Aberdeenshire Council
Annual Audit Report

Financial year ending 31 March 2026

Prepared for those Charged with Governance and the Accounts Commission

29 October 2026



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

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01 Executive summary

Executive summary

This table summarises the key findings and other matters arising from the external audit of Aberdeenshire Council and its Group and the preparation of the financial statements for the year ended 31 March 2026 for those charged with governance (the Audit Committee) and the Accounts Commission.

Financial statements

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

- The Group and Council financial statements give a true and fair view of the state of affairs of the Council and its group as at 31 March 2026 and of the income and expenditure of the Council and its group for the year then ended;
- the Group and Council financial statements have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2025/26 Code;
- the Group and Council's financial statements have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003; and
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

We are required to report whether the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local government in Scotland Act 2003. We are also required to report on whether the information given in the Annual Governance Statement is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local government: Framework (2016) and addendum issued in May 2025.

We issued an unmodified opinion for Aberdeenshire Council after the Audit Committee meeting on 29 October 2026. We also issued an unmodified opinion for Aberdeenshire Council Charitable Trusts.

We have concluded that the Remuneration Report has been prepared in accordance with requirements.

We have concluded the work on the Governance Statement has been prepared in accordance with the relevant guidance.

We have concluded that the other information to be published alongside the financial statements is consistent with our knowledge of the Council.

Draft financial statements

The Council presented a draft version of the accounts to the Audit Committee on 2 July 2026. However, due to a required upgrade within the Asset Manager system, this version of accounts did not include indexation applied to land and building assets. As a result, the Council prepared a second version of accounts which included full indexation applied to land and building assets. This version was presented for audit on 31 July, in line with our agreed timeline and was the version which was subject to audit. The audit commenced on 3 August 2026.

Target completion dates

We agreed with the Head of Finance a target completion date for the 2025/26 audit of 30 October 2026. Subject to the completion of the outstanding items noted at page 6, it is anticipated that the target timeline will be achieved, with this Auditor's Annual Report planned to be presented to the Audit Committee on 29 October 2026. The audit opinion will be signed following the committee's approval.

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Executive summary (2)

Financial statements

Amendments to the primary financial statements

We have identified one audit adjustment as a result of our audit testing, which has been adjusted by the Council. This related to a misstatement in the Council's original IFRS 16 remeasurement calculations. Whilst not material to the financial statements, the Council have processed the amendment to ensure figures are correct going forward. The amendments resulted in a £6.122 million reduction in PFI liabilities and a corresponding £6.122 million increase in unusable reserves. There was no impact on usable reserves or the general fund balance.

There have also been disclosure amendments to the financial statements, which are summarised in Appendix A.

Unadjusted misstatements and recommendations

We have raised one recommendation for management from our audit work on the financial statements. This is set out in Appendix B.

Our follow up of the financial statement recommendations made in the prior year audit are detailed in Appendix E. All four recommendations made in previous audits have been cleared.

We would like to record our appreciation for the assistance provided by the finance team and other staff including the internal valuer and revenues staff during the audit.

Application of Indexation and Fixed Asset Register reconciliation

The 2025/26 Code of Practice on Local Authority Accounting introduced a significant change to the accounting treatment of non-investment assets by permitting the use of indexation in intervening years between full asset revaluations. We assessed the Council's application of indexation across the population of assets not revalued and confirmed the approach was reasonable, with appropriate accounting entries made.

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Executive summary (3)

Financial statements

Audit fee

In our Audit Plan, dated 30 March 2026, we set out a baseline audit fee of £519,980 for the 2025/26 audit of the Council. We also noted that the fee would be subject to revision to reflect additional audit work arising from the implementation of ISA 600 Group Financial Statements. This resulted in increased audit work during both the planning and year-end phases of the audit, requiring further testing and evaluation of group components.

As a result, we anticipate charging an additional audit fee for our 2025/26 audit which has been set at £3,000. The Trust Fund audit is outside of the base audit fee, and this was set at the planning stage at £12,000. Therefore, the increase in audit fees from the base is £15,000. This is further set out in Appendix F.

The additional audit fee has been discussed with management during the course of the audit.

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Executive summary – Wider Scope and Best Value

Wider Scope and Best Value

In our External Audit Plan for the year ended 31 March 2026, we documented our assessment of the wider scope risks and planned audit work. At the planning stage we identified one significant risk in respect of financial sustainability.

The Council continues to face a significant financial sustainability risk, with a projected funding gap of approximately £158 million over the medium term. Achieving financial balance will require the identification and successful delivery of substantial savings and transformation measures, the scale of which presents a significant challenge.

Full details of the wider scope work undertaken are outlined on pages 44 to 82. We have raised one new wider scope recommendation for management as a result of our wider scope work in 2025/26. This can be seen at Appendix C.

The follow up of prior year wider scope and thematic recommendations is set out at Appendix E. There were ten in total and review of these recommendations have concluded that six are complete and four are in progress.

Councils have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions. Expectations are laid out in the Best Value Revised Statutory Guidance 2020. As set out in the Code of Audit Practice 2021, Best Value audit is integrated with other wider-scope annual audit work.

