and maintenance related expenditure was allocated across the HRA this year. Prior year figures have not been restated on the same basis and therefore current year figures are not comparable with the previous year.

Credited in the HRA is £1.5m funding for new build affordable housing. This amount relates to second homes council tax monies which are initially included in a General Fund earmarked balance, and an allocation transferred to HRA when required. The correct accounting treatment is to apply reserve accounting i.e. transfer from the General Fund to HRA Reserve rather than direct to HRA income. The amount transferred in 2017/18 was £3.5m when reserve accounting was correctly used.

Resolution: The revised HRA reports repairs and maintenance costs on the same basis as the previous year i.e. the new approach originally taken this year has been reversed. Similarly, with regard to affordable housing, reserve accounting has been adopted in line with the previous year.

6. Impairment of council tax arrears

The basis for calculating the provision for non-collection of council tax is regularly considered by Finance and during the year, the latest review resulted in an overall reduction in the provision of approx. £1m. The provision has been calculated using the council's collection levels as the basis for assessing the collectability of the outstanding debt. Previously, no provision was calculated in respect of the current year but that has changed this year.

Our review of the adequacy of the provision compared the level of provision with outstanding debt by year. In the past we found that the level of provision increased in a proportionate manner with the age of the outstanding debt. Our review of the current year information shows that is no longer the case and would suggest the provision may be understated.

Resolution: In overall terms, the level of outstanding council tax debt which has not been impaired is not material. The impact of changes in estimates and judgements is however more significant when budgets are overspent and savings initiatives are sought after. The matter was discussed with the Head of Finance, when it was recommended that the level of outstanding debt be considered alongside collection rates when considering the adequacy of the provision. This matter has been included in our final accounts management report.

Source: Audit Scotland

Management commentary, annual governance statement and remuneration report

28. The Accounting Code requires councils to prepare and publish, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable, and clearly address a council's longer-term financial sustainability.
29. In response to our previous recommendations to improve the arrangements supporting the annual governance statement, the council undertook a selfassessment exercise using the 'how good is our council' methodology. The self-evaluation and subsequent action plan provide sound evidence of the effectiveness review required by CIPFA guidance to support the annual governance statement.
30. Councils have been required to prepare a remuneration report within their annual accounts since 2011. Scottish Government guidance sets out the expectation that remuneration reports be placed alongside the Annual Governance Statement in the accounts. In 2017/18, the council opted to

separate the statements within the accounts and we again take the opportunity to remind officers of expectations around the positioning of the remuneration report.

- 31.** Based on our knowledge and work performed, we concluded that the content of the management commentary, annual governance statement and remuneration report are consistent with the financial statements.

Council responsibilities in respect of the annual accounts

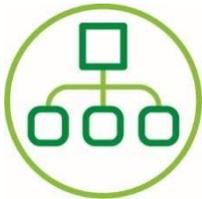
- 32.** The Local Authority Accounts (Scotland) Regulations 2014 (2014 Regulations) require councils to publish a public notice on their websites including details of the period for inspecting and objecting to the accounts. The council complied with the regulations by placing the advert on the website, in a section called 'Annual Accounts' which was accessible from the council's homepage.
- 33.** The 2014 Regulations provide for a common period for inspection of council accounts with the latest period being from the first Monday following 30 June. This year's inspection period was held between 1 July until 22 July inclusive and no objections were received.

Added value

- 34.** In May 2019, we provided finance colleagues with good practice examples and guidance to assist them in enhancing the council's Management Commentary and ensuring it 'tells the council's story' for the year. In response to discussions on conclusion of the 2017/18 audit, we found that the audit trail between the council's budget outturn results and the comprehensive income and expenditure statement was much improved this year.

Part 2

Financial management



Main judgements

Financial management is effective, enabling the council to take appropriate action as required.

The council manages a medium term financial plan, a 15 year, £850m capital plan and a reserves policy, including earmarked balances, which allows a more strategic approach to financial planning and decision making.

A change in capital financing from capital from current revenue to borrowing was an important decision in ensuring a balanced outturn position was achieved. While the council's cost of borrowing remains low relative to other councils, any additional borrowing needs to be considered as part of overall borrowing requirements to ensure it remains affordable.

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

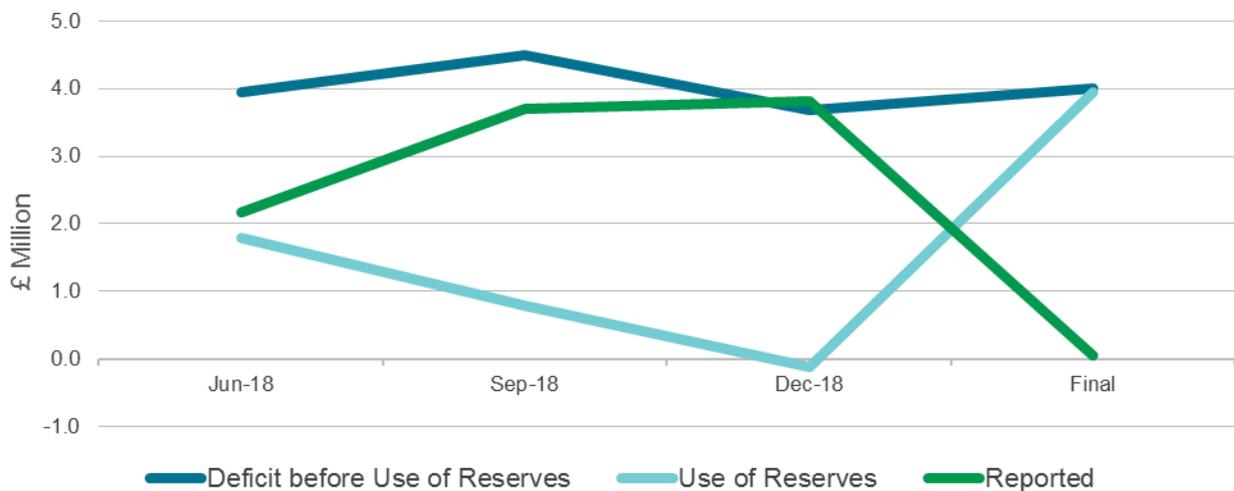
Financial performance in 2018/19

35. On a statutory basis, the council reported a deficit of £78.1m on the provision of services in 2018/19. Adjusting this balance to remove the accounting entries required by the Accounting Code, the council's usable reserves increased by £4.8m. This reflects a decrease in revenue reserves of £5.8m (due to the budget overspend of £4.0m and additional funding to Aberdeenshire Integration Joint Board of £1.8m), and an increase in the capital reserves of £10.6m due an unapplied capital grants carried forward into 2019/20.
36. Following final approval of the Scottish Government's 2018/19 budget, in common with other councils, Aberdeenshire was awarded additional funding in the week before the council met to set its own budget. This additional funding allowed the council to plan to increase reserves by £5.2m to support future pay increases following the removal of the public sector pay cap. This amount was subsequently increased to £6.6m.
37. The [Local Government in Scotland: Financial overview 2017/18](#) (November 2018) highlighted the need for budgets and forecasts to reflect actual spending being increasingly important for councils with decreasing (or low levels) of usable reserves to rely on.
38. We noted that budget monitoring reports were quickly forecasting a year end deficit for the 2018/19 financial year. The first budget monitoring report to elected members covered the 3 months to 30 June 2018 and indicated a deficit after planned use of reserves of £2.2m, which increased to £3.7m by September 2018. This remained at a similar level in December 2018 but,

following a significant increase in the planned use of reserves in the last 3 months of the year, a small overspend of only £54,000 was reported. [Exhibit 4](#) sets out the forecast position reported each quarter during 2018/19. This highlights a fairly consistent position prior to the use of reserves.

Exhibit 4

Forecast year end position



Source: Budget Monitoring Reports, Aberdeenshire Council

39. The council's Strategic Leadership Team (SLT) discuss the council's budget on a weekly basis. A risk-based approach to budget management has been adopted which recognises that budget variances are likely to occur. Variances are discussed, implications considered, and appropriate action taken and reported through SLT and to the relevant policy committee where appropriate.
40. The outturn position was reported to full council in June 2019. This confirmed an overall overspend of £4.0m and after taking account of the planned use of revenue reserves, the final outturn was an overspend of £54,000 as shown in [Exhibit 5](#).

