Aberdeenshire Council

2019/20 Annual Audit Report

AUDIT SCOTLAND

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

29 October 2020

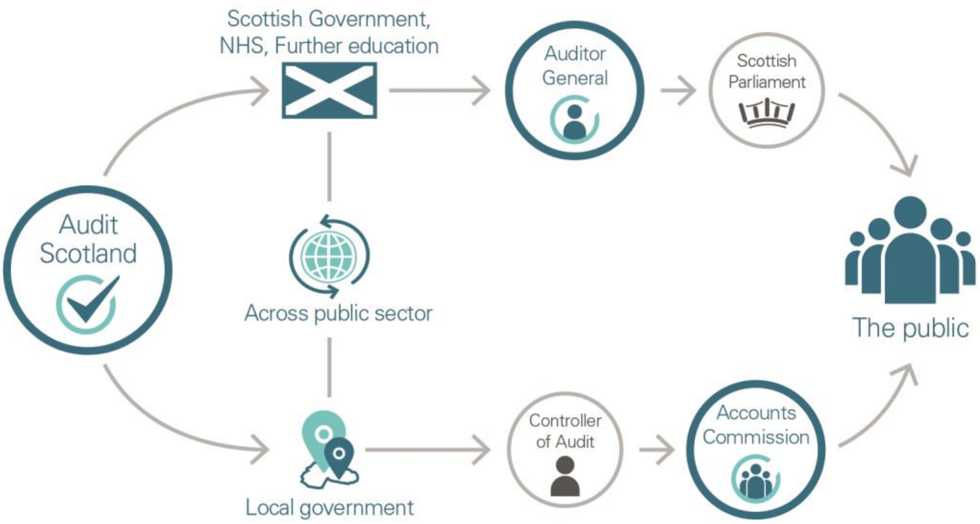
Who we are

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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2019/20 annual accounts

1 Our opinions on Aberdeenshire Council's annual accounts, including its group accounts, are unmodified. However, the independent auditor's report includes an 'Emphasis of Matter' paragraph highlighting the impact of market uncertainty due to Covid-19 on the council's valuation of land and buildings.

2 The statement of accounts for the five section 106 charities administered by the council are free from material misstatement. Further action is however required to increase the level of annual expenditure by the charities as they may be currently failing to deliver their charitable aims.

3 Significant changes were made to the Management Commentary during the audit to ensure compliance with guidance.

4 Preparation of the council's annual accounts was not delayed by the impact of Covid-19 but the audit was concluded one month later than normal.

Financial management

5 Financial management is effective, enabling the council to take appropriate action to manage resources at the corporate level. Budget monitoring reports should however contain more service analysis to support wider scrutiny by elected members. This applies to all committees but should commence with Education and Children's Services.

6 The council manages a medium term financial plan, a 15-year, £880m capital plan and a reserves policy, including earmarked balances, which allows a more strategic approach to financial planning and decision making.

Financial sustainability

7 The council's pre-Covid general fund revenue budget for 2020/21 is £606m and includes a savings requirement of £9m. Largely through planned use, usable reserves have reduced by 30% over the last five years.

8 The council regularly reviews its Medium Term Financial Strategy including the use of earmarked balances. The next review, to be reported in November 2020, will reflect an updated position on the impact of Covid-19. An initial financial assessment identified a potential Covid impact of £30m in 2020/21.

Governance and transparency

9 There are appropriate governance arrangements in place and the council is open and transparent in the way it conducts its business.

10 Covid-19 did not have a significant impact on governance arrangements and business has continued to operate largely as normal.

11 The development of the Adaptive Services Board and the member led Recovery Reference Group provide a sound framework to support the council's Recovery Strategy.

Best Value

12 **The Best Value review found that the pace of change has been slow in some key aspects of best value since the last report in 2013.**

13 **Over 50% of statutory performance indicators reported in the year showed improvement or remained comparable with the previous year.**

Introduction

1. This report summarises the findings from the 2019/20 audit of Aberdeenshire Council (the council) and its group. The scope of the audit was set out in our Annual Audit Plan which was presented to the Audit Committee in May 2020. This report comprises the findings from our:

- audit of the annual accounts
- consideration of the wider dimensions that frame the scope of public audit as set out in the *Code of Audit Practice 2016* and illustrated in Exhibit 1.

Exhibit 1
Audit dimensions

Source: *Code of Audit Practice 2016*

2. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, the council had to respond to the coronavirus pandemic. This impacted on the final month of the financial year and continues to have a significant impact on financial year 2020/21.This has had implications for council services and involved the suspension of capital projects and other activities.

3. Our planned audit work had to adapt to new emerging risks as they related to the audit of the financial statements and the wider dimensions of audit. In common with council staff, the audit team transitioned to remote working using technology to undertake the necessary audit work and conduct online meetings with elected members and council staff.

4. The main elements of our audit work in 2019/20 have been:

- a review of the council's key financial systems
- an audit of the annual accounts of the council and its group including the statement of accounts of the five section 106 charities administered by the

council and the issue of independent auditors' reports setting out our opinions

- audit work covering the council's arrangements for securing best value as reported in the Best Value Assurance Report published on 22 October 2020
- consideration of the four audit dimensions.

Adding value through the audit

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

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

6. Taking this together, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities

7. 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.

8. 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.

9. 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.

Reporting

10. As public sector auditors, we give independent opinions on the annual accounts, the Management Commentary, the Annual Governance Statement and the Remuneration Report. We also conclude on:

- the effectiveness of the council's financial management and its arrangements for securing financial sustainability
- the suitability and effectiveness of governance and transparency arrangements
- Best Value arrangements.

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

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

Prior year recommendations

13. The council has made some progress in implementing our prior year audit recommendations. Actions not yet implemented are covered by recommendations in the Best Value Assurance Report and will be monitored through that action plan in due course.

Auditor independence

14. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements, auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £400,480 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

Part 1

Audit of 2019/20 annual accounts

Main judgements

Our opinions on Aberdeenshire Council's annual accounts, including its group accounts, are unmodified. However, the independent auditor's report includes an 'Emphasis of Matter' paragraph highlighting the impact of market uncertainty due to Covid-19 on the council's valuation of land and buildings.

The statement of accounts for the five section 106 charities administered by the council are free from material misstatement. Further action is however required to increase the level of annual expenditure by the charities as they may be currently failing to deliver their charitable aims.

Significant changes were made to the Management Commentary during the audit to ensure compliance with guidance.

Preparation of the council's annual accounts was not delayed by the impact of Covid-19 but the audit was concluded one month later than normal.

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

Although the auditor's report contains an 'Emphasis of Matter' paragraph, our audit opinions on the annual accounts are unmodified

16. The accounts for the council and its group for the year ended 31 March 2020 were approved by the Audit Committee on 29 October 2020. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance
- an 'Emphasis of Matter' paragraph has been included in our independent auditor's report which refers to the impact of Covid-19 on the valuation of land and buildings. An 'Emphasis of Matter' paragraph is not a qualification of the opinion but is added where the auditor considers it necessary to draw users' attention to matters which are fundamental to the understanding of the accounts. Further information is provided in Exhibit 3.

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

Our audit opinions on Section 106 charities are unmodified

18. Due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with the charity's 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.

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

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

20. While officers have taken steps to promote the funds available in order to increase the level of spend, more needs to be done. The smaller charities have largely not spent at all in recent years. We highlighted the issue with officers in previous years and although steps have been initiated to wind up the smaller trusts, these matters have not yet been concluded. In our view, there is a risk that the charitable aims are not being met and, in some cases, the charities are therefore failing to provide public benefit as required by their charitable status.

Due to Covid-19, timescales for audited accounts were rescheduled

21. The Scottish Government advised that it considers the provisions made in Schedule 6 of the Coronavirus (Scotland) Act 2020 to be sufficient to allow each local authority to determine its own revised annual accounts timetable.

22. We received the unaudited annual accounts on 30 June 2020 in line with the audit timetable in our 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.