For 2025/26, the scope of Best Value work included conclusions on:

- Input into the Controller of Audit Report published in March 2026
- The Accounts Commission's requested thematic work on asset management
- Effectiveness of council performance reporting
- Council service performance improvement.

Controller of Audit Best Value Report

We contributed to the Controller of Audit Best Value report published in March 2026. The Council have implemented a Best Value Improvement Plan, with the improvement activity incorporated within the Corporate Improvement Plan.

The Corporate Improvement Plan is reported to the Audit Committee and Full Council on a six-monthly basis, providing members with regular updates on the progress of agreed improvement actions.

Thematic Review – Asset Management

The key findings from the thematic review are summarised in this report at pages 78 - 80, with the separate thematic report presented to the 10 September 2026 Audit Committee meeting.

An action plan within the thematic review report notes four recommendations, with the Council's agreed response to the actions suggested. This has been replicated at Appendix D. No follow up on the progress of actions has been carried out given the agreed timescale for the implementation of each recommendations.

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02 Introduction

Introduction

Scope of our audit work

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

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

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

The core elements of our audit work in 2025/26 have been:

- An audit of the Council and Group's annual report and accounts for the financial year ended 31 March 2026 [findings reported within this report];
- Consideration of the wider dimensions that frame the scope of public audit as set out in Audit Scotland's Code of Audit Practice 2021 ('the Code') [within this report];
- An audit of the Charitable Trust annual report and financial statements for the financial year ended 31 March 2026.
- Monitoring the Council's participation in the National Fraud Initiative (NFI); and
- Any other work requested by Audit Scotland.

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

- certification of Housing Benefits subsidiary claim. The audit deadline is by 30 November 2026, and work will commence in October 2026.
- Certification of the NDR return (Non-Domestic Rates). The audit deadline is 08 October 2026. To date, we have carried out sample testing over reliefs granted during 2025/26 and our work remains ongoing. We anticipate completing the audit in the near future once we have a response to some outstanding queries.

Responsibilities

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

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

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

Audit approach

Our audit approach was based on a thorough understanding of the Council and is risk based, and in particular included:

- An evaluation of the Council's internal control environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

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Introduction (2)

Adding value through our audit work

We aim to add value to the Council throughout our audit work. We do this through using our wider public sector knowledge and expertise to provide constructive, forward looking recommendations where we identify areas for improvement and encourage good practice around financial management, financial sustainability, risk management and performance monitoring. 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.

We have invited members of your financial reporting team to our annual Local Government Chief Accountants workshop and members of the Audit Committee to a webinar on Audit Committee effectiveness, both of which were led by our internal financial reporting technical team.

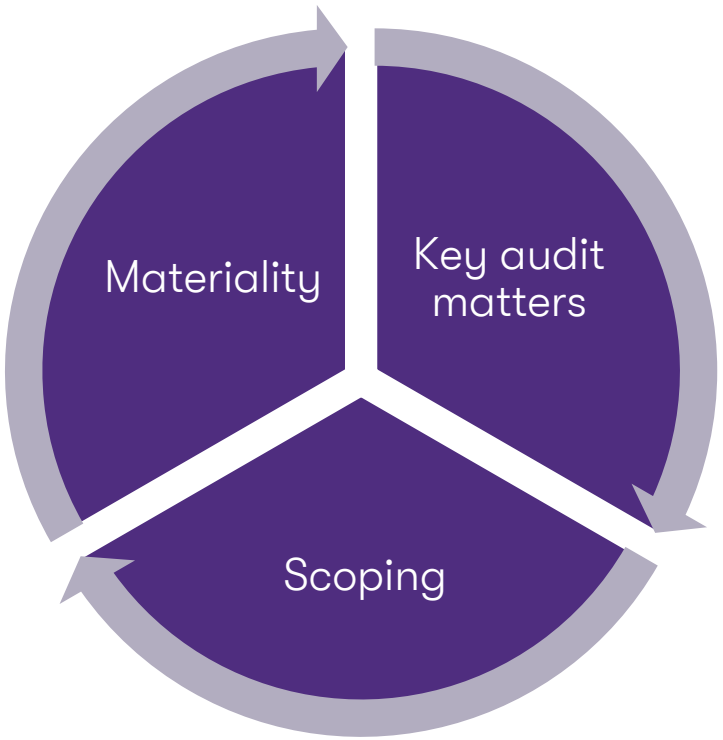
We provide the Council with relevant sector updates prepared by our financial reporting team throughout the year.

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03 Audit of the annual report and accounts

Audit of the annual report and accounts

Approach to the audit of financial statements



Key audit matters and significant risks

The following significant risks/ key audit matters have been identified:

- Management override of controls (significant risk);
- Valuation of land, buildings and council dwellings (significant risk and key audit matter);
- Valuation of the defined benefit pension scheme (significant risk and key audit matter);

Internal control environment

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

However, we do not place reliance on the design of controls when undertaking our substantive testing. We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

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

We have not identified any changes in our approach since our Audit Plan was presented to the Audit Committee on 15 April 2026. The risks identified remain the same.