Exhibit 5

Reported 2018/19 Revenue Outturn

Revenue Outturn	Revised budget - £m	Actual- £m	Diff - £m
Expenditure	549.357	564.137	(14.780)
Income	(555.930)	(560.143)	4.213
Underlying Surplus/(Deficit)	6.573	(3.994)	10.567
Use of Reserves	(6.573)	3.940	
Reported Deficit	0.000	(0.054)	

Source: Aberdeenshire Council Year End Monitoring report 2018/19

41. In 2018/19, Aberdeenshire Integration Joint Board (IJB) reported an outturn position of £3.1m expenditure in excess of budget and, in line with the IJB's Integration Scheme, a formal request was made for additional contributions

from partners, Aberdeenshire Council £1.8m and NHS Grampian £1.3m. In June 2019, the council formally approved this additional contribution from reserves, bringing its General Fund working balance to £8.9m, slightly below its minimum approved balance of £9.0m. **Savings Plans**

42. The council's balanced budget for 2018/19 assumed delivery of savings of £17.2m. In our previous Annual Audit Reports, we commented that the council 'does not specifically report on progress against agreed savings but focuses on the achievement of a balanced bottom line position. Consequently, it is difficult to demonstrate if planned savings were achieved and therefore if plans were robust or if compensating factors produced the required outcome'.
43. In response to our 2017/18 recommendation, the Head of Finance has agreed to include an appendix in future budget monitoring reports which will provide a commentary on progress against planned savings initiatives and include an overall direction of travel assessment. We anticipate this new information being provided to elected members as part of 2019/20 quarter one reporting from September 2019.

Housing revenue account

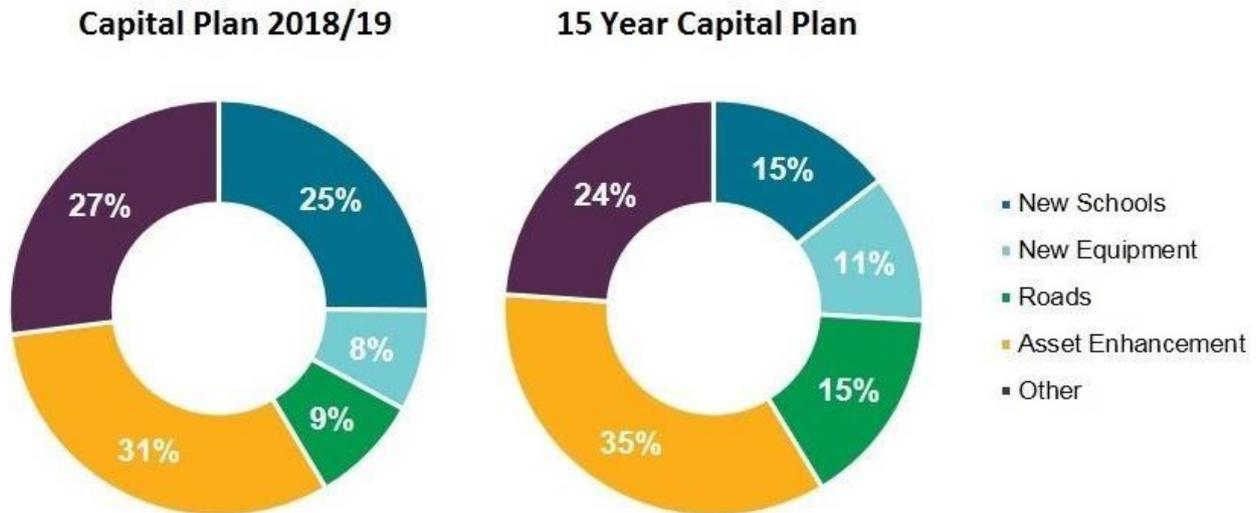
44. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to a level which will at least cover the costs of its social housing provision.
45. Total net HRA income of £15.4m was less than budget by £3.7m, largely as a result of increased costs following the introduction of a specialist in-house team to assist the council in its statutory duty to bring council housing properties up to an Energy Efficient Standard for Social Housing (EESH) by December 2020. This impacted on the level of lost rents as these works were carried out on void properties. The council's policy is to use net income as Capital Funded from Current Revenue (CFCR) but with increased expenditure in the year, additional borrowing was required to support the planned capital programme. Overall, the council maintained its uncommitted HRA working balance of £2.0m.

Capital programme 2018/19

46. In February 2018, the council approved a 15 year General Fund Capital Plan to provide capital investment of £849.7m over the period to 2033. [Exhibit 6](#) provides a summary of the main areas of expenditure in the plan both in total and specifically for 2018/19. This shows that a significant proportion of the council's planned investment is spent in maintaining and enhancing the existing estate.
47. The total general fund capital spend in 2018/19 was £85.0m, £11.6m (12%) below revised budget. The underspend is largely attributable to the current position on payment of the council's share of land compensation claims in respect to the AWPR. This is dependent on the landowners submitting claims for financial settlement of compulsory purchase orders.
48. The HRA capital programme for 2018/19 was also approved in February 2018. The capital outturn was £37.7m which was £3.4m over budget, mainly as a result of progress with Housing Improvement Plan works.

Exhibit 6

Summary of 2018/19 Capital Plan and 15 Year Capital Plan



Source: Aberdeenshire Council Capital Plan, February 2018

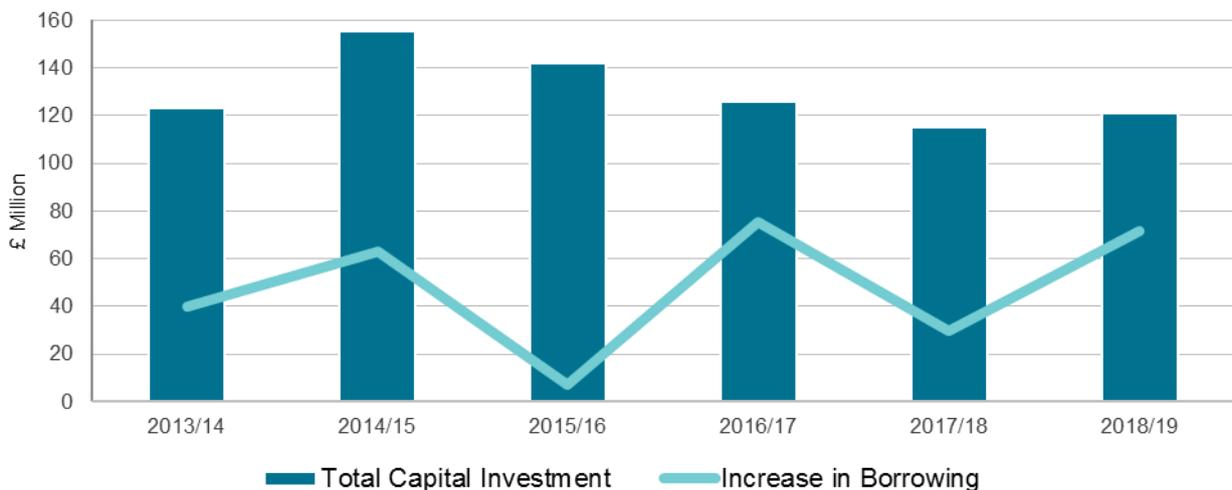
49. Capital monitoring reports currently report annual spend against budget. Due to their long term nature, many capital projects span several financial years and therefore we would recommend there is merit in also reporting whole of life budget and actual costs for significant projects.

Borrowing in 2018/19

50. The council's outstanding loans at 31st March 2019 were £711m, an increase of £71.6m (10%) on the previous year. [Exhibit 7](#) shows that while the council has increased its level of borrowing, it is not wholly dependent on borrowing but draws on a mix of financing streams to deliver its capital programme.