23. Although one month later than originally planned, the annual accounts were signed on 29 October 2020 in line with a revised timetable agreed with the council and within the extended timescales permitted by the Scottish Government.

24. The format and content of the annual accounts remained unchanged. Local Government Finance Circular 10/2020 however reduced the reporting requirements in respect of non-financial performance information to be included in the Management Commentary. Aberdeenshire Council took advantage of this relaxation in requirements.

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

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

Materiality was amended to reflect increased risk

26. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

27. 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 regard to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

28. On receipt of the unaudited accounts we reviewed our materiality calculations and concluded that whilst no change in the overall materiality level was required, we would reduce our performance materiality, to reflect the additional risk due to potential changes in financial processes and internal controls towards the end of the financial year as a result of the Covid-19 pandemic.

Exhibit 2
Materiality values

Materiality level	Per Annual Audit Plan	Actual Used
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. Based on our professional judgement, it has been set at 1.5% of gross expenditure on provision of services as set out in the 2018/19 audited accounts.	£16m	£16m
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, performance materiality has been calculated at 65% (previously 75%) of planning materiality	£12m	£10m
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been set at 1.5% of planning materiality (and rounded accordingly).	£250,000	£250,000

Source: Audit Scotland, Annual Audit Plan 2019/20

How we evaluate misstatements

29. Misstatements identified during the audit which were amended in the accounts had the overall effect of increasing net income on the comprehensive income and expenditure statement (CIES) by £13.7m, increasing net assets by £20.4m and increasing prior year reserves by £6.7m. The main adjustment related to a misstatement in the calculation of pension liabilities by the actuary. More detail on this matter is included in Exhibit 3.

30. A number of other misstatements were identified during the course of our audit and while it is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, the final decision on this lies with those charged with governance, taking into account advice from senior officers and materiality. Management do not propose to adjust for the misstatements set out in Appendix 3 as the amounts are not considered material in the context of the accounts. Had the accounts been adjusted, the net impact would have been to reduce net income on the CIES by £4.6m with a corresponding decrease in Net Assets.

Significant findings from the audit in accordance with ISA 260

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

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

Exhibit 3
Significant findings from the audit of the financial statements

Finding
1. Material uncertainty in respect of the valuation of land and buildings The council undertakes a 5 year rolling programme of property revaluations. For 2019/20, the main category of property subject to revaluation was the school estate. At 31 March 2020, the revalued school estate amounted to £953m representing 70% of the total value of the council's land and buildings (excluding council dwellings). In applying the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards ('Red Book'), the valuer included a 'material uncertainty' disclosure in the valuation of the council's land and buildings at 31 March 2020. This is due to market uncertainties caused by Covid-19. The Red Book defines material uncertainty as 'where the degree of uncertainty in a valuation falls outside any parameters that might normally be expected and accepted'. The valuer confirmed that the valuation, which increased land and buildings by approx. £170m, was based on the best information available and, while it can be relied upon, a higher degree of caution should be attached to the valuation than would normally be the case. Although the impact of the revaluation was reflected in the unaudited accounts, there was no reference to the valuer's material uncertainty opinion. **Resolution:** A detailed disclosure on the valuer's opinion has been included in the Management Commentary contained within the audited accounts. In addition, Note 4 to the accounts, 'Major sources of estimation uncertainty', explains the valuation approach and the level of uncertainty. An 'Emphasis of a Matter' paragraph has been included in the Independent Auditor's Report. This is not a qualification but, given the scale of the revaluation, a paragraph to draw attention to Aberdeenshire Council's disclosures on the impact of material market uncertainty, as a result of Covid-19, on the valuation of land and buildings at 31 March 2020.
2. Double counting in the asset register **Alford Community Campus** – Officers identified two entries within the council's asset register for Alford Community Campus resulting in an overstatement of the value of property, plant and equipment. The campus was delivered through a PPP arrangement and when it was originally brought onto the Balance Sheet in 2015, separate entries were created for both the initial fair value of the finance lease liability and the Depreciated Replacement Cost (DRC) value rather than the initial value being updated to the DRC value.

Finding
The unaudited accounts included a prior year adjustment to correct this error but incorrectly retained the finance lease valuation rather than the DRC valuation as required by accounting standards and consequently, the value of the asset was understated by £12.6m. **Annual impairment review of property** - The valuer regularly undertakes an enhancement and impairment review of the property estate at 31 March. When the 2019/20 values were input to the asset register, they were incorrectly input as at 1 April 2019 instead of 31 March 2020. Expenditure incurred during the year was subsequently added to the value of the asset resulting in a double counting and an overstatement in property asset values of £13.5m. **Resolution: These matters have been amended in the audited annual accounts.**
3. IAS19 pension liability – double counting of McCloud adjustment The council's pension liability is based on figures provided by the actuary appointed by the North East Scotland Pension Fund. Figures used in the unaudited accounts were based on the actuary's report dated April 2020, however it was subsequently identified that the impact of the McCloud ruling on pension costs had been double counted in the calculations. The actuary provided revised calculations in June 2020 which resulted in a decrease in the net pension liability of £21.3m. This was the net effect of a reduction of around £27m in the liability due to the double counting and an increase in the liability of around £6m due to a reduction in the financial markets. The actuary's initial calculation had not reflected the impact of Covid-19 on the financial markets in March 2020. In July 2020, the Scottish Public Pension Agency (SPPA) began a period of consultation on proposals to address the discrimination in the Career Average Revalued Earnings (CARE) pension schemes identified by the McCloud case. The North East Scotland Pension Fund actuary confirmed that their existing estimates were in line with the SPPA consultation proposals and that no further amendment was required to the liability of £631m set out in their June 2020 report. **Resolution: The annual accounts have been amended to reflect the actuary's revised report dated June 2020.**
4. Internal transactions - understatement of reallocated expenditure The Code of Practice on Local Authority Accounting requires the elimination of internal trading between services from the CIES but permits the reallocation of underlying expenditure from one service/segment to another. Having reviewed the council's 2019/20 methodology for identifying and classifying internal trading transactions, we were satisfied with the robustness of the process which resulted in the elimination of £67m. The process for identifying reallocations of expenditure was however more complex due to the volume of transactions involved. Overall, we found that over 4,500 separate entries had been processed including many trivial amounts. This complicated the audit trail and made the process of confirming the reallocations difficult (and time consuming) to follow. Total reallocations of £6.3m were correctly included in the unaudited annual accounts but our review identified a further £5.6m which should also have been reallocated. This does not impact on the financial outturn. **Resolution: Th audited annual accounts have been amended to reflect the additional reallocations and we have recommended a review and streamlining of the process.** **Recommendation 1** (refer appendix 1, action plan)
5. Incorrect accounting treatment for City Region Deal funding Aberdeenshire Council operates as banker for the City Region Deal and as such it makes claims and receives funding from the Scottish Government and passes the relevant amounts to the appropriate City Region Deal lead partner. The council recognised £10.2m of capital expenditure as Revenue Expenditure From Capital Under Statute (REFCUS) as it did not directly result in the creation of a council owned asset. This amount