The group scoping is as reported. We have completed analytical procedures in relation to the consolidation of the group bodies consolidated as subsidiaries and on a joint venture basis.

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Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our audit approach was set out in our audit plan.

- We reviewed and updated our assessment of materiality from planning based upon your 2025/26 draft financial statements and concluded that materiality is £22.686 million for the Group (PY £23.250 million) and £21.544 million for the Council (PY £21.200 million), which equates to approximately 2.0% for the Group (PY 2%) and 1.9% for the Council (PY 2%) of your 2025/26 gross expenditure less IJB contributions of the Group and the Council.
- Performance materiality was set at £17.014 million (Group) (PY £16.345 million) and £16.158 million (the Council) (PY £14.770 million) representing 75% of our calculated materiality (PY 70%).
- We report to Officers (Management) any difference identified over £1.134 million (Group) and £1.077 million (the Council) representing 5% of our calculated materiality (PY £1.055 million for both).
- Due to the public interest in senior officer remuneration disclosures, we apply specific audit procedures to this work and set a lower materiality level for this area of £25,000 (PY £25,000). We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be applicable for senior officer remuneration disclosures. We evaluate errors in the remuneration report for both quantitative and qualitative factors against this lower level of materiality. We will apply heightened auditor focus on the completeness and clarity of disclosures in this area and will request amendments to be made if any errors exceed the threshold we have set or would alter the bandings reported for any individual.

There is a change in materiality values since our final audit plan was communicated to you in April 2026 as final gross expenditure for 2025/26 was used as the basis of the calculation. The percentage chosen for higher materiality, performance materiality and triviality remains unchanged.

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Overview of the scope of our audit

The Council have a controlling interest in three subsidiary entities and one joint venture entity. The subsidiaries are the Common Good Funds, the Trust Funds and Create Homes Aberdeenshire LLP whilst the joint venture is the Aberdeenshire Integration Joint Board.

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

Understanding the group, the Council, and its components, and their environments, including group-wide controls

The engagement team obtained an understanding of the Council, the group and its environment, including group-wide controls, and assessed the risks of material misstatement at the group and Council only level.

Identifying significant components

We evaluated the significance of each component of the group and determined the planned audit response based on a measure of materiality.

Work to be performed on financial information of Council and other components (including how it addressed the key audit matters)

A full scope audit was performed on Aberdeenshire Council. An analytical approach for the entities consolidated as subsidiaries and joint ventures was undertaken. No additional key audit matters were identified in group transactions.

Performance of our audit

The full scope audit was conducted on the Council. Our work has covered all material balances and transactions in expenditure, income, assets, liabilities and reserves as well as other primary statements and disclosure notes.

The analytical procedures for the consolidation of the joint ventures and associated accounting entries and reserves agreed the basis of the consolidation and the values to the other entity financial statements.

Changes in approach from the previous period

There are no additional components in the group compared to 2024/25. There are no changes from our approach noted in our Audit Plan from April 2026.

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Group audit approach

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient, appropriate evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The table below summarises our final group scoping, as well as the status of work on each component:

Component	Scope - Planning	Scope - Final	Auditor	Status	Comments
Aberdeenshire Council			Grant Thornton UK	Green	Our findings are summarised on pages 18-41.
Aberdeenshire Integration Joint Board			Grant Thornton UK	Green	We have not identified any issues from our analytical procedures undertaken.
Create Homes Aberdeenshire LLP			Unaudited to date	Green	We have not identified any issues from our analytical procedures undertaken.
Trusts and Endowments			Grant Thornton UK	Green	We have not identified any issues from our analytical procedures undertaken.
Common Good Funds			Grant Thornton UK	Green	We have not identified any issues from our analytical procedures undertaken.

Aberdeenshire Council	Full scope audit procedures will be performed to component materiality by the group audit team.
See above	Audit of specified financial statement line items to component materiality by the group audit team.
See above	Out of scope components are subject to analytical procedures performed by the group audit team to group materiality.
Green	Planned procedures are substantially complete with no significant issues outstanding.
Amber	Planned procedures are ongoing / subject to review with no known significant issues.
Red	Planned procedures are incomplete and / or significant issues have been identified that require resolution.

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Detecting irregularities, including fraud

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to Aberdeenshire Council and its Group and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2025/26 Local Government Accounting Code of Practice.
- We enquired of Senior Officers and the Chair of the Audit Committee, concerning the Council's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Senior Officers and the Chair of the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Council and its group financial statements to material misstatement, including how fraud might occur, by evaluating incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered the Council's financial performance for the year and potential management bias in determining accounting estimates in relation to the valuation of land and buildings and the estimations in respect of the Council's defined pension liability. Our audit procedures are documented within our response to the significant risk of management override of controls below.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in certain account balances and significant accounting estimates.