Exhibit 7

Total Capital Investment and Increase in Borrowing 2013/14 – 2017/18



Source: Aberdeenshire Council

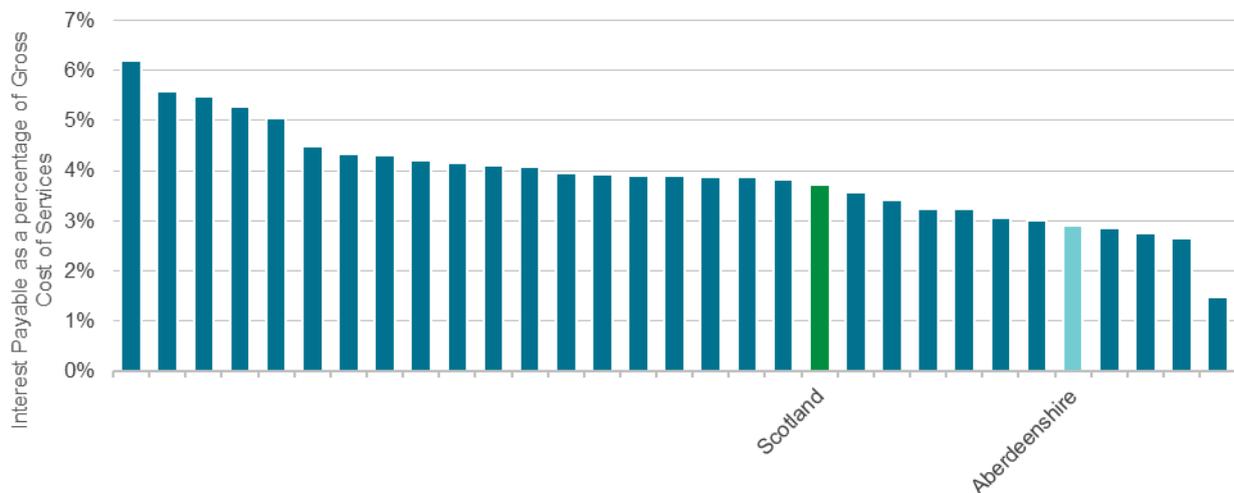
51. In both the 2018/19 Revenue and Capital budgets, the council clearly set out the revenue impact of planned capital expenditure and the associated risks. A Treasury Management Strategy is agreed annually by members and progress

is reported every 6 months. The strategy includes the council's response on long term borrowing in the event of a significant rise in interest rates.

- 52.** Taking the council's total interest payable in the year as a percentage of gross cost of services gives an indication of the relative cost of borrowing. [Exhibit 8](#) shows that Aberdeenshire is below the Scottish average which demonstrates that borrowing costs are being managed. As referred to, the council has increased borrowing in the year in a managed approach but needs to ensure that such additional borrowing is reflected in the capital programme and remains affordable.

Exhibit 8

Scottish councils' interest payable as a proportion of gross cost of services 2018/19



Source: Scottish councils' unaudited accounts 2018/19 (excluding Orkney and Shetland islands councils)

- 53.** During the year, the council identified £11.5m of expenditure in service revenue budgets that was considered to be capital in nature and was subsequently financed by cash and borrowing. The bulk of this total related to roads resurfacing works. We were satisfied this can be regarded as capital expenditure and be included in the asset register. Such spend should also be reflected in the Capital Plan in future years to ensure that the cost of borrowing is clearly identified and deemed affordable prior to committing the expenditure.
- 54.** The council approved the 2019-2034 Capital Plan in February 2019. In addition to setting out a 15 year capital programme, it provides a high level overview of the capital planning process, how decisions on capital financing are developed and how these impact on revenue budgets and the Medium Term Financial Strategy (MTFS). This integrated approach enables the council to take a more strategic approach to financial planning.

Budget monitoring

- 55.** In line with its scheme of governance, scrutiny of Aberdeenshire's overall financial performance is undertaken by the council. While it receives regular revenue and capital monitoring reports, the commentary on significant variances is restricted to only those areas reserved for the council. [Exhibit 9](#) shows that these represent only 6% of the budget while Education and Children's Services have responsibility for 53% and Communities 22%

respectively. Although variances in service budgets are noted, no commentary is reported to council as this is within the remit of the relevant committee.

Exhibit 9

Budget monitoring by committee

Committee	Net Expenditure - £000
Business Services	37,730 (7%)
Communities	123,292 (22%)
Education and Children's Services	292,696 (53%)
Infrastructure Services	65,292 (12%)
Reserved for Full Council	30,340 (6%)

Source: Aberdeenshire Council 2018/19 Year End Budget Monitoring report

- 56.** The year end outturn report was provided to council in June 2019. Year end service outturn information is not available early enough to be considered by committees in the final cycle and consequently, final monitoring for each policy committee was provided as a Bulletin Report. These bulletins have not however been made publicly available
- 57.** The year end monitoring report to council highlighted an overspend of £8.3m in Education and Children's Services whilst Infrastructure Services were under budget by £3.1m. We would suggest these are significant variances and in the absence of formal reporting to policy committees, the inclusion of explanations in the council report would strengthen the year end information reported to elected members and offer an alternative timely opportunity for scrutiny.
- 58.** In addition, no budget monitoring reports were presented to the Infrastructure Committee in respect of quarters 2 and 3 but were made available to elected members as Bulletin Reports. As the committee is responsible for around 12% of the council's total expenditure, we would recommend that alternative arrangements are put in place to enable the committee to meet its responsibilities. Where bulletins are necessary, these should be made publicly available where it is appropriate to do so.

Capacity of Finance Department

- 59.** The Strategic Finance section implemented a significant re-structure in July 2019. [Exhibit 10](#) illustrates the revised structure which includes the introduction of four Business Partners, one for each of the three services and the IJB. These roles require senior finance staff to integrate with the service to ensure a clear understanding of service operations, the challenges faced and an awareness of services strategies. They will help interpret and explain financial information for service managers and help the wider finance team better understand service operations and challenges.

Exhibit 10

Revised Strategic Finance Structure



Source: Aberdeenshire Council

- 60.** In addition, two new teams have been created – Budget and Abstract Reporting. Staff in these teams will work across all services and be responsible for managing budget setting and financial reporting by providing financial planning information and options for services, highlighting the opportunities, options and financial risks. This is a move away from a traditional structure where finance teams were responsible for producing budgets and financial monitoring, to an advisory role supporting services to take responsibility for these areas themselves.
- 61.** The restructure provides an opportunity for the strategic finance function to ensure it has the capacity to develop its technical accounting expertise and be well placed to advise services of the accounting implications of projects when options are being developed. This will enhance the service provided but also ensure that the statutory accounting implications have the same profile as funding option considerations.
- 62.** With partnership projects such as the City Region Deal, non-profit distribution/hub models, the AWPR and the energy from waste facility, to name but a few, the public sector accounting scene is already complex and with the number of these technical projects being taken forward by councils, there is a need for accounting teams to up their game. All this at a time when finance teams elsewhere are being reduced but are still required to react to routine budget saving opportunities and provide financial information in accordance with agreed timetables.
- 63.** We will gain a better understanding of the role and remit of the new team during the 2019/20 audit and monitor progress against the challenges outlined above.

Systems of internal control

- 64.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.
- 65.** Each year, we assess the key financial controls operating in the council's main financial systems and report our findings in an Interim Report to the Audit Committee. In July 2019, with two main exceptions, we reported that internal controls were operating as expected.
- 66.** We highlighted that payment of invoices which are not initiated by an electronic purchase order continued to be an area of audit risk. Additional substantive testing of invoices was carried out during the audit process which provided us with sufficient assurances on the validity of the council's expenditure. We also commented on weaknesses in payroll access controls which are being addressed by management. We were however able to draw sufficient

assurances from the operation of other key controls and the results of our substantive testing on the payroll.

67. Overall, we concluded that the weaknesses identified in the council's internal controls were unlikely to result in a material misstatement in the annual accounts.

Standards of conduct for prevention and detection of fraud and error

68. Public bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption, and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper measures in place. We reviewed the council's arrangements earlier in the year and found a good framework in place, aspects of which had been strengthened in response to our previous recommendations:

- extension of conflict of interest arrangements to the senior leadership team
- annual reporting on lessons learnt from whistle blowing cases.

69. We reported that more could be done to raise awareness of the range of work carried out by the council to minimise the risk of fraud, for example, share information on data breaches, review induction and refresher training for coverage of counter fraud initiatives. In particular, we highlighted the role of the council's corporate integrity group in improving the council's resilience, recommended that its work come within the remit of the audit committee and that it be responsible for the production of an annual counter fraud report covering outcomes achieved and lessons learnt.

70. Also, in response to previous recommendations, the council is currently in the process of introducing a revised counter fraud strategy. It will be considered by the Audit Committee in September 2019 in advance of the council's formal consultation process.

Added value - Data analytics

71. Data analytics is defined by the International Auditing and Assurance Standards Board (IAASB) as "the science and art of discovering and analysing patterns, deviations and inconsistencies.... in the data underlying.... an auditfor the purpose of planning and performing the audit". Such techniques provide ways of dealing with high volumes of transactions and complexity. They also enhance audit quality and efficiency.

72. In 2018/19, we continued to use data analytics as part of our planned audit approach. We obtained and analysed every general ledger transaction processed in 2018/19. As well as providing an improved approach for our sample selection, we were able to review transactions processed in the year to support our assurances with regard to management override of controls.

Part 3

Financial sustainability



Main judgements

Through its medium term financial planning, the council is aware of its future funding shortfalls.

The council used around £6m of reserves, both planned and unplanned, to support the revenue position in the year. As the council already has one of the lowest levels of reserves in Scotland, it cannot depend on reserves indefinitely.