Finding
incorrectly included £2.8m of funding which was distributed by the council, in its role as banker, to CRD partners responsible for the development of individual projects. The corresponding income received by the council has been incorrectly included within Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement. Further income of £0.9m had been incorrectly carried at the year end as a Capital Grant Unapplied. The council's role as banker for the CRD should be disclosed as an agency arrangement for the purposes of the accounts with funds received included as bank balances in the council's balance sheet and matched with a corresponding creditor to the partners. The receipt of funding and subsequent transfer to partners should not be regarded as council income and expenditure and should therefore be excluded from the council 's CIES. **Resolution: On the basis of materiality, the Head of Finance opted not to amend the annual accounts. The misstatement has been included in the schedule of misstatements included at Appendix 3. A note to the accounts covering the agency arrangement has however been added to the revised accounts.**
6. Exit packages omitted from year end accruals The Local Authority Accounts (Scotland) Regulations 2014 require councils to disclose information relating to exit packages in the remuneration report. An exit package can often be agreed when a council and an individual agree that the individual will relinquish an office or employment with the council in exchange for compensation. This requirement applies to those exit packages that have been agreed during the financial year, regardless of whether or not the individual left before 31 March. Where an agreement has been reached, the council should accrue the costs of the exit package in that financial year. Our review of the council's remuneration report identified a number of exit packages amounting to £1.2m which had been omitted. Although an agreement to leave had been reached, because the relevant staff had not yet left, they had been omitted from the calculation. **Resolution: The remuneration report has been revised to reflect the final position but, on the basis of materiality, the Head of Finance opted not to amend the annual accounts. The misstatement has been included in the schedule of misstatements included at Appendix 3.**
7. Potential impairment of office accommodation Owing to Covid-19, elected members and officers have been working remotely and consequently, council offices have largely been unused for a period of 6 months. IAS36 Impairment of Assets identifies triggers for potential impairment including where an asset becomes 'idle' due to significant changes in the operation of an entity. At this stage, the council has not undertaken an impairment review to consider the impact of Covid-19 on its office accommodation but it has reviewed its existing Office Space Strategy development plans. The largest building at the heart of those plans is the council's headquarters at Woodhill House which has been central in discussions about the development of shared public sector office accommodation. Some plans have paused as a result of the pandemic but others are still the subject of active discussion. Any impairment of 'idle' property at this stage is unlikely to be material but depending on circumstances at 31 March 2021, this may become a more significant issue for the council to address. **Recommendation 2** (refer appendix 1, action plan)
8. Impairment of sundry debtors During the year, the council reviewed its level of expected credit losses, or 'bad debts', arising from council tax, housing rents and other sundry debtors. The council review concluded that it was willing to accept greater risk and therefore the overall level of expected losses was reduced by £2.1m using historical write offs as the basis for the provision required. Exhibit 7 (page 24) shows the council's sundry debtor collection rates since 31 March 2020 and this reflects a recent tailing off in cash received. In addition, debt recovery processes have only recently resumed having been suspended for several months owing to Covid-19. With the current uncertain climate and the impact of Covid-19 on communities, there is the potential for bad debts to increase.

Finding

Resolution:

The change in the council's approach has been reflected in Note 4, 'Major sources of estimation uncertainty'. As the amounts involved are not material, we have accepted the position in the accounts at 31 March 2020 but have identified this as an area the council needs to review for 2020/21.

Recommendation 3
(refer appendix 1, action plan)

Source: Audit Scotland

Management commentary, annual governance statement and remuneration report

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

34. The management commentary should be fair, balanced and understandable, and should 'tell the story' of the council's performance and financial position for the year. It should also help the reader understand and explain significant movements in the accounts compared with the previous year and provide an element of looking forward, considering the key risks and how they might be mitigated. In our opinion, the management commentary included in the unaudited accounts lacked many of these key requirements. Following ongoing discussion and amendment throughout the audit, sufficient improvement has been made to enable us to confirm that the management commentary meets the requirements set out in Finance Circular 10/2020.

Recommendation 4

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

35. CIPFA/SOLACE guidance requires that an annual governance statement includes 'an assessment of the effectiveness of the authority's governance arrangements'. This has been an area of ongoing discussion during our audit appointment. On conclusion of the 2018/19 audit, there had been an important step forward with the completion of a self-evaluation and the development of a comprehensive action plan. Although there was inadequate monitoring of the action plan during the year, we are encouraged by the arrangements now being put in place to support the annual governance statement in future. In particular, the Audit Committee is due to receive a timetable in December 2020 setting out the arrangements for future consideration of relevant action plans in order that it is better placed to comment on the effectiveness of the arrangements in place and approve the annual governance statement.

36. 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. Aberdeenshire Council opts to separate the statements within the accounts and so we take the opportunity to remind officers of expectations around the positioning of the remuneration report.

Part 2

Financial management

Main judgements

Financial management is effective, enabling the council to take appropriate action to manage resources at the corporate level. Budget monitoring reports should however contain more service analysis to support wider scrutiny by elected members. This applies to all committees but should commence with Education and Children's Services.

The council manages a medium term financial strategy, a 15 year, £880m capital plan and a reserves policy, including earmarked balances, which allows a more strategic approach to financial planning and decision making.

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

Financial Performance 2019/20

37. On a statutory basis, the council reported a deficit of £113m on the provision of services in 2019/20. Adjusting this balance to remove the accounting entries required by the local authority accounting code, the deficit for the year on a funding basis was £7.8m. After taking account of the use of revenue reserves of £7.7m, the final outturn was an overspend of £0.1m as shown in Exhibit 4 and as reported to council in June 2020.

38. Overall, the council's usable reserves decreased by £2.8m. This reflects a decrease in revenue reserves of £7.3m and an increase in capital reserves of £4.5m due to unapplied capital grants carried forward into 2020/21.

Exhibit 4
Reported 2019/20 Revenue Outturn

Revenue Outturn	Revised budget - £m	Actual- £m	Diff - £m
Expenditure	587.060	593.633	(6.573)
Income	(583.917)	(583.743)	(174)
Underlying Surplus/(Deficit)	(3.143)	(9.890)	(6.747)
Use of Reserves	3.143	7.701	
Reduction in Expected Credit Losses	0.000	2.063	
Reported Deficit	**0.000**	**0.126**	

Source: Aberdeenshire Council - year end monitoring report 2019/20 (adjusted)

39. Total net income on the housing revenue account amounted to £14.8m and was less than budget by £5.0m, largely as a result of increased costs associated with void properties. There was an increase in lost rental income this year due to ongoing capital works to achieve the Energy Efficiency Standard for Social Housing (EESSH).

Scope to further improve the format of budget monitoring reports

40. We undertook a review of the new format for budget monitoring reports which was introduced during the year and considered the following key areas:

- the robustness of the assumptions used in profiling budget lines
- the adequacy of the reports in terms of improving accountability and transparency for the wider public
- whether the revised budget monitoring reports have increased the level of scrutiny and engagement by elected members.

41. In overall terms, we concluded that the new reports are a good development and provide a sound foundation for further improvement. They have evolved over the year and should continue to do so. Either through the reports or through elected members' direct access to the online reporting system, there is scope to:

- provide more service analysis to policy committees to ensure there is sufficient information provided to support an effective challenge process
- start to combine financial performance and non-financial performance information in key areas to provide a more rounded view of services for improved scrutiny
- involve elected members in deciding what information is needed to assist them scrutinise and better understand the services their policy committee oversee
- report after two months rather than await the standard quarterly report, where this is a better fit with a committee cycle, to enable more timely discussion on financial information
- improve the effectiveness of overall scrutiny of financial information at full council through assurance from policy committee chairs on the robustness of scrutiny undertaken at committee.

Wider scrutiny should be undertaken of education and children's services' budgets

42. Devolved Education Management (DEM) is widely used across Scottish local authorities to enhance the management of delegated resources at a local school level. As part of this, the council permits schools to carry forward unspent budgets at the financial year end as a way of negating the difference between the financial and educational years.

43. To mitigate a significant overspend of £10m on Education and Children's Services' (ECS) budget for 2019/20, the balance of £2.3m on the DEM reserve was reduced to nil at 31 March 2020. ECS has several demand led budgets, including out of area placements, which have caused real pressure for some time. In 2019/20, following a price increase, the service also experienced a reduction in school catering income.

44. As part of the council's Medium Term Financial Strategy (MTFS), the level of reserves is regularly reviewed. The next review is due to be considered by full Council in November 2020. At that point, some of the DEM balance may be restored to schools. This is dependent on the final outcome of an ongoing review which has confirmed that some schools incurred overspends in 2019/20 on budgets such as staffing while they continued to carry an underspend on their DSM budgets. In view of the current overall financial position, it is appropriate that the service reviews the operation of its budgets in their entirety, and it was on this basis that the DEM reserve was released to minimise the ECS overspend.