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

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

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Overview of audit risks

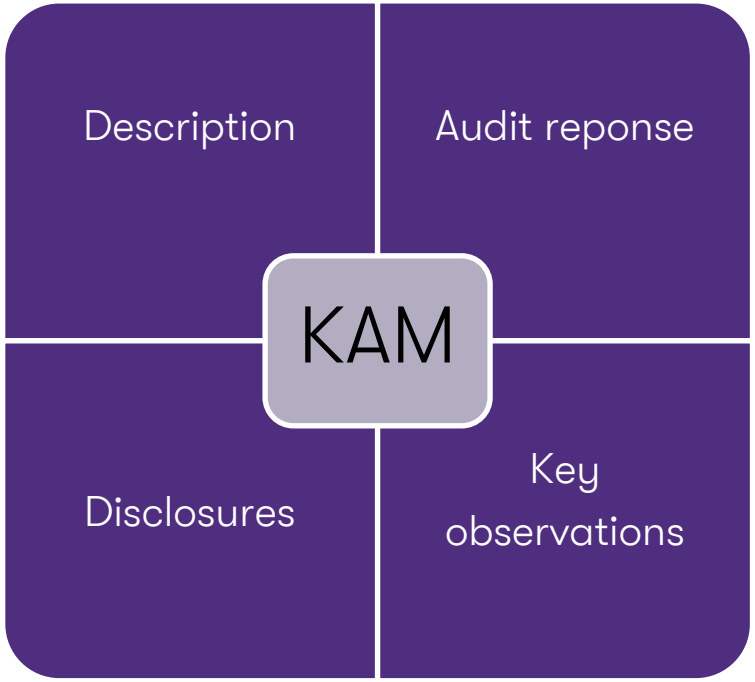
The table below summarises the key audit matters, significant and other risks discussed in more detail on the subsequent pages

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

↑ Assessed risk increased since Audit Plan
↔ Assessed risk consistent with Audit Plan
↓ Assessed risk decreased since Audit Plan
● Not considered likely to result in material adjustment or change to disclosures within the financial statements
● Potential to result in material adjustment or significant change to disclosures within the financial statements
● Likely to result in material adjustment or significant change to disclosures within the financial statements.

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Significant risks and key audit matters



Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. This section provides commentary on the significant audit risks communicated in the external audit plan.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the group and the Council's financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified.

These matters include those that had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and
- directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Other risks

Other risks are, in the auditor's judgement, those where the risk of material misstatement is lower than that for a significant risk, but they are nonetheless an area of focus for our audit.

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Significant risks and key audit matters (2)

Significant risks identified in our Audit Plan	Risk relates to	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override the entity's internal controls, related to individual transactions. We have therefore identified management override of controls, in particular journals, management estimates and of transactions outside the course of business as a significant risk of material misstatement.	Group and the Council	In response to the risk highlighted we carried out the following work: • Documented our understanding of and evaluated the design effectiveness of managements' key controls over journals. • Analysed the full journal listing for the year and used this to determine our criteria for selecting high risk journals. • Tested the high-risk journals we have identified. • Gained an understanding of the critical judgements applied by management in the preparation of the financial statements and considered their reasonableness • Gained an understanding of key accounting estimates made by management and carried out substantive testing on in scope estimates. • Evaluated the rational for any changes in accounting policies, estimates or significant unusual transactions. **Conclusion** Our work did not identify any material issues in relation to management override of controls. We are satisfied from our work performed that there have been no identified instances of management override of controls that would result in a material misstatement of the financial statements.

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Significant risks and key audit matters (3)

Significant risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of land, buildings and council dwellings In accordance with the CIPFA/LASAAC Code of Practice, except for initial recognition, the Council is required to hold property and property, plant and equipment (PPE) on a valuation basis. The valuation basis used will depend on the nature and use of the assets. Specialised land, buildings, equipment, installations and fittings are held at depreciated replacement costs (DRC), as a proxy for fair value. Non-specialised land and buildings, such as offices, are held at fair value. Council dwellings are determined using the basis of existing use value for social housing. As at 31 March 2025, the Council held land and buildings of £1,538 million and council dwellings of £497 million. Given these significant values, and the level of complexity and judgement involved in their estimation process, there is an inherent risk of material misstatement in the year end valuation of some assets. However, the risk is less prevalent in other assets as these are generally held at depreciated historical cost, as a proxy of fair value. We will therefore focus our audit attention on assets that have large and unusual changes in valuations compared to last year and/or unusual approaches to their valuations. The risk will be pinpointed as part of our final accounts work, once we review the population of assets revalued. Continued on next page.	Aberdeenshire Council	In response to the risk highlighted we carried out the following work: • evaluated management's processes and controls for the calculation of the valuation estimates, the instructions issued to their valuer and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • reviewed the response from the valuer confirming the basis on which valuations were carried out, including the basis for indexation; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • evaluated the valuer's report to identify assets that have large and unusual changes and/or approaches to the valuation, and where applicable, to substantially test these asset valuations to ensure the valuations were reasonable; • tested a selection of other asset revaluations made during the year to ensure they had been input accurately into the Council's asset register, and the revaluations had been correctly reflected in the financial statements; • evaluated the assumptions made by management for any assets not revalued during the year and how management had satisfied themselves that these valuations were not materially different to current value and • for any assets not formally revalued, evaluated the judgement made by management or others in the determination of the current value of these assets. Continued on next page.