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

Financial planning

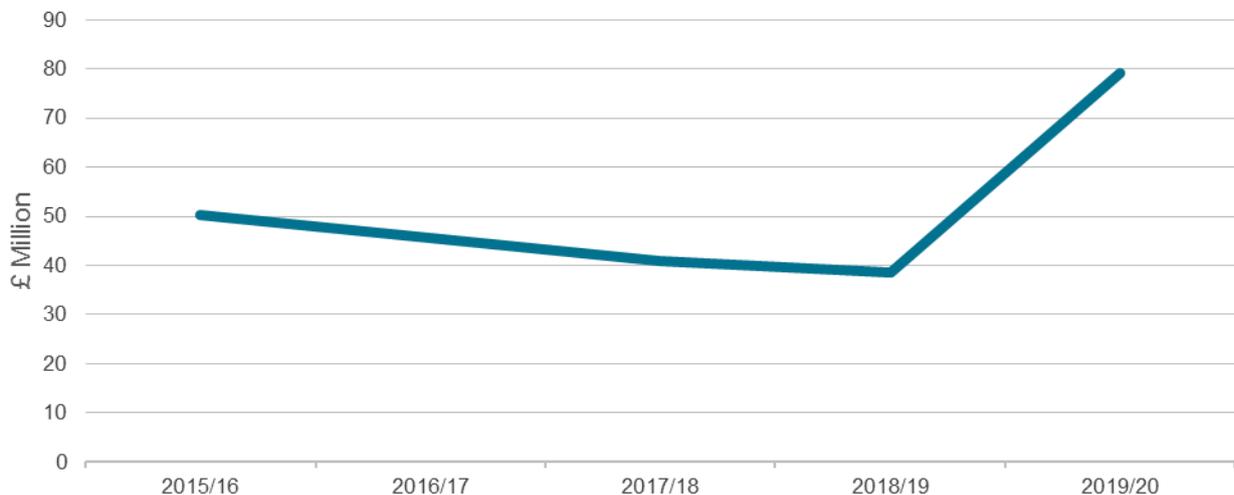
73. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the council's strategies. In addition, budgets should be supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant pressures on the council.
74. The council has developed a Medium Term Financial Strategy (MTFS) to ensure 'a structured approach to financial planning across Services and presents a complete view of the Revenue Budget, Capital Plan and Council Reserves allowing the Council to consider and plan the full financial impact of decisions taken now on next year's budget and an indication of the impact on future years'. The MTFS is best described as an overarching set of principles to be followed in the budget setting process rather than a clearly documented strategy.
75. Budgets are prepared with full involvement of members and consultation with wider stakeholders. Regular meetings were held with elected members during the process, providing opportunities to discuss political priorities to be reflected in budgets and areas for potential savings.
76. The council prepares detailed indicative five year revenue budgets, which are approved along with the annual budget in February each year. This provides a clear indication of the forecast financial position over the period. Future years are based on the best estimate of financial uplifts and funding settlements available. Although budgets do not consider the impact of different scenarios on the assumptions made (for example the impact of pay inflation being greater than expected), they do provide a clear discussion of the risks that impact on these assumptions.

Five Year Funding position

- 77.** The council is facing several challenges in maintaining a sustainable financial position over the medium to long term. These include rising demands for services, increasing cost of services and reductions in local government funding.
- 78.** The 2019/20 revenue budget was approved in February 2019, following stakeholder consultation and detailed discussions with elected members over the preceding months. In developing the budget, the council identified a funding gap of £36.5m to be met from a 3% increase in council tax, estimated to raise an additional £4.0m of income, savings of £30.7m and use of reserves to support the pay award of £1.8m.
- 79.** In Part 2 of the report, we highlighted that from an early point in the financial year, the council were forecasting an overspend for 2018/19. This information was therefore factored into the 2019/20 budget discussions at an early stage.
- 80.** The council's indicative five year budgets for the period April 2019 to March 2024 estimate a total cumulative funding gap of £79.2m by 2023/24. This is more than double the forecast position in 2018/19 of £38.6m. [Exhibit 11](#) shows that this significant increase comes after a period when the council was able to reduce its forecast five year deficit.

Exhibit 11

Forecast cumulative five year funding gaps 2015/16 – 2019/20



Source: Aberdeenshire Council Revenue Budgets 2015/16 - 2019/20

- 81.** The indicative five year budget is based on officers' assumptions of the likely key risks including:
- grant settlement – a one year only settlement being received from the Scottish Government
 - pay provision – a yearly 3% increase has been budgeted for, however pay negotiations in light of the removal of the public sector pay cap have not been finalised

- demographic changes – Aberdeenshire continues to show a general rise in population which impacts on care services for the elderly, increasing pupil numbers and early years' provision.

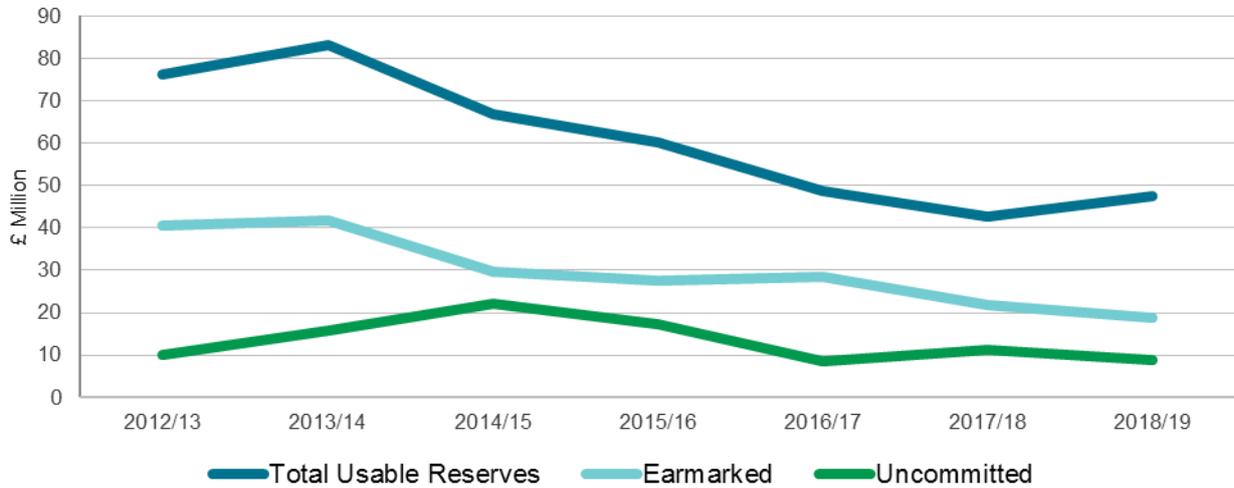
- 82.** The Budget report for 2019/20 states that *'additional savings identified within the MTFS process for future years have not yet been applied to these years' budgets leaving them currently out of balance*. This suggests that the council has identified some savings but it is not clear what level of savings the council still has to identify. Any programme of savings can take a number of years to come to fruition and therefore the council needs to begin to take clear decisions on how it intends to close the forecast funding gap.
- 83.** The council has committed to further detailed work on future years' budgets to re-examine assumptions and priorities. This will continue to be part of the MTFS discussions in preparation for the draft 2020/21 budget proposals expected to be reported to the council in the autumn.