45. Our review of budget monitoring reports (paragraph 41) concluded that the level of detail provided to policy committees is not sufficient to undertake proper scrutiny. This has been acknowledged by the council and plans are in place to increase the level of information provided to all committees by 31 March 2021. This will enable the ECS Committee in the first instance, but thereafter all committees, to undertake wider scrutiny of the budgets they are responsible for and develop solutions to relieve budget pressure points.

Recommendation 5

In response to the overspend incurred by Education and Children's Services, there should be a review of budgets to identify and address pressure points. As part of the process, elected members need to receive more robust budget monitoring reports in a timely manner in order that effective scrutiny arrangements can be put in place. Thereafter, this should be extended to all committees.

There was a significant underspend in the 2019/20 capital programme

46. In February 2019, the council approved a 15-year General Fund Capital Plan to provide capital investment of approx. £880m over the period to 2034. During the year, the 2019/20 General Fund Capital budget was revised upwards from £114m to £158m mainly as a result of the carry forward from the previous year on the Energy from Waste project and the budget for outstanding land compensation claims in respect of the Aberdeen Western Peripheral Route. Expenditure in both these areas continued to be lower than expected in 2019/20 and so the actual capital spend for the year was only £104m.

47. The Housing Revenue Account capital programme for 2019/20 was also approved in February 2019. The capital outturn of £50m appeared to be £28m under budget but this was mainly due to the budget including total costs for a new build housing programme which should have been phased across several years.

48. Owing to Covid-19, the capital programme was suspended for around three months with a phased restart thereafter. As at September 2020, capital expenditure was forecast to be some £40m below the initial 2020/21 budget.

49. The council is currently reviewing its capital plans as part of the MTFS refresh. Due to the pandemic, it is recognised that there will be additional claims from contractors as a result of changing timescales and costs.

School estate revaluation reflected school rolls for the first time

50. As explained in Exhibit 3, the council's school estate was revalued as at 31 March 2020. Due to their nature, schools are not regarded as assets which are regularly sold and are therefore generally valued at depreciated replacement cost. This is the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and obsolescence. In undertaking the valuation this year, the valuer reflected the impact of school rolls in the calculation for the first time. This methodology is in line with 'the Red Book' and CIPFA' s accounting guidance. Previously, the value was based on the actual size of the property. By reflecting the school roll, values generally decrease where schools are underutilised and increase where capacity is high. We made the following observations from the results of the 2020 revaluation exercise:

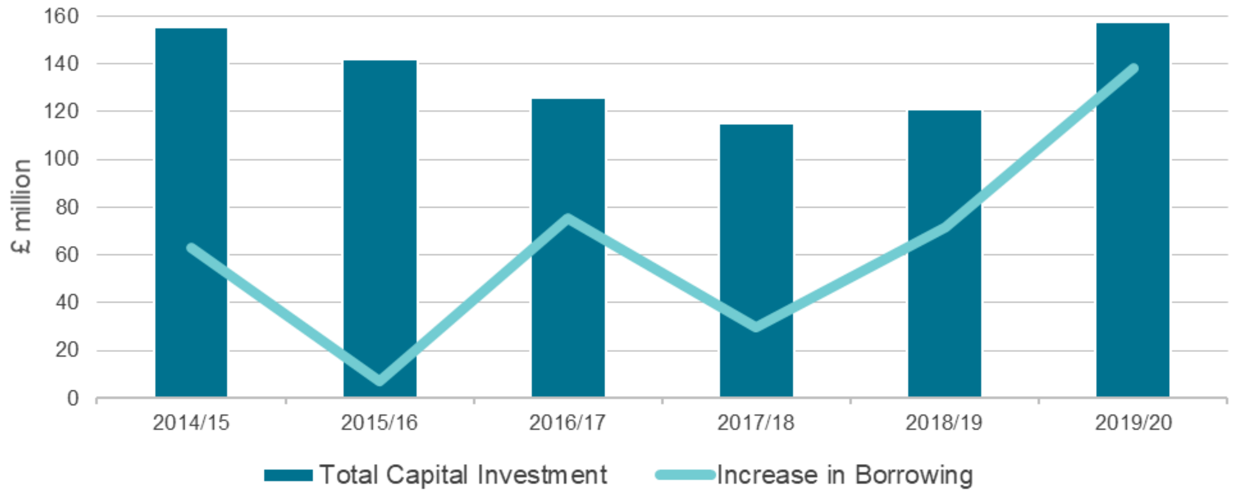
- with two exceptions, values across the council's 17 secondary schools generally increased by around 15%. The main exception was Peterhead where plans are currently being developed for its replacement.
- of the council's 157 primary schools, 54 increased in value and 103 reduced. Schools with increasing values are generally located in expanding towns with rising school rolls e.g. Balmedie, Kemnay and Kinellar. In addition, there are a number of schools in more rural and remote locations which are operating at lower levels of capacity and these have largely reduced in value
- the schools with some of the largest reductions in value include schools which were more recently built, for example, Midmill, Drumoak and Lairhillock. While school rolls in these cases are largely expected to rise, current rolls are below capacity and hence the reduction in values.

Borrowing increased in the year

51. The council's borrowing at 31 March 2020 was £848m, an increase of £138m (19%) on the previous year. Exhibit 5 shows that borrowing has recently been increasing in line with the council's capital investment. Around the year end, the council also took advantage of low interest rates for long term borrowing. This reduced its exposure on short term borrowing and also improved the liquidity position at a point when there was uncertainty about the level of funding required to support the response to Covid-19.

Exhibit 5

Total capital investment and increase in borrowing 2014/15 – 2019/20



Source: Aberdeenshire Council

52. In both the 2019/20 revenue and capital budgets, the council set out the revenue impact of planned capital expenditure and the associated risks. A Treasury Management Strategy is agreed annually by elected members and progress is reported every 6 months. The strategy also includes the council's response on long term borrowing in the event of a significant rise in interest rates.

Financial systems of internal control operated effectively

53. As part of our audit, we identify and assess 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 body has systems for recording and processing transactions which provide a sound basis for the preparation of the financial statements.

54. Each year, we assess the key financial controls operating in the council's main financial systems and report our findings in an Interim Report. As part of our 2019/20 audit activity, we undertook additional work to review the council's arrangements for approving new suppliers and amending details for existing suppliers on the payment list. Overall, we concluded that the controls in place were satisfactory and have no matters to draw to the council's attention.

55. Due to the pandemic, the operation of some internal controls changed from March 2020 with manual processes becoming more electronic as staff worked remotely. Based on our review of controls during the year and the increased substantive approach we applied over the year-end period, we found no inappropriate postings and consequently, we are satisfied that there is no material misstatement in the annual accounts.

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

56. Public bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption, and also to ensuring that their affairs are managed in accordance with proper standards of conduct by putting proper measures in place. We reviewed the council's arrangements and found a good framework in place, aspects of which should have been strengthened since the approval of a revised Counter Fraud Strategy.

57. The revised strategy had been in development for some time before it was finally approved by the Business Services Committee in February 2020. We reviewed the strategy and found it to be based on CIPFA's 'Code of Practice on managing the risk of fraud and corruption' and CIPFA's strategy on' Fighting Fraud and Corruption Locally (FFCL) 2016-2019'. Due to the period of time the strategy was in development, a number of the actions in the associated action plan are no longer relevant and would merit a refresh. In addition, the opportunity should be taken to reflect the changes introduced in CIPFA's revised FFCL strategy published in 2020 and the increased risks around cybercrime.

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

National Fraud Initiative

59. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector. Computerised techniques are used 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.

60. The council made good progress in reviewing high risk matches, with around 80% of matches reviewed. No cases of fraud or error were identified which provides positive assurance about the arrangements in place. There is scope however, for the database to be updated on a more timely basis as early review of the matches is recommended as the most effective way of using the data.