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Significant risks and key audit matters (4)

Significant risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of land, buildings and council dwellings (continued) A substantial change has been made to the 2025/26 Code of Practice on Local Authority Accounting. Local authorities are now required to complete a full valuation for all properties once every five years or alternatively on a five-year rolling basis and supported by indexation in intervening years. We have confirmed that the Council employ an internal valuer to undertake a rolling programme of valuations across their asset base valuing land and buildings at least once every five years. In the intervening periods, Aberdeenshire Council carries out an indexation exercise. For 2025/26, the Council will utilise an external valuer to carry out the valuations of Council Dwellings. We therefore consider this to be a significant risk to our audit and a key audit matter.	Aberdeenshire Council	**Conclusion** Our work has not identified any material issues in relation to the valuation of land, buildings and council dwellings. The 2025/26 Code of Practice on Local Authority Accounting introduced a significant change to the accounting treatment of non-investment assets, permitting the use of indexation in intervening years between full asset revaluations. During 2025/26, the Council undertook full revaluations of a limited number of other land and building assets with a total carrying value of £20.6 million. We carried out sample testing over assets subject to full revaluation with no issues noted. The remaining land and building asset portfolio was therefore subject to an indexation review. To support this process, the Council engaged its internal valuer to undertake a market assessment and provide an appropriate basis for the application of indexation across each asset class. We reviewed the Council's approach to applying indexation to assets not subject to a full revaluation and confirmed that the methodology was reasonable and supported by valuation evidence. We also verified that the resulting accounting adjustments had been appropriately reflected in the financial statements. The Council has updated its accounting policies to reflect the revised requirements of the Code, confirming that indexation will be applied, where appropriate, in intervening years between full asset revaluations. A desktop valuation review of Council Dwellings was undertaken by the Council's external valuer. The review confirmed that there were no material changes to the assumptions or methodology underpinning the existing valuation, and management concluded that any movement in value was not material to the financial statements. The potential change in value was assessed to be approximately £15 million. Our audit work assessed the valuation review process, considered management's judgement not to recognise a revaluation adjustment, and tested movements in the housing stock balance, including additions, depreciation and impairment adjustments. Based on the evidence obtained, we concluded that the carrying value of Council Dwellings at 31 March 2026 was reasonable and not materially misstated.

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Significant risks and key audit matters (5)

Significant risks identified in our Audit Plan	Risk relates to	Commentary
Defined benefit pension scheme valuation The Council participates in the North East Scotland Pension Fund (NESPF), a local government pension scheme. There is an established Pension Fund protocol in place with Pension Fund auditors to provide external auditors with relevant assurance. The local government pension scheme is a defined benefit pension scheme and in accordance with IAS 19: Employee Benefits, Aberdeenshire Council is required to recognise its share of the scheme assets and liabilities in its Statement of Financial Position. In 2025/26, the Council applied the asset ceiling test as prescribed by IFRIC 14 which limited the measurement of a defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.' The pension asset can be recognised as the lower of the net pension asset or the present value of any economic benefits available. The Council's actuaries undertook this assessment and the asset value in the accounts was reduced as the present value of the benefits available were lower than the pension asset. The net liability arising from the unfunded defined benefit obligation remained as there is no right to offset this. Continued on next page.	Aberdeenshire Council	In response to the risk highlighted we carried out the following work: • evaluated management's processes and controls for the calculation of the gross asset and gross liability and estimates, the instructions issued to the actuarial expert and the scope of their work; • evaluated the assumptions made by Hymans Robertson in the calculation of the estimate, using work performed by an auditor's expert commissioned on behalf of Audit Scotland; • evaluated the data used by management's experts in the calculation of the estimates; • performed substantive analytical procedures over the gross assets, gross liabilities and in year pension fund movements, investigating any deviations from audit expectations; • assessed the accuracy and completeness of the IAS 19 estimates and related disclosures made within the Council's financial statements; and • reviewed management's assessment of the application of IFRIC 14 • evaluated the response received from the NESPF auditor in line with the Audit Scotland Protocol for Auditor Assurances for Local Government Pension Schemes Continued on next page.

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Significant risks and key audit matters (6)

Significant risks identified in our Audit Plan	Risk relates to	Commentary
Defined benefit pension scheme valuation The Council's actuary, Hymans Robertson, provide an annual IAS 19 actuarial valuation of Aberdeenshire Council's net liabilities in the pension scheme. There are a number of assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and future salary projections. Given the material value of the scheme's gross assets and gross liabilities and the level of estimation in the valuation, there is an inherent risk that the defined benefit pension scheme net liability could be materially misstated within the financial statements. This risk is focussed on the appropriateness and reasonableness of the underlying assumptions adopted by the actuary and the suitability of these for the Council. We therefore consider this to be a significant risk to our audit and a key audit matter.	Aberdeenshire Council	**Conclusion** Our work has not identified any material issues in relation to the pension figures. Our procedures included a review over the information the Council provided to the actuary (and pension fund) on which the pension estimates were made. Furthermore, as part of our IAS 19 assurance protocol request, the auditor of the North East Scotland Pension Fund (NESPF) provided an evaluation of the design of the controls related to the accuracy and completeness of source data provided to the actuary, with no issues being raised. Usually local government scheme (LGPS) pension liabilities calculated on an IAS 19 basis exceed any pension assets and members of the LGPS recognise a net pension liability on their balance sheet. However, a net defined benefit asset may arise where the defined benefit plan has been overfunded or where actuarial gains have arisen. This was the case for the Council, where the pension assets currently exceed pension liabilities by £787.054 million. IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments. IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The pension asset can be recognised at the lower of the net pension asset or the present value of any economic benefits available. The Council requested an IFRIC14 assessment from the actuary as part of the calculation of the pension figures in 2025/26, and the application of the asset ceiling has reduced the pension asset to nil. The Council continue to have a pension liability related to the unfunded elements of pensions which results in a liability of £27.278 million being recognised on the Balance Sheet.