Reserves

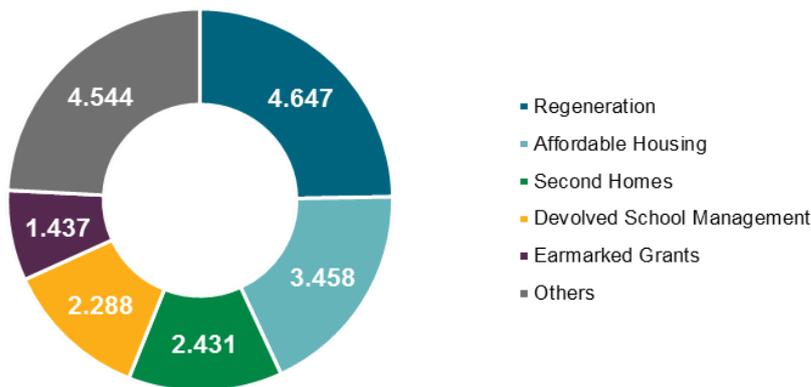
- 84.** One of the key measures of the financial health of a local authority is the level of reserves held. The level of usable reserves held by the council increased by £4.7m from £42.8m in 2017/18 to £47.5m in 2018/19 as illustrated in [Exhibit 12](#). In the period since 2012/13, total usable reserves have fallen by £26.9m or 35.3%. Whilst this reflects planned use of both revenue and capital reserves, it also includes the unplanned use of balances to support revenue budget overspends.
- 85.** As in the previous year, the council used reserves to provide additional funding to the IJB beyond the amount agreed as part of the budget setting process.
- 86.** In spite of rising demand and costs, the IJB has managed to contain its level of overspend each year at a similar level. It has also increased capacity in the system to the benefit of all partners. For example, the Virtual Community Ward continues to be a flagship initiative for the IJB. Over 2,000 people have now been supported at home across Aberdeenshire who would previously have required admission to hospital.
- 87.** That said, the council used reserves to provide additional partner funding to the IJB beyond the amount agreed as part of the budget setting process. This was also the case in 2017/18 but this action cannot continue indefinitely. Partners need to continue to work together to find solutions. The IJB has acknowledged the need to develop a five year financial strategy and partners need to be involved to ensure that workforce plans are integrated with finance and planned over the longer term.
- 88.** The council reviews the level of its uncommitted reserves when setting the budget each year and in February 2019 agreed a minimum Working Balance of £9.0m to be held as a contingency fund to meet unexpected expenditure. The level of earmarked reserves has decreased in the year by £3.0m (13.8%) to £18.8m. This reflects both the use and release of earmarked balances in the year
- 89.** [Exhibit 13](#) presents the council's 2018/19 usable reserves position in relation to the gross cost of services in comparison to other Scottish councils for 2018/19. This shows that the council has low levels of reserves in comparison to other Scottish councils. There is no prescribed minimal level of usable reserves. In setting a policy, councils take relevant risks into consideration but typically, minimum uncommitted General Fund balances are 2 to 4% of net revenue budget. Currently the council's level of uncommitted reserves sits at 2%, at the lower end of this scale.

Exhibit 12

Total Usable Reserves, General Fund Earmarked and Uncommitted balances



Earmarked balances 31 March 2018 - £ Million

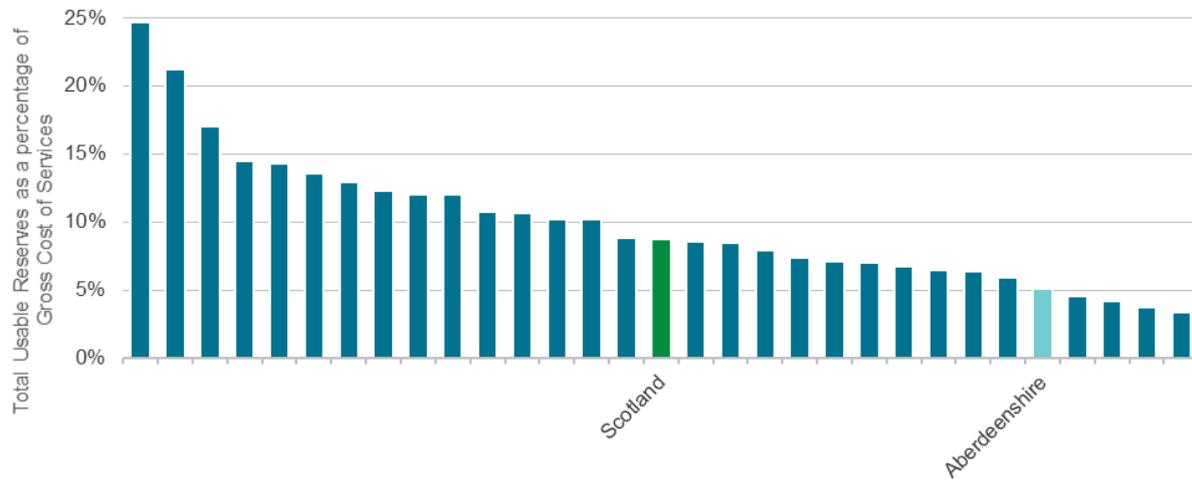


Source:

Aberdeenshire Council

Exhibit 13

Total Usable Reserves as a proportion of Gross Cost of Services 2018/19



Part 4

Governance and transparency



Main Judgements

The audit committee should assess its effectiveness following an increase in committee business and changes in membership.

The governance self-evaluation activity has resulted in a comprehensive action plan for improvement.

The council demonstrates a commitment to transparency in the way it conducts its business.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

Audit Committee

95. The role and impact of the Audit Committee has continued to develop during the year. There has been an increased number of training opportunities and workshops to support the committee in conducting its business and a wider breadth of activities in line with the scope of its remit is now routinely coming forward.

96. We would highlight the following observations from our work during the year:

- Audit Committee members were involved in the 'how good is our council' self-evaluation workshops. This resulted in a detailed report and action plan intended to support the committee's consideration of the annual governance statement
- in order to maximise attendance, short specific topic workshops have been provided following committee business e.g. risk management, managing the payroll
- as a means of increasing the impact of the committee, we recommended a review of its handling of outstanding internal audit recommendations. In our view significant time is absorbed monitoring the number and age of outstanding recommendations. As an alternative, we have suggested the committee consider the risks associated with the outstanding recommendations and whether they could be managed differently with a view to strengthening governance overall, and addressing the number of recommendations left in abeyance for a long time e.g. the existence of alternative controls, include the matter on the risk register, seek a report from the relevant service.



Recommendation1

An effectiveness review should be undertaken to review the operation of the audit committee against its remit within the scheme of governance but also to consider how well the committee and officers work together.

97. Good practice would support an annual review of effectiveness of an audit committee and in our view, the timing is right to reflect on the recent changes in the business and membership of the committee, to consider if it has the right impact, provides the right assurance and is operating as intended by the scheme of governance.

Roles and responsibilities of Members and Officers

98. The council's recent self-evaluation activity around governance is outlined in Part One of the report. It involved elected members and officers and reported on a range of areas including strategic direction and leadership. For example, participants raised questions about the transparency between decision making and council priorities and the level of support and information provided to elected members, particularly in relation to budget planning and setting, but also more generally.

99. In response to the issues raised, an improvement plan will be considered in the first instance by the Audit Committee as the body charged with governance. While the committee has ownership of the plan from a governance perspective, it is important that all members have the opportunity to consider and influence the action plan and be satisfied that it addresses key concerns raised.

100. Elsewhere in this report, we comment on the following matters considered during the audit which we regard as relevant to the strategic leadership issues raised through the self-evaluation:

- significant time taken to implement a framework to assess progress against council priorities. Reflections from this process could usefully be fed into the development of the action plan and lessons learnt applied in other areas of council business identified by the self-evaluation
- council's rising cumulative funding gap which is estimated to double by 2023/24 when it is expected to be £78m. Managing this funding gap will be a significant challenge and will require increased direction from elected members on the allocation of funding to priorities
- level of scrutiny undertaken by committees and whether this adequately supports continuous improvement.

101. We would suggest that, where appropriate, the proposed actions reflect the different roles and needs of elected members and officers within the governance framework. In that regard, reference should be made to the council's useful guide and refresher to councillors which sets out the different roles and responsibilities. An extract is included in [Exhibit 14](#).

Exhibit 14

Roles and responsibilities of Members and Officers

Members:

- Make policy
- Formulate and monitor strategies and budgets
- Take executive decisions
- Check on the effectiveness of the Council in delivering services

Officers:

- Have responsibility for the day- to-day running of Council services
- Give professional advice to allow Councillors to make informed decision on the provision of services
- Implement policies which committees have agreed on

Source: 'A Guide to the Role and Duties of an Aberdeenshire Councillor', Aberdeenshire Council April 2012

Internal audit

102. The council's internal audit function is carried out by an in-house team. We reviewed the council's internal audit arrangements in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) and confirmed that where appropriate we could rely on the work of internal audit.

103. Public Sector Internal Audit Standards (PSIAS) requires an external assessment of the internal audit function to be carried out at least once every five years. Such an assessment was carried out in 2018 and considered by the Audit Committee in September 2018. The overall conclusion was that the council's internal audit section generally conforms with the requirements of PSIAS. The chief internal auditor provided an update on the agreed action plan in spring 2019.

National Fraud Initiative

104. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

105. The NFI exercise takes place every 2 years. The current exercise commenced in autumn 2018. We considered the council's overall arrangements for planning and progress with the 2018/19 NFI exercise to be mixed. The council needs to do more to raise awareness and bring NFI into its wider counter fraud arrangements. We found that the council was slow to submit some datasets and start reviewing matches. We will continue to monitor and report on the council's overall approach to responding to NFI matches.

106. One of the NFI match reports compares the council's payroll records with Companies House data. We examined these matches as part of our consideration of the completeness of related party transactions to identify if there were any instances where senior officers were also listed as Directors of third-party organisations which may give rise to conflict. No issues were noted from our review.