Part 3

Financial sustainability

Main judgements

The council's pre-Covid general fund revenue budget for 2020/21 is £606m and includes a savings requirement of £9m. Largely through planned use, usable reserves have reduced by 30% over the last five years.

The council regularly reviews its Medium Term Financial Strategy including the use of earmarked balances. The next review, to be reported in November 2020, will reflect an updated position on the impact of Covid-19. An initial financial assessment identified a potential Covid impact on the council of £30m in 2020/21.

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

The council updates its 5-year Medium Term Financial Strategy each year

61. 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.

62. Aberdeenshire 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 full financial impact of decisions taken now to be considered 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.

63. Budgets are prepared with full involvement of members. 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.

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

The 2020/21 Revenue Budget required a small reduction in staff numbers

65. The council normally approves its revenue budget in February each year. Following a delay in the announcement of the UK Government Budget, and the subsequent knock-on effect to the Scottish Government budget and final financial settlement, the council delayed setting its 2020/21 revenue budget until March 2020. Revised council tax rates for 2020/21 were however approved in February as normal, to ensure there was sufficient time to implement the changes and inform taxpayers before the start of the new financial year.

66. The 2020/21 revenue budget amounting to £605m was approved in March 2020. In developing the budget, the council identified a funding gap of £21m. This was to be met through the 4.84% increase in council tax agreed by council which was estimated to raise additional income of £4m, capitalisation of additional expenditure of £9m and savings to be identified of £8m.

67. In order to deliver the necessary savings, action has been taken to manage vacancies, reduce overtime and minimise the number of agency staff and temporary contracts. The council has also announced the need to reduce the workforce by 65.5 FTE posts over financial year 2020/21.

There was an improvement in the pre-Covid indicative 5-year funding position

68. The council's indicative five year budgets for the period 2020-25 estimated a cumulative pre-Covid funding gap of £64m by 2024/25. This was an improvement of £15m when compared with the equivalent position forecasted the previous year.

69. 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 – pay inflation provisions currently within the budget reflect known positions, however it is recognised that the actual costs incurred during the year will link to employment levels, turnover and vacancy management
- 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.

70. The budget report for 2020/21 states that *'any additional savings identified within the MTFS process for future years have not yet been applied leaving them currently out of balance'.* This suggests that the council has identified some savings but it is not clear what level of savings have yet to be identified. 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.

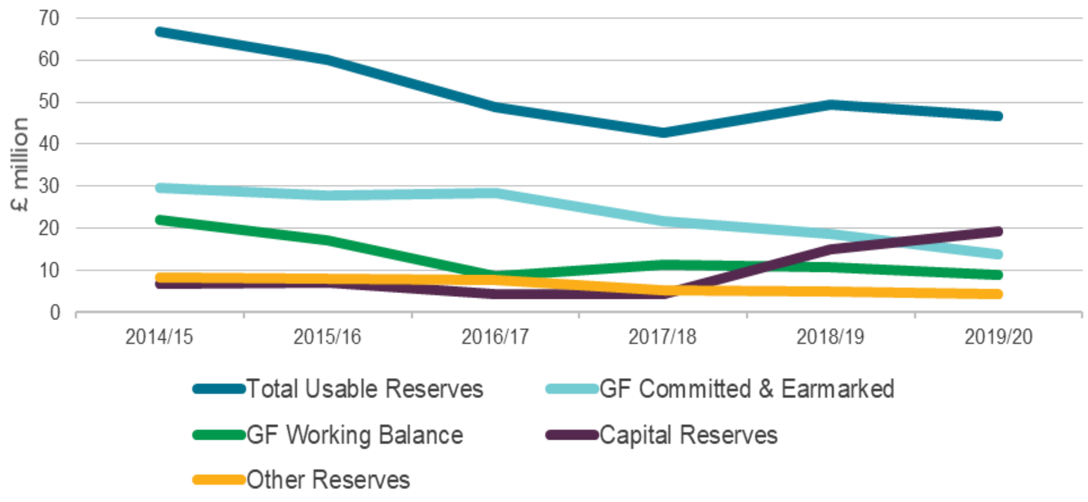
71. The council has committed to further detailed work on future years' budgets to re-examine assumptions and priorities and this will continue to form part of the MTFS discussions between members and officers.

The level of General Fund reserves reduced in line with plans

72. One of the key measures of a council's financial health is the level of reserves held. Aberdeenshire's usable reserves decreased by £2.8m (6%) from £49.4m in 2018/19 to £46.6m in 2019/20. Since 2014/15, Exhibit 6 shows that total usable reserves have fallen by £20.2m or 30.3%. Although this largely reflects planned use of both revenue and capital reserves, it also includes additional contributions of £5.7m to the Aberdeenshire Integration Joint Board to meet the council's share of the IJB's revenue budget overspends.

73. In common with other IJBs, Aberdeenshire experiences an annual deficit as a result of demand-led pressures. It is working with the council and NHS Grampian to refresh its medium term financial strategy to address this.

Exhibit 6
Movement in Usable Reserves



Source: Aberdeenshire Council. Note: Other Reserves include HRA Balance, Repairs & Renewals Fund and Insurance Fund

74. Capital reserves have increased in the last 2 years and now stand at £19.4m, or 42% of total usable reserves. This increase is largely as a result of the carry forward of unapplied capital grants relating to ring-fenced funding for early years childcare expansion. Excluding capital and other reserves, available usable reserves (ie the General Fund) amounted to £22.8m.

75. The council reviews the level of its uncommitted reserves when setting the budget each year. There is no prescribed minimal level of usable reserves. In setting a policy, councils take relevant risks into consideration but, typically, minimum uncommitted general fund balances are two to four percent of the net revenue budget. In March 2020, the council agreed a minimum working balance of £9m representing 1.5% of the 2020/21 net revenue budget to be held as a contingency fund to meet unexpected expenditure.

An initial assessment of the financial implications of Covid-19 has been undertaken

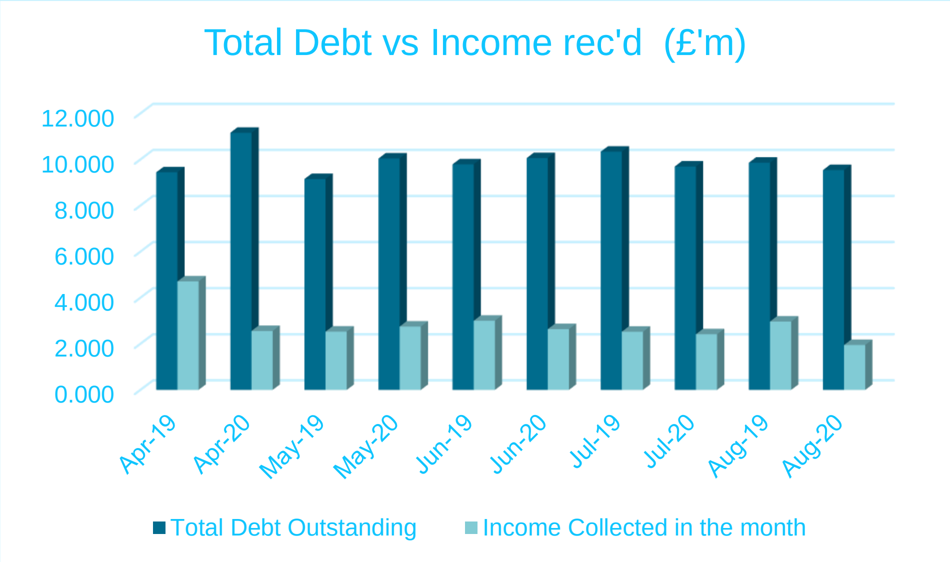
76. Following the approval of the MTFS in March 2020, the council was faced with the unprecedented financial impact of the Covid-19 pandemic. In April 2020, a high level update, covering all elements of the MTFS, was presented to the council. This set out the early implications of the pandemic and informed elected members that a review of the MTFS was being undertaken.