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Significant risks and key audit matters (7)

Significant risks identified in our Audit Plan	Risk relates to	Commentary
Fraud in expenditure recognition Due to the presumption that there are risks of fraud in expenditure recognition, we are required to evaluate which types of expenditure, expenditure transactions or assertions give rise to such risks. Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". **(rebutted)**	Aberdeenshire Council	Having considered the risk factors set out in ISA 240 and the nature of the expenditure streams at the Council, we have determined that the risk of fraud arising from expenditure recognition can be rebutted, because: • there is limited incentive for management to manipulate the outturn position as the Council maintains sufficient reserves to cover any overspend. • we consider payroll costs to be well forecast and are able to agree these costs to underlying payroll systems. • non-payroll costs are generally high volume / low value transactions which are recognised across a number of expenditure streams. This would require a significant proportion of transactions to be manipulated to result in a material error. As such, we believe there is less opportunity for a material misstatement as a result of fraud to occur in the recognition of expenditure. Therefore, we do not consider this to be a significant risk for Aberdeenshire Council and the Group. **Conclusion** Our work has not identified any material issues in relation to completeness of expenditure and associated liabilities.

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Significant risks and key audit matters (8)

Significant risks identified in our Audit Plan	Risk relates to	Commentary
Fraud in revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. **(rebutted)**	Group and the Council	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council and the Group, we have determined that the risk of fraud arising from revenue recognition for all revenue streams can be rebutted because: • there is little incentive to manipulate revenue recognition. • there is a low opportunity to manipulate other income since it is non-complex and there are sufficient controls in place to prevent and detect fraud from other income streams, we therefore believe that the risk of material fraud is low. Therefore, we do not consider this to be a significant risk for the Council and the Group. **Conclusion** Our work has not identified any material issues in relation to revenue recognition.

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Other areas impacting the audit

Issue	Commentary	Conclusion
Nil net book value assets The Council's asset register includes £92 million of assets with a nil net book value that are fully depreciated.	There are two risks in relation to this issue: • if these assets are no longer operational, the gross cost and accumulated depreciation balance will be overstated; and • if these assets are operational, there is a risk that the Council is not assigning appropriate asset lives to its plant and equipment assets. The potential impact of these risks is that the gross cost and accumulated depreciation disclosed Property, plant and equipment is overstated.	At 31 March 2026, there were 1,490 property, plant and equipment assets held on the Fixed Asset Register at Nil NBV. These assets have a gross book value of £92 million. This is an increase in the total number of assets from the previous year. Across the population, we carried out sample testing over assets that continue to be held at Nil NBV, and confirmed in all cases that the asset continued to be in use at year end. We have previously raised a recommendation that the Council should embed a formal process for reviewing assets which have outlived their useful economic lives on an annual basis, to ensure the assets are still in existence. The Council now undertakes a comprehensive verification exercise for all assets held at Nil NBV on an annual basis. While the review process is established and operating effectively, it has not yet been formally documented within the Council's fixed asset procedures. The Council intends to incorporate the process into its existing fixed asset documentation, with annual reviews continuing to be undertaken by service areas and supported by retained evidence. Based on the implementation of an annual verification process for all Nil NBV assets and the Council's commitment to formalise the process within its fixed asset procedures, we consider the previous recommendation to have been addressed. Continued documentation of the process will further strengthen the control framework and support consistency in its application.

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Financial statements – key judgements and estimates

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

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

Assessment

- 🔴 - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated.
- 🟠 - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic.
- 🟡 - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious.
- 🟢 - We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

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Financial statements – key judgements and estimates (2)

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Property, Plant and Equipment: Depreciation including useful economic lives (UEL) - £100.260 million	Note 13 outlines the Council's approach to depreciation. Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction). Depreciation is calculated using the straight-line method. Depreciation is not calculated in the year an asset is acquired but is calculated in the year of disposal. Where a material item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The UELs of council dwellings and other buildings are estimated by the Council's valuers. All other UELs are determined by a 'suitably qualified officer'.	We examined the estimate, considering the: • appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate. Conclusion We were satisfied with the methodology for the calculation of the depreciation charge. Note the findings on page 26 regarding the number of nil net book value assets which the Council need to review in future years.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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Financial statements – key judgements and estimates (3)