Openness and transparency

- 107.** There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. There are increasing public expectations for more openness and transparency as citizens want to understand how public money is used and to support their participation in local service design and delivery.
- 108.** A transparent organisation shows the basis for its decisions and shares information about performance and outcomes, including when targets have and have not been achieved, as well as how it is using its resources such as money, people and assets.
- 109.** Elsewhere in the report we have commented on areas for improvement such as the need for the council to have the right mix of challenge and debate in public sessions, to consider how other information such as information bulletins are put in the public domain, to ensure performance reporting is more balanced and financial reporting provides a more rounded commentary.
- 110.** The Audit Committee considers summary reports from internal audit as a matter of routine. During the year we raised concerns about the increasing number of questions raised by the committee based on detailed internal audit reports which do not form part of the public agendas. The committee are currently considering the level of detail required and whether detailed reports can be considered on an ad hoc basis depending on the outcome of audits.
- 111.** In general, however, we concluded that the council demonstrates a commitment to conducting business in an open and transparent manner, for example:
- members of the public can attend full council and committee meetings and/or access most of these meetings via a live webcast, with the library of previous webcasts available to view for a period of six months
 - minutes and agenda papers are readily available on the council's website with a minimum amount of business held in private
 - the public has access to a wide range of information on the council's website including the register of members' interests, current consultations and surveys e.g. community planning arrangements, preparation of the revenue budget etc, and the council's complaints process.



Recommendation2

To consider the information which the council routinely puts in the public domain outwith the formal committee process (i.e. beyond its current annual reporting activities) and to determine what more can be effectively achieved to strengthen transparency and openness arrangements.

- 112.** While a range of performance information is provided via the website, this is largely corporate based information. Services could do more to share their good practices and improvement activity where such information is at an appropriate stage to put in the public domain.
- 113.** We comment further on the council's performance management and reporting in Section 5.

Part 5

Value for money



Main judgements

The council has been slow to implement a performance framework to measure progress in delivering Council Priorities.

The council needs to do more to demonstrate that it is using scrutiny and performance information to assess impact and drive continuous improvement.

Performance against Local Government Benchmarking Framework indicators is mixed, with similar levels above and below and improving or declining compared to the Scottish average.

Value for money is concerned with using resources effectively and continually improving services.

Best value

114. Best value is assessed over the five-year audit appointment as part of the annual audit work. A Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five-year period. The BVAR report for Aberdeenshire Council is planned for 2020.

115. The best value audit work carried out this year focused on the council's arrangements to support performance, outcomes and improvement. In reaching our conclusions, we considered the following lines of enquiry:

- What progress is the council making in improving local outcomes?
- How well are council services performing?
- How strong is the council's focus on its customers/stakeholders?
- Is there a culture of challenge and scrutiny to support improvement?
- How effective is performance management?
- How effective is public performance reporting?

What progress is the council making in improving local outcomes?

116. Following the local election in May 2017, and the establishment of a new administration, a new Council Plan 2017- 2022 containing 11 priorities was unanimously agreed by elected members in November 2017.

117. In spring 2018, initial delivery plans were considered by policy committees. It had been agreed that directorates would take lead responsibility for the council priorities allocated to them. The delivery plans were intended to set out

proposed actions and measures of success in respect of each council priority but these first iterations were at different stages of completion.

118. In our 2017/18 Annual Audit Report we commented that *'more work was required to ensure plans contain clear actions and timescales in respect of council priorities and that they provide a framework for prioritising the allocation and use of resources i.e. finance, workforce and assets'*.

119. Each committee held a workshop in August 2018, to identify expected outcomes and performance indicators (outcome indicators) to demonstrate progress against agreed priorities. It was not until March 2019 however, that Delivery Plans, Outcomes and Outcome Indicators were finally agreed by all policy committees. This led the way for committees to receive the first suite of performance reports against council priorities over the period June to September 2019. [Exhibit 15](#) provides a more detailed timeline.

Exhibit 15

Timeline of development of performance indicators for Council Priorities 2017-22

Date	Details
May 2017	New Council elected.
November 2017	Council priorities 2017-2022 agreed.
April/May 2018	Delivery plans with expected outcomes for each priority agreed by policy committees.
August 2018	Committee workshops held.
March 2019	Agreement of delivery plans, outcomes and outcome indicators by each policy committee.
June/August 2019	First performance reports, covering the full year 2018/19, presented to policy committees.

Source: Audit Scotland

120. In respect of Business Services and Infrastructure Services, we found the reports took the format of a short summary report with a more detailed appendix. These were narrative in nature, with little reporting of outcome indicators. Both reports focused instead on providing a descriptive update against each individual action contained in the Delivery Plan. It was therefore difficult to assess performance against intended outcomes.

121. In contrast, the information considered by Education and Children's Services, was closely linked to the previously agreed outcome indicators and

provided a good overview of performance. The report was concise with further detail available to elected members via Councillor Ward Pages (intranet).



Recommendation 3

Develop medium term resource plans demonstrating integrated financial and workforce capacity to provide a framework for prioritising the allocation and use of resources to deliver agreed council priorities.

122. With the passage of 18 months from the approval of priorities to the agreement of delivery plans, the council has been slow to implement a performance framework to monitor progress in delivering its priorities. Now that a process is in place, work should continue to ensure there is consistency in approach and content to enable elected members to review and challenge progress against agreed council priorities.

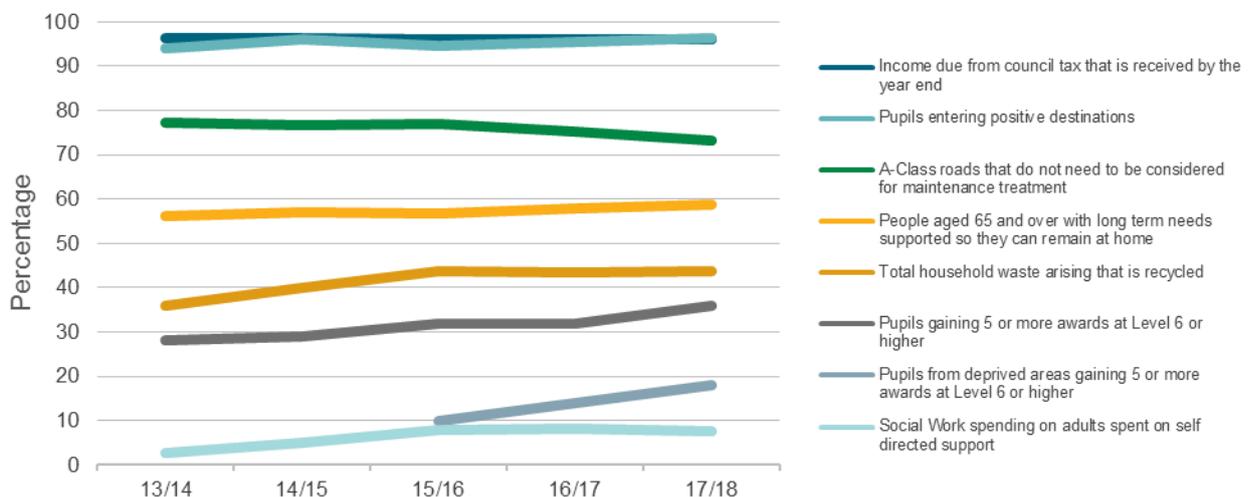
How well are council services performing?

123. The council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

124. Based on a number of measures that we believe give an indication of council performance in key service areas, we found that the council has maintained or improved performance over the last five years as illustrated in [Exhibit 16](#). However, when comparing performance in 2017/18 over 53 separate indicators against the Scottish average at [Exhibit 17](#), the council's performance is mixed, 24 (45%) indicators are better than the Scottish average while 20 (38%) are below average. Of the 20 indicators which are worse than average, 11 of these are declining or staying at a similar level.

Exhibit 16

Aberdeenshire Council's performance against selected indicators 2013/14 to 2017/18



Source: LGBF

Statutory performance indicators (SPIs)

125. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. 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.

126. For 2018/19 two SPIs were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving best value
- SPI 2: relates to the reporting of performance information as required by the [Local Government Benchmarking Framework](#).