77. At 30 June 2020, the end of the first quarter, there was a predicted deficit of £8.5m as a result of both increased costs and reduced income. If extrapolated over the full 2020/21 year, this could equate to a potential deficit of over £30m if no action was taken by the council. The report also set out the scope of the review that was to be undertaken to restore the council to financial balance. Key to this was recognising that it would not be possible to find resolution in a single financial year and therefore a '20 month' budget to March 2022 is being developed for consideration by the council in November 2020.

78. A range of other measures were also to be considered including a review of the level of reserves which should be held and how they can best be used to provide a bridge between financial years, use of treasury management to smooth cashflows over the coming period and a review of the capital plan recognising the important balance between providing a stimulus to the Aberdeenshire economy and the financial implications of delivery.

79. The financial impact of Covid-19 has been reflected in weekly dashboard updates which are considered by the council's Senior Leadership Team. These have provided a high level snapshot of Covid-19 specific expenditure and the level of lost income due to a reduction in service delivery. The council has therefore been well sighted on the financial impact throughout the period, and this has helped to inform the overall review of the MTFS.

Exhibit 7
Comparison of sundry debtors' income with outstanding balances



Source: Aberdeenshire Council

80. Exhibit 7 sets out the results of our review of sundry debtor collection levels. Income collected each month has been compared against the outstanding sundry debtor balance at the end of each month. This shows a sharp drop in income in April 2020 at the beginning of lockdown, which has been followed by a more gradual reduction in subsequent months. With recovery arrangements suspended for much of this period and a proportion of debtors likely to be financially affected by the impact of the pandemic, there is a risk that the council will experience higher levels of bad debts in the coming months.

Part 4

Governance and transparency

Main Judgements

There are appropriate governance arrangements in place and the council is open and transparent in the way it conducts its business.

Covid-19 did not have a significant impact on governance arrangements and business has continued to operate largely as normal.

The development of the Adaptive Services Board and the member led Recovery Reference Group provide a sound framework to support the council's Recovery Strategy.

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.

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

81. The council's original provisions within the Scheme of Governance provided for a significant degree of flexibility in remote participation in meetings. In advance of the lockdown, additional emergency powers were put in place to cover a situation where significant numbers of elected members and staff were not available. Arrangements were therefore approved to cover the following scenarios:

- organisational distance – a small number of non-essential committees/joint boards and business items were postponed, otherwise the council would attempt to hold the usual meetings with added remote participation measures
- compromised attendance – this phase would be triggered by the inability of significant numbers of staff and members to carry on business as usual. This would involve the cancellation of some or all usual meetings and bring a 'Consolidated Business Committee' with full powers into temporary operation.

82. In practice, the council and committees made the smooth transition to virtual meetings and were able to conduct business largely as usual but remotely. For council meetings, that means up to 90 people are connected and for committee meetings, perhaps as many as 25 people.

83. With one exception, all meetings took place as initially planned. A recording of public business items has been made available as soon as possible after each meeting has concluded, and this has ensured a continued good level of openness and transparency over decision making. Aberdeenshire Council is the only council which has continued to run as normal throughout.

The council will shortly approve new priorities

84. Given the significant impact the Covid-19 pandemic has had on local communities, the economy and public services, the council has recognised that it needs to develop new priorities to better reflect the current challenges. Three ‘pillars’ have been proposed to support revised priorities – People, Environment and Economy. The new priorities are expected to be agreed by the council in November 2020 and once in place, these will provide strategic direction for a revised MTFS to ensure alignment between service provision and budget availability.

The level of scrutiny by the Audit Committee has increased but more involvement is required from other committees

85. In previous reports, we have commented on the limited use made of the council’s three stage committee referral process since its introduction in 2017. This was a planned change in approach to involve all councillors in scrutiny by including a referral process, which could initiate a review and investigation process, within the remit of all policy committees and the audit committee.

86. The number of referrals initiated by the Audit Committee increased during the year but limited activity was started by the policy committees.

Internal Audit Annual Report would be strengthened by the inclusion of more context

87. 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.

88. In accordance with Public Sector Internal Audit Standards, the Chief Internal Auditor prepares an Annual Report which includes an opinion on the adequacy and effectiveness of the council’s framework of governance, risk management and control. This was considered by the Audit Committee in May 2020.

89. The report concluded that ‘reasonable assurance’ can be obtained for the year but also highlighted that recommendations graded as ‘major’ were identified in five separate reports. We believe there is scope for the content of the internal audit annual report to be clearer on the key risks identified during the year and to explain how these have been considered by the Chief Internal Auditor in arriving at his annual opinion. This would provide helpful context to assist the Audit Committee in its consideration of the annual report but would also provide services with a better understanding of the main areas of concern.

Recommendation 6

Consider the inclusion of additional narrative in the internal audit annual report which explains how key concerns and risks identified during the year have been considered in reaching the annual opinion.

A member-led Recovery Reference Group has been established and a Recovery Strategy approved

90. A Covid-19 Recovery Reference Group (RRG) has been established to oversee the transition out of the response phase of the pandemic. The remit of the reference group includes:

- considering reports from the Strategic Leadership Team (SLT) on the impact of the pandemic, any national advice or guidance in connection with the pandemic, the financial consequences and any proposed alteration to service delivery as a result of Covid-19

- considering the council's draft plans for transition out of the response phase
- consulting with relevant stakeholders and partners wherever appropriate but in particular to ensure the effective engagement with communities and businesses
- making comments and observations on the strategic direction required as a result of the impact of the pandemic and, in particular, in respect of any refreshed council priorities.

91. A Recovery Strategy was approved in July 2020 setting out how the council intends to lead and tackle an extended period of living with Covid-19 and recovery from the pandemic emergency. The strategy involves a number of actions and activities that will lead to the development of a recovery programme for the Aberdeenshire area as a whole ensuring that there is full engagement with local communities. The implementation of the recovery strategy will be monitored by the Recovery Reference Group and regular updates will be provided to the council.

The Adaptive Service Board considers how services should be reinstated

92. In June 2020, an Adaptive Service Board (ASB) was established to determine the extent and form to which services are reinstated after the pandemic as the council moves out of the initial Covid-19 period when services were suspended by beginning with the assumption *'just because we CAN bring back a service, does not mean we SHOULD'*. The aim is to coordinate service planning proposals that can be taken forward, as appropriate, to the senior leadership team, Recovery Reference Group and policy committees.

93. The ASB meets twice weekly and has so far considered around 60 proposals for the re-introduction of services which had been suspended in full or in part. A template report and multi-dimension analysis tool have been developed to set out and rank various identified options for the return of a service. The ASB considers the report and agrees recommendations which can be implemented. Summary information bulletins are provided to the senior leadership team and Recovery Reference Group.

Part 5
Best Value

Main judgements

The Best Value review found that the pace of change has been slow in some key aspects of best value since the last report in 2013.

Over 50% of statutory performance indicators reported in the year showed improvement or remained comparable with the previous year.

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

The Best Value Assurance Report (BVAR) was published in October 2020

94. Best value is assessed over the audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council is considered by the Accounts Commission at least once in this five-year period. Aberdeenshire's BVAR was prepared in summer 2020 and was published on 22 October 2020.

95. The scope agreed for the BVAR included the following areas:

- how the leadership of the council works together to deliver the council's priorities. We also considered the importance of the council's area structure and locality planning arrangements in supporting the delivery of these priorities, especially in rural and remote communities
- an overall assessment of outcomes and performance and the link between the council's self-evaluation, improvement actions and changes in outcomes for local people
- how effectively the council plans its use of resources, including how the council's procurement policies and practices support sustainability and the council's use of workforce planning to support the delivery of its priorities
- how the council delivers sustainable services in collaboration with partners to meet the needs of residents and support the local economy, including consideration of the Aberdeenshire Integration Joint Board, the Aberdeen City Region Deal and the Northern Alliance. We also considered how community engagement and empowerment influenced the council's activities and delivery of services
- the council's approach to continuous improvement, including the overall pace and depth of change.