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Provisions for debt impairment - £23.842 million	The Council makes a general debtors' provision based on a risk-based approach being applied depending on the age of debt. The provision has been calculated based on a percentage being applied depending on the age of debt. The required provision is then phased to subsequent years 2 and 3 thus applying a higher risk approach in the current year. The provision for sundry debtors is £4.087 million. The Council Tax element of the allowance for impaired debt is £19.755 million as disclosed in Note 4.	We examined the estimate, considering the: • appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate. **Conclusion** We were satisfied with the methodology for the calculation of the allowance. The Council has taken on board the recommendations made in previous years and revised the methodology for the calculation of the provision.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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Financial statements – key judgements and estimates (4)

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Public Private Partnerships (PPP) and similar contracts £93.455 million	The Council is committed to four PFI and similar contracts, in respect of Education & Leisure facilities. These are accounted for under IFRIC 12, Service Concession Arrangements. The Council considers themselves to be in control of the services provided under the agreement for the provision of educational establishments, and that the assets will transfer to Council ownership at the end of the lease period. As such, the PFI assets have been accounted for as "on-balance sheet" assets. The accounting models are updated annually to reflect actual charges and RPI. Future years' service costs are estimated based on the latest actual charges and current RPI rates. Interest and finance lease liability charges are unaffected by changes in RPI.	We reviewed your assessment of the estimate considering: • review of key assumptions input into the accounting models; • use of specialist software to gain assurance that the HUB model has been appropriately updated for the period ended 31 March 2026; • agreeing that accounting entries from the accounting model have been accurately recorded in Aberdeenshire Council's accounts. **Conclusion** We identified that the Council's original calculations for the IFRS 16 remeasurements relating to the PFI-PPP models were incorrect. The changes only applied to the 2025/26 accounts, as the prior year treatment had been correct. The biggest adjustments related to the Schools PPP scheme and the Alford scheme. The Council has amended the financial statements for this issue, and the overall impact on the financial statements was a decrease in PFI liabilities of £6.122 million and a corresponding increase in unusable reserves of £6.122 million. Following the updated being processed to the accounts, we are satisfied with the methodology for the calculation of the financial assets and liabilities.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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Financial statements – key judgements and estimates (5)

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Annual Leave Accrual £12.908 million	The Council accrues for annual leave balances which have been earnt by staff, but not yet taken by 31 March 2026. The Council base the estimate upon a sampled approach of outstanding leave and extrapolate the findings across the whole population.	We reviewed your assessment of the estimate considering: • appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate. Conclusion We were satisfied with the methodology for the calculation of the annual leave accrual.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

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Financial statements – key judgements and estimates (6)

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Fair value of assets and liabilities (financial instruments) Financial assets: £50.033 million Financial liabilities: £1,245.040 million	Financial liabilities and financial assets represented by current and long-term debtors and creditors are carried in the Balance Sheet at amortised cost.	We reviewed your assessment of the estimate considering: • ISA (UK) 540 requirements; and • appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate. Conclusion We are satisfied with the methodology for the calculation of the financial assets and liabilities.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

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Financial statements – key judgements and estimates (7)

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
IFRS 16 right of use Asset / Lease Liability: Financial assets: £6.759 million Financial liabilities: £5.200 million	The council calculates the lease liability as the NPV of the lease payments using the appropriate discount rate. Unless the interest rate is specifically identified in the lease contracts, the council chooses to use the PWLB interest rates as the incremental borrowing rate when discounting future lease payments.	Our testing over right of use assets and the lease liabilities included a review over new lease agreements entered into during 2025/26, confirming it was appropriate these lease arrangements were classified as right of use assets. Conclusion We are satisfied with the methodology for the calculation of the IFRS 16 Lease Liability.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

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Other key elements of the financial statements

There were other key areas of focus during our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice (2021) or ISAs or due to their complexity or importance to the user of the accounts:

Issue	Commentary
Matters in relation to fraud and irregularity	It is the Council's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from officers and those charged with governance regarding the Council's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made enquires of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any incidents in the period and no issues in relation to these areas have been identified during the course of our audit procedures that are outside of the usual expected investigations.
Accounting practices	We have evaluated the appropriateness of Aberdeenshire Council's accounting policies, accounting estimates and financial statement disclosures. We have identified minor disclosure adjustments required to the financial statements which have been detailed in Appendix A.
Matters in relation to related parties	The Council discloses its related party transactions at Note 34 of the accounts. The principal related parties are Scottish Government, Grampian Valuation Joint Board, NESTRANS, Aberdeenshire Integration Joint Board, the Council's Trusts and the Common Good Fund. We confirmed that the related party disclosures included within the accounts were appropriate and are not aware of any other related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	We have not been made aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. We have not identified any cases of money laundering or fraud at the Council.
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Minor amendments have been made to the Management Commentary, and we are satisfied that there are no unadjusted material inconsistencies to report.