Exhibit 17

Aberdeenshire Council's performance compared to Scottish average 2017/18 and direction of travel 2016/17 to 2017/18

Compared to the Scottish average		Total	Improving	Stable	Declining
Better than average	↑	24 (45%)	7 (13%)	11 (21%)	6 (11%)
Similar to average	↔	9 (17%)	3 (6%)	5 (9%)	1 (2%)
Worse than average	↓	20 (38%)	9 (17%)	4 (8%)	7 (13%)
Total		53 indicators	19 (36%)	20 (38%)	14 (26%)

Source: Analysis of 53 non-financial LGBF indicators

127. Overall, we concluded that the council's arrangements for publication are satisfactory. For 2018/19, the council has produced a total of 75 indicators covering SPI's 1 and 2. A summary of the council's performance results compared with 2017/18 and 2016/17 is set out in [Exhibit 18](#) and overall, shows a deteriorating position for the year. Further analysis shows that a total of 8 indicators have improved over each of the last 3 years, with 5 showing a deterioration in each of the last 3 years.

128. The following examples were taken from the 18 indicators where performance improved during the year:

- percentage of invoices sampled that were paid within 30 days – 92.8% (91.8% in 2017/18)
- percentage of children/young people engaged with throughcare and aftercare service who were in training, education or employment – 61.9% (53.4% in 2017/18)
- percentage of school leavers securing a positive post school destination – 96.3% (95.5% in 2017/18)

129. Among the 30 indicators showing a deterioration in performance compared with the previous year were the following:

- sickness absence days per employee – 10.14 days (9.43 days in 2017/18)

- the difference in average tariff score of all S4 in the Scottish Index of Multiple Deprivation Quintile 5 and Quintile 1 – 123 (89 in 2017/18)
- average housing re-let time in days – 54.8 days (47.9 days in 2017/18).

Exhibit 18

Direction of Performance 2016/17 - 2017/18



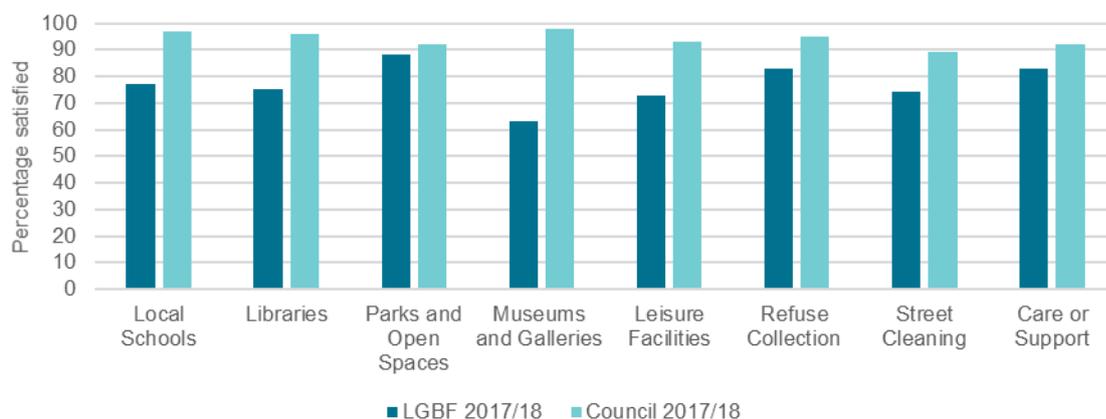
Source: Audit analysis of council's SPIs

How strong is the council's focus on customers/stakeholders?

130. The council have commissioned an independent research company to provide information on users' satisfaction with a range of council services. The council publishes a monthly 'reputation tracker' using this information. The annual data for 2018/19 shows very high levels of satisfaction, with over 90% satisfied with 6/11 indicators (including Schools and Libraries) and only one indicator showing satisfaction levels below 50% (Roads Maintenance). We compared LGBF data on satisfaction levels with the council's 2017/18 'reputation tracker' where there are comparable indicators. As shown in [Exhibit 19](#), tracker data is fairly consistent but there are some significant differences between the two sets of figures which may merit further investigation.

Exhibit 19

LGBF and Council satisfaction indicators 2017/18



Source: LGBF and Aberdeenshire Council Reputation Tracker

Is there a culture of challenge and scrutiny to support improvement?

- 131.** Elected members have a range of opportunities in which to gain a better understanding of a particular issue e.g. member briefings, workshops, informal sessions etc. While this creates a risk that challenge and scrutiny is being undertaken behind the scenes, it is to be balanced with the increased openness which comes with informal discussion. Our observations are that there is an appetite from elected members to be briefed on complex issues and to have a better understanding of particular areas.
- 132.** In our previous annual report, we commented on the limited use made of the council's three stage committee referral process which had been implemented as part of the revised scheme of governance in 2017. This was a planned change in approach to involve all councillors in scrutiny by including a referral process to initiate review and investigation within the remit of all policy committees and the audit committee.
- 133.** Another year on, there continues to be limited use made of the referral process. With a number of informal mechanisms in place, these channels are perhaps deemed sufficient. We would however suggest that there are potential risks for committees in demonstrating how they fulfil their scrutiny responsibilities alongside their policy remit. The scheme of governance requires an annual report setting out how they have responded to scrutiny during the year. We are not aware that such reports have been prepared. In our view, there is scope to revisit what was intended by the revised scheme of governance and consider how the council demonstrates its scrutiny function.



Recommendation 4

Reflect on the intention of the scrutiny arrangements implemented by the scheme of governance, consider the adequacy of the scrutiny function and whether it can be demonstrated that it helps drive improvements.

How effective is performance management?

- 134.** The *Local Government in Scotland: Challenges and Performance 2019* (March 2019) highlighted that Councils should use the LGBF and other benchmarking tools to understand where councils with similar circumstances are performing better or spending less to provide the same service. There could be several reasons but it provides an opportunity to share learning and experiences to improve services.
- 135.** Performance reports presented to committees concentrate solely on performance against the council's own targets and the direction of travel towards these. There is little evidence to suggest that the council regularly compares itself against national averages or the LGBF family groups.
- 136.** In summer 2019, services commenced a six monthly programme of providing area committees with a performance session.
- 137.** The council routinely uses the 'how good is our council' self-evaluation framework. Action plans arising from this activity, other action plans, complaints and performance information are tracked through the council's performance monitoring system known as Pentana.
- 138.** SLT considers performance information on a six monthly basis and service management teams review aspects of performance at their regular meetings.
- 139.** Overall, the council collates data and has mechanisms in place to track progress. What is less clear is how that information is used to draw together lessons learnt, to identify gaps, to demonstrate that actions are being implemented and that scrutiny activity (formal or informal) is making an impact and driving improvement.

How effective is public performance reporting?

- 140.** It is important that councils clearly report their performance to local citizens and the community. Recent BVAR reports to other councils have highlighted a number of areas of good practice which councils should include in their performance reports to the public:
- clearly stating how performance and spend are linked to the council's priorities
 - local indicators which demonstrate quality of service
 - public satisfaction levels
 - an overall assessment of the council's performance against outcomes
 - how the council plans to address areas of underperformance and drive improvement.
- 141.** Whilst there is a Performance section on the council's website, some of the information contained there requires to be updated. The council also publishes an annual report in September each year and in 2017/18, it also produced the annual performance report as a video.
- 142.** From our review of the 2017/18 report, public satisfaction levels and an overall assessment of performance against outcomes was included. However, whilst there is a section 'managing our finances', this does not provide a clear link to the priorities. There is a summarised performance scorecard, showing that for all four priorities the associated indicators are 'on target' and 'improving'.

There is however no discussion of those indicators which are not performing as expected and what the council plans to do to address this.

143. Overall, the council could do more to ensure that its public performance reporting is balanced and provides clear progress against priorities.

Culture and Sport Business Unit

144. Following a council decision in January 2018 not to progress with the development of a Culture and Sports Charitable Trust (ALEO), it agreed to develop a Culture and Sport Business Unit, with the objective of creating a bespoke operating environment for the culture and sport services, designed to best enable them to contribute to the council's priorities.

145. The business unit has been branded 'Live Life Aberdeenshire' and was launched in January 2019. It will initially run for a one-year pilot period to facilitate initial learning and allow further consideration of the most effective delivery model. At the end of the year options will include reverting to the status quo, continuing the pilot or exploring further development.

146. A set of five outcomes and nine performance indicators were agreed by the Communities Committee in December 2018 as the assessment criteria for the pilot period. Progress reports were to be presented to the Communities Committee after 3, 6 and 9 months, with a 12 month review to be prepared for the full council. A progress report was presented to the Communities Committee in June 2019. This focussed on a number of key development areas including the launch of Live Life Aberdeenshire, governance

arrangements and supporting staff. However, at this stage, the report did not specifically cover the agreed outcomes and indicators.

147. A Culture and Sport Sub-committee was established by the council in April 2018 to promote and oversee delivery of culture and sport facilities and services across Aberdeenshire through Live Life Aberdeenshire. The committee consists of eight members including four external appointees. The sub-committee first met in February 2019, initially on a monthly basis.