96. . The key messages from the BVAR were:

- Since the last Best Value report in 2013, the pace of change has been slow in some key aspects of best value. In particular, the council has not used performance and benchmarking data effectively and its approach to self-evaluation has been inconsistent. Despite this, the council's monthly reputation tracker regularly shows high public satisfaction with most services. Decisive political and managerial leadership is needed to increase the pace, depth and continuity of improvement needed to demonstrate best value.
- There are positive working relationships between officers and members and political decision making is consensual. Council priorities are however vague and not sufficiently focused, and the council has been slow to develop a performance framework. The council reviewed its scheme of governance and implemented new scrutiny arrangements. After a slow start, scrutiny has improved but more challenge is required from elected members to drive improvement.
- Over the past five years, there has been some improvement in the council's performance against national benchmarking indicators. The council performs above the Scottish average for pupils gaining five or more awards at Level 5, but educational attainment is poor for more disadvantaged pupils. Management of void housing is also an area of poor performance.
- A more strategic approach to workforce planning is required to assist the council in addressing the challenges it faces including an ageing workforce and supply shortages in areas such as teaching and social care. Although the pace of improvement has recently increased with the development of a workforce strategy, this is high level and lacks detail on how the council plans to develop a workforce capable of meeting existing and changing demands.
- Area working is fundamental to the way the council operates and it is embedded within its culture. Six area committees operate alongside the council's four policy committees providing a vital connection with local community planning groups and the community asset transfer process.
- The council regularly engages with communities on a range of significant matters, but there is less evidence to demonstrate the active involvement of communities in decision making. There is a complicated landscape of local-level plans with inconsistent timescales for delivery. This makes it difficult for the Community Planning Partnership to demonstrate whether outcomes for local communities are improving.
- Partnership working is a strength at the council. It works well with partners on the Regional Economic Group, City Region Deal, and Health and Social Care Partnership. In response to the Covid-19 pandemic, partners promptly established the Grampian Coronavirus Assistance Hub which effectively co-ordinated the volunteer response to support the vulnerable in the community.
- The council has had a relatively stable financial position but the rising cumulative funding gap has been exacerbated by the impact of the pandemic. Stronger leadership is required from elected members to establish fewer, clearer priorities, focus on what is most important, and increase its pace in delivering more ambitious outcomes for its communities.

97. We will monitor the council's progress against the improvement actions during the remainder of our audit appointment.

Statutory performance indicators showed some improvement

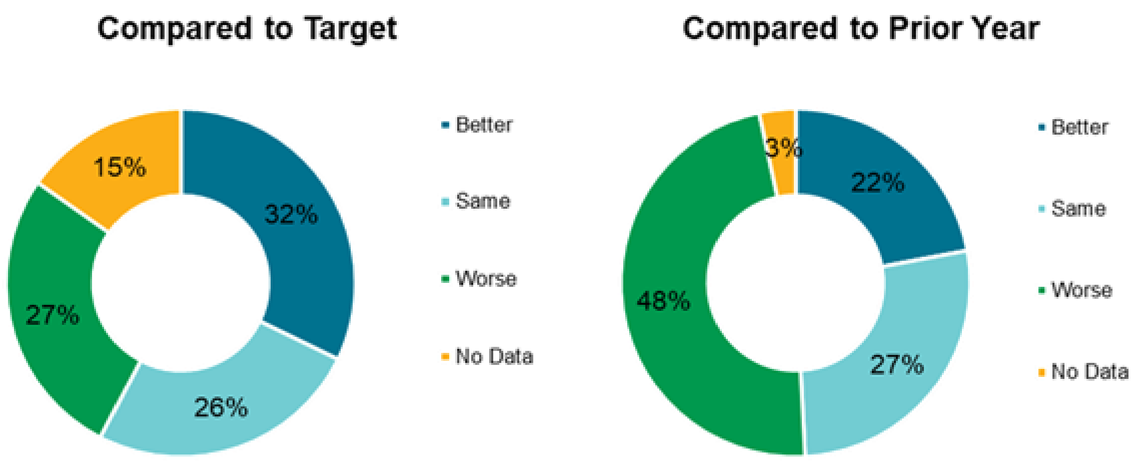
98. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

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

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

100. For 2019/20, the council undertook a review of its indicators and from this, identified a total of 76 indicators, of which 17 provide context only. A summary of the council's performance results compared with target and prior year is set out in Exhibit 8 and overall, shows that whilst over half of indictors are at or better than target, just under half of indicators have declined since 2018/19.

Exhibit 8
Performance compared to target and prior year



Source: Audit analysis of Aberdeenshire Council's SPIs

101. The following examples were taken from the 13 indicators where performance improved during the year:

- average time taken to process new benefit claims from receipt date to decision date – 22 days (24 days in 2018/19)
- children/young people engaged with throughcare and aftercare service who were in training, education or employment – 71.3% (61.9% in 2018/19)
- number of social rented properties completed per year – 249 (197 in 2018/19).

102. Among the 28 indicators showing a deterioration in performance compared with the previous year were the following:

- difference in average tariff score of all S4 in SIMD Quintile 5 and Quintile 1 – 156 (123 in 2018/19)
- percentage of reports submitted to the Children's Reporter within target timescale – 35.4% (42.3% in 2018/19)
- percentage of planning applications dealt with within 2 months – 80.8% (86.7% in 2018/19).

Annual performance reporting is more balanced in its approach

103. The council's first suite of six monthly performance reporting against council priorities commenced in November 2019. We found that the reports are comprehensive, have taken time to produce and provide a lot of information about services. In terms of measuring and demonstrating performance however, progress is not clear. In our Interim Report (July 2020), we recommended further review of the process, to ensure milestones and targets are identified so that progress can be effectively measured and demonstrated.

104. Since December 2019, area committees have also started to receive six monthly performance reports. In effect, each area receives four reports, one in respect of each policy committee's service responsibilities, but much of the information is reported at council level and is not yet provided by area. While this is an important development, it is at an early stage and more work is required to streamline the process and enable appropriate performance reporting at area level.

105. The council published its 2019/20 Annual Performance Report in September 2020. The report is intended to conclude reporting on the 11 priorities agreed in the Council Plan 2017-22. A new performance reporting framework to be introduced in 2021 will support new priorities and a new council plan approved in October 2020.

106. We found that the 2020 Annual Performance Report provided a better degree of balance than in previous years. The executive summary highlights a decline in performance in 49 out of 78 comparable indicators and elsewhere in the report, there is coverage of the challenges facing the council such as educational attainment. The report could be further improved by the inclusion of plans in place to address areas of poorer performance.

National performance audit reports

107. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission. During 2019/20, we published the following reports which are of direct interest to councils:

- Principles for Community Empowerment – July 2019
- Local Government in Scotland: Financial Overview 2018-19 – December 2019
- Scotland's City Region and Growth Deals – January 2020
- Early learning and childcare follow up – March 2020
- Affordable housing – April 2020
- Local Government in Scotland: Overview 2020 – June 2020
- National Fraud Initiative 2018-19 – July 2020

108. Arrangements are in place for the audit committee to routinely consider national reports including any locally agreed actions.

Appendix 1

Action plan 2019/20

No.	Issue/risk	Recommendation	Agreed management action/timing
1	**Internal transactions – reallocation of expenditure** The process for identifying reallocations of expenditure was complex and the audit trail was difficult to follow due to the volume of transactions involved. ***Risk: Information is omitted or incorrectly accounted for leading to misstatements in the accounts.***	The process should be reviewed and streamlined.	The current process is very detailed and labour intensive. This will be reviewed and streamlined and if possible automated. **Head of Finance** **Completion date 31/03/2021**
2	**Impairment of office accommodation** IAS36 indicates that 'idle' assets due to significant changes on the operation of an entity is a trigger for impairment. ***Risk: Property values are materially overstated in the annual accounts.***	Depending on the circumstances at 31/03/2021, an impairment of the value of the council's office accommodation portfolio may be necessary.	Finance will work with the Property Service to • ensure shared understanding of the definition of idle under the terms of IAS36 • agree the process for identification of idle assets and the valuation methodology. • for all other assets agree the valuation process, the methodology and the assets that will be revalued in 2020/21. **Agreement in principle by December 2020** Ongoing review until completion of valuations for the 2020/21 accounts. **Head of Finance**
3	**Impairment of sundry debtors** The impact of Covid-19 might support the need for a higher provision for non-collection of sundry debtors. The council however has opted to reduce	The rationale for determining the provision should be reviewed in light of the experience of Covid-19.	Collection rates and impairment of sundry debts will be monitored throughout the financial year 2020/21. The calculation of the provision will be reviewed as part of the year end accounts process and may be revised based on the monitoring process findings.

No.	Issue/risk	Recommendation	Agreed management action/timing
	the provision based on the level of write offs in the past. ***Risk: Sundry debtors are overstated if there is uncertainty about collection.***		**Head of Finance** **Completion date 31/03/2021**
4	**Management Commentary** There were significant gaps in the Management Commentary included in the unaudited accounts. ***Risk: The commentary falls short of the required guidance leading to a modified opinion.***	The process for the preparation of the Management Commentary requires review to ensure the document complies with Scottish Government guidance and the Code of Practice on Local Authority Accounting	This will be reviewed as part of the 2020/21 accounts process. **Head of Finance** **Completion date 30/06/2021**
5	**Review and scrutiny of Education and Children's Services' budget** In view of the ECS budget overspend, the balance on the Devolved Education Management reserve was released as partial mitigation. There are a number of budgets which are under pressure but due to the limited information provided in monitoring reports, the level of scrutiny is not sufficiently robust. ***Risk: Policy committees are unable to effectively scrutinise the budgets for which they are responsible.***	In response to the overspend incurred by Education and Children's Services, there should be a review of the budgets to identify and address the pressure points. As part of the process, elected members need to receive more robust budget monitoring reports in a timely manner in order that effective scrutiny arrangements can be put in place. Thereafter, the new arrangements should be extended to all committees.	Finance will work with Education and Children's Services to better reflect current service delivery. It is anticipated that this will result in an increased number of lower value budgets presented to committee, which will allow for better budget management from a service perspective and allow for better scrutiny. **Head of Finance** **Completion date for the ECS Service 31/03/2021**
6	**Internal audit annual report** There is scope for the content of the internal audit annual report to be clearer on the key risks identified during the year and to explain how these have been considered by the Chief Internal Auditor in arriving at the annual opinion. **Risk: there is a lack of understanding on the significance of key risks.**	Consider including additional narrative in the internal audit annual report which explains how key concerns and risks identified during the year have been considered in reaching the annual opinion.	The content of the Internal Audit annual report will be reviewed, including consideration of additional narrative, prior to it being presented to the Audit Committee in May 2021. **Chief Internal Auditor** **Implementation by 31/05/2021**

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 risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the *Code of Audit Practice 2016*.

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
1 Risk of management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements. This risk also applies to the council's charities.	• Owing to the nature of this risk, assurances from management are not applicable in this instance.	• 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 In addition to Scottish Government funding, the council receives a significant amount of income. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud. Potential areas of concern include council tax, business rates, care income and sundry debtors. Financial Reporting Council Practice Note 10* expands the ISA assumption to advise there is also a risk of fraud over aspects of expenditure for public sector bodies which tend to have an overall net expenditure outturn. The council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.	• Schemes of delegation in place • No history of significant fraud • Appropriate processes for the authorisation, separation of duties and workflow associated with income and expenditure • Compliance with procurement regulations • Budgetary control arrangements 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 concluded satisfactorily.

	Audit risk	Assurance procedure	Results and conclusions
	Risk of fraud over expenditure also applies to the charities. *Practice Note 10 relates to the audit of financial statements of public sector bodies in the UK.		
3	**Estimation and judgements** 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.	• Use of clearly defined methodologies and procedures including experts, as appropriate, when making significant estimations and judgements • Management review by qualified finance staff.	• Commentary on non-current assets (revaluation), pensions and provisions for non-collection of debts, included in Annual Audit Report (Exhibit 3).
4	**Manual authorisation of invoices for payment** The council believes the key control is approval of the purchase order or overall contract commitment. As payments are initiated by invoices, in our opinion, a potential risk of fraud over expenditure remains because of the delay between approving, for example, a contract and authorising individual invoices for expenditure incurred on that contract.	• Budgetary control arrangements.	• Audit work concluded satisfactorily.
5	**Integration Joint Board** Aberdeenshire Integration Joint Board (IJB) financial monitoring forecasts an overspend of approximately £5m in respect of 2019/20. There are risks that: • IJB budget overspends will directly impact on the council's budget and, due to the demand led nature of several budget lines, there is a risk of unplanned overspends • the council does not have proper arrangements in place to ensure the completeness and correct classification of IJB related transactions in its ledger; there is a risk that income and expenditure is misstated in the council's and IJB's accounts.	• The financial ledger coding structure identifies all IJB transactions • Regular monitoring of financial information • Treatment of over- and underspends set out in the Integration Scheme • Council, NHS Grampian and IJB finance staff are liaising to identify options to resolve financial challenges being experienced • Subject to the above, early agreement of balances between council and IJB.	• Commentary included in Annual Audit Report (paragraphs 72 - 73) in relation to additional contributions approved by partners.

Audit risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
6 Financial capacity Following a restructure of the finance team, staff continue to settle into new roles. Two senior accountants will leave the council in June 2020 as part of a voluntary release scheme. Several other posts remain vacant. With a loss of experience and changing roles, there is a risk that the service will experience capacity issues and/or reduced performance.	• A continuation of experienced colleagues who have demonstrated an ability to focus on a task rather than a role and still produce financial information throughout the year • A greater sharing of knowledge and experience between colleagues compared to the more 'service only' approach of previous years • A willingness of different colleagues to step up into roles of greater responsibility.	• Audit work concluded satisfactorily.

Appendix 3

Summary of uncorrected misstatements

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

The table below summarises uncorrected misstatements that were identified during our audit and raised with the council in order that they be corrected. On the basis that the misstatements are cumulatively less than our performance materiality (Exhibit 2), the Head of Finance has opted not to make corrections and we are satisfied that there is no 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 Short Term Debtors			4,045	
	Cr Short Term Creditors				(4,045)
	Payments to Nursery providers for 2020/21 year recorded in 2019/20.				
2	Dr Cost of Services	1,149			
	Cr Short Term Creditors				(1,149)
	Exit Packages agreed prior to 31 March 2020 omitted from accruals.				
3	Dr Cost of Services	298			
	Cr Short Term Creditors				(298)
	Contract retentions not accounted for.				
4	Dr Cost of Services	3,210			
	Cr Cost of Services		(2,274)		
	Cr Capital Grants Unapplied				(936)
	Overstatement of REFCUS.				
5	Dr Cost of Services	2,684			
	Cr Short Term Debtors				(2,684)
	Overstatement of City Region Deal Debtors.				
6	Dr Short Term Creditors			1,738	
	Cr Cost of Services		(1,738)		
	Overstatement of City Region Deal Creditors.				
7	Dr Cost of Services	1,262			
	Cr Property, Plant and Equipment				(1,262)
	Understatement of Depreciation.				

#	Account areas	Comprehensive income and expenditure statement		Balance sheet	
8	Split of HRA recharge between revenue and capital incorrectly calculated.	493	(493)		
Total		**9,096**	(4,505)	5,783	**(10,374)**
Net Impact		4591			(4591)

Aberdeenshire Council

2019/20 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: **info@audit-scotland.gov.uk**
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