148. A performance report was presented to the sub-committee in May 2019 covering five key areas - participation, targeted participation, membership, satisfaction and volunteer hours. Whilst there is evidence of improving performance in quarter four in terms of usage and membership rates, it may be too early to ascribe this to the Business Unit. The report does however provide good baseline data from which to judge performance in future. We will continue to monitor the development of the Business Unit. **Integration of health and social care**

149. The Scottish Government's 2020 vision places greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends and doing the things that give life meaning and value. The integration of health and social care is a mechanism to achieve this.

150. The Aberdeenshire Integration Joint Board (IJB) is provided in partnership with NHS Grampian and became fully operational on 1 April 2016. During the year, the role of Chief Finance Officer at the IJB transferred from the Head of Finance at the council to the Assistant Director of Finance at NHS Grampian. This change had no impact on the overall governance of the IJB.

151. Following the retirement of the Chief Social Work Officer in July 2018, the council agreed to appoint the IJB's Partnership Manager, who is employed by

NHS Grampian, to provide the statutory requirements of the role of Chief Social Work Officer. This is in addition to the postholder's substantive IJB role.

- 152.** The IJB's Annual Performance Report was approved by the IJB board and published in July 2019. While the IJB reported scores at or above the Scottish average in 16 out of 19 national indicators, half the indicators are updated biennially (in this case 2017/18) and the rest annually. Of the 10 indicators which are updated annually, there has been a marginal decline in the performance of 6 indicators when compared with the previous year. Overall however, the IJB remains above the Scottish average in most cases.

National performance audit reports

- 153.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19, Audit Scotland published a number of reports which are of direct interest to the council. These are set out below:
- [*Local government in Scotland: Challenges and performance 2018*](#) – April 2018
 - [*Councils' use of arm's-length organisations*](#) – May 2018
 - [*Health and social care integration: update on progress*](#) – November 2018
 - [*Local government in Scotland: Financial overview 2017/18*](#) – November 2018
 - [*Local government in Scotland: Challenges and performance 2019*](#) – March 2018
- 154.** As a matter of routine all relevant reports are considered by the Audit Committee which includes an update on the council's progress in these areas.

Appendix 1

Action plan 2018/19



Agreed

Recommendation action/timing



management No. Issue/risk

1	<p>The timing is right to reflect on recent changes in the business and membership of the audit committee, to consider if it has the right impact, provides the right assurance and is operating as intended by the scheme of governance.</p> <p>Risk: the committee is ineffective and does not provide the internal control function expected from a body charged with governance.</p>	<p>An effectiveness review should be undertaken to review the operation of the audit committee against its remit within the scheme of governance but also to consider how well the committee and officers work together.</p>	<p>The review will be scoped in consultation with the Audit Committee and taken forward through a series of workshops.</p> <p>Director of Business Services</p> <p>April 2020</p>
2	<p>While we have concluded that the council operates in the spirit of openness and transparency, we have identified areas for improvement e.g. to ensure there is the right mix of challenge and debate in public, to place routine information such as information bulletins in the public domain, to ensure public performance reporting is more balanced and that financial reporting provides a more rounded commentary for general consumption.</p> <p>Risk: limited public access to information which supports the decision making process. The process is not open and transparent.</p>	<p>To consider the information which the council routinely puts in the public domain outwith the formal committee process (i.e. beyond its current annual reporting activities) and to determine what more can be effectively achieved to strengthen transparency and openness arrangements.</p>	<p>A review of existing practices will be carried out and an improvement action plan agreed.</p> <p>Director of Business Services</p> <p>March 2020</p>

3	<p>The council has been slow to implement a performance framework to measure progress in delivering Council Priorities.</p> <p>Risk: the council is unable to achieve the improvement expected when priorities were agreed.</p>	<p>Develop medium term resource plans demonstrating integrated financial and workforce capacity to provide a framework for prioritising the allocation and use of resources to deliver agreed council priorities.</p>	<p>To be developed as part of the 2020/21 budget preparations.</p> <p>Director of Business Services</p> <p>February 2020</p>
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No. Issue/risk



Recommendation



Agreed management action/timing

4	<p>While there have been recent workshops to discuss scrutiny and how it operates in practice, it remains unclear how committees demonstrate their scrutiny responsibilities</p> <p>Risk: the level of scrutiny undertaken by committees is not sufficient making it difficult to demonstrate whether it adequately supports continuous improvement.</p>	<p>Reflect on the intention of the scrutiny arrangements implemented by the scheme of governance, consider the adequacy of the scrutiny function and whether it can be demonstrated that it helps drive improvement.</p>	<p>To review practices across committees, consider the scheme of governance and issue revised guidance as appropriate.</p> <p>Director of Business Services</p> <p>March 2020</p>
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Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The identified risks were all categorised as risks of material misstatement in the annual accounts.

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p> <p>This risk also applies to the charities. Similar planned work will be carried out.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> Audit work concluded satisfactorily in respect of journals, estimates and significant transactions. No fraud concerns identified from our work in respect of management override of controls.

2 Risk of fraud over income and expenditure

The council receives a significant amount of income in addition to Scottish Government funding.

The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud. Potential areas of concern include council tax, business rates, social care income and

sundry debtors.

The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. The council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.

Risk of fraud over expenditure also applies to the charities. Similar planned work will be carried out.

Schemes of delegation in place

- No history of significant fraud
- Corporate fraud policy in place
- Appropriate processes for the authorisation, separation of duties and workflow associated with income and expenditure
- Compliance with procurement regulations
- Budgetary control arrangements and regular financial monitoring by management and scrutiny by members through cycle of committee reporting
- Regular review of financial systems and internal controls by internal audit

Audit work completed satisfactorily. Other than the increased risk reported in respect of weaknesses in payment authority levels, no major matters identified.

Audit risk	Assurance procedure	Results and conclusions
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, pensions and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> • Use of clearly defined methodologies and procedures including experts, as appropriate, when making significant estimations and judgements • Management review by qualified finance staff. 	<ul style="list-style-type: none"> • Audit work concluded satisfactorily.

<p>4 Manual authorisation of invoices for payment</p>	<p>Budgetary control arrangements.</p>	<p>• Commentary included in Section 2 (internal controls) of Annual Audit Report</p>
<p>In both 2016/17 and 2017/18 we identified payment of invoices which are not initiated by an electronic purchase order as an area of audit risk because officers were approving invoices which exceed their approved authorisation limits.</p>		
<p>While the council have been considering the implementation of a workflow type system on Oracle payments, no additional measures have yet been put in place to minimise this risk</p>		
<p>Such weaknesses in invoice authorisation increase the risk of fraud.</p>		
<p>5 Integration Joint Board</p>	<p>• The financial ledger coding structure identifies all IJB transactions</p> <p>• Regular monitoring of financial information</p> <p>• Treatment of over- and underspends set out in the Integration Scheme</p> <p>• Council, NHS Grampian and IJB finance staff are liaising to identify options to resolve financial challenges being experienced</p> <p>• Subject to the above, early agreement of balances between council and IJB.</p>	<p>Commentary included in Section 3 (Reserves) of Annual Audit Report in relation to additional contributions approved by partners. Otherwise audit work completed satisfactorily.</p>
<p>Aberdeenshire Health and Social Care Integration Joint Board (IJB) is responsible for commissioning adult social care while the council is responsible for delivering services. A shortfall of approximately £4m is anticipated in</p>		
<p>respect of 2017/18. In accounting terms, the IJB is a joint venture between the council and NHS Grampian and consequently, a share requires to be included in</p>		
<p>each partner's group accounts. There are risks that:</p>		
<p>• the council does not have proper arrangements in place to ensure the completeness and correct classification of IJB related transactions</p>		
<p>• balances between the council and the IJB are not agreed in sufficient time for</p>		

Appendix 2 Significant audit risks identified during planning

Audit risk	Assurance procedure	Results and conclusions
<p>preparation of the financial statements</p> <p>• budget overspends will directly impact on the council's budget and due to the demand led nature of a number of the budgets concerned, there is a risk of unexpected (i.e. unplanned) overspends.</p>		

Appendix 3

Summary of uncorrected misstatements

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

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as set out in [Exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements.

Account areas	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000	Cr £000	Dr £000	Cr £000
1 Dr Revenue Grant Receipts in Advance Cr Income Income received in 2017/18, not included in correct year.		1,676	1,676	
2 Dr Cost of Services Cr Property, Plant & Equipment Removal of duplicate assets	580			580
Net impact		1,096	1,096	

Aberdeenshire Council

2018/19 Annual Audit Report

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