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Other key elements of the financial statements (2)

Issue	Commentary
Governance statement	CIPFA and SOLACE updated the Delivering Good Governance in Local Government in May 2025 through an addendum to the 2016 Framework, introducing revised guidance on annual governance reviews and Annual Governance Statements for application from 2025/26 onwards. The Council have not updated its Local Code of Corporate Governance to align with the revised CIPFA/SOLACE Delivering Good Governance in Local Government guidance, which places greater emphasis on robust governance reviews, the use of assurance evidence, and a forward-looking assessment of governance arrangements. We recommend that the Council incorporate the requirements and expectations of the revised CIPFA/SOLACE guidance, ensuring that governance arrangements remain current, effective and fully aligned with the requirements applicable from 2025/26 onwards. **We have included a recommendation at Appendix B.** We are required to report on whether the information given in the Annual Governance Statement is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016). We identified that the Council had not included all required information in line with framework. The Council subsequently amended the Annual Governance Statement to ensure it included all the required detail outlined in the framework. No inconsistencies have been identified; we plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required by the Accounts Commission to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit or there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.
Written representations	A letter of representation has been requested from the Council as required by auditing standards. This is a standard request with no additional representation required. This can be found as a separate agenda item to this report.

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Other responsibilities under the Code

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2024). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered management's (senior officer's) assessment of the appropriateness of the going concern basis of accounting and conclude that: • a material uncertainty related to going concern has not been identified • management's (senior officer's) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
National fraud initiative	The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Participating bodies, including Aberdeenshire Council, receive matches for investigation. The Council has put processes and arrangements in place to investigate matches and appropriate personnel are involved in the process. The Council received their NFI matches for the 2024/25 exercise in December 2024. The total number of matches identified for investigation was 3,055. The Council have followed these up during 2025 and cleared 3,027 of the matches. The Council identified 26 errors and two frauds as a result of the review and are in the process of recovering the funds linked to these matches. The Council also identified co-estimated savings of £53,314 from the process. The next NFI exercise is scheduled for 2026/27 and the Council expect to receive the matches for investigation towards the end of 2026.

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Other responsibilities under the Code (2)

Issue	Commentary
WGA Return	For local government audits we are required to complete Whole of Government Accounts (WGA) work and provide an assurance statement on Aberdeenshire Council's WGA return as mandated by National Audit Office. The Council are working towards the Cycle 2 deadline for WGA, which is the submission of audited data by 30 October 2026. Based upon previous years, it is not expected that Aberdeenshire Council would exceed Audit Scotland's prescribed testing threshold. We will complete the relevant specified procedures and prepare and submit a partial assurance statement once we have completed all our work on your financial statements, and when the final guidance is received.
Other returns to Audit Scotland	In accordance with the Audit Scotland Planning Guidance, as appointed auditors we have prepared and submitted Fraud Returns and Current Issues Returns to Audit Scotland, sector annual reports, shared intelligence on health and social care, sector meetings and Technical Guidance Notes. There is nothing we need to bring to your attention in this respect.
Grants	In accordance with Audit Scotland planning guidance, as appointed auditors we undertake grant certification work on behalf of the Council. For 2025/26 we are required to provide the following certifications: • National Non-Domestic Rates Income Return (NDR) and • Housing Benefit certification We anticipate that our work on the grant claims will be concluded by the 30 November 2026 deadline for Housing benefits, with work starting in October 2026. The deadline for the NDR return was 8 October 2026, but our work is ongoing. We anticipate clearing the remaining points shortly, with the return being signed shortly thereafter.

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Other responsibilities under the Code (3)

Issue	Commentary
Section 106 Charities	The 2006 Regulations require charities to prepare Annual Accounts and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Therefore, a full and separate audit and independent auditor's report is required for each registered charity where members of the council are sole trustees, irrespective of the size of the charity. Our audit appointment as the Council's auditor includes the audit of any trust funds falling within Section 106 of the Local Government (Scotland) Act 1973 that are registered charities. For Aberdeenshire Council we have therefore been appointed as auditors of the Aberdeenshire Council Charitable Trusts. The Aberdeenshire Council Charitable Trusts are made up of the following three charities: • SC045539 - Aberdeenshire Charities Trust (ACT2) • SC028382 - Aberdeenshire Educational Trust • SC000850 - Anderson and Woodman Library Trust The work for 2025/26 was undertaken and concluded during October, and the Trust Fund accounts will be presented to the Audit Committee on 28 October 2026 for approval. Materiality for the Charity was set at 1.6% of net assets and was £80,443 with performance materiality at £60,632 and triviality at £4,000. The only significant risk identified was that of management override which is a significant risk in all entities. There are no matters to report to you from our work on journals in response to this risk. There were no amendments to the primary statements and no change to reported outturn. There were however some disclosure adjustments identified as part of the audit as set out below that are amended in the final set of statements as set out on the next page:

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Other responsibilities under the Code (4)

Issue	Commentary
Section 106 Charities (continued)	• McDonald Public Park Endowment was not required to be consolidated in 2025/26, and it was correctly excluded from 2025/26 in the draft financial statements. The 2024/25 comparators had been restated to take out McDonald Public Park Endowment entries, to be comparable. As the 2024/25 audited accounts were a final position, the McDonald Public Park Endowment figures were added back to the comparators, and disclosure added to explain the position. • The tax debtor balance was amended from £32 to £1,236 to reflect the correct debtor balance owed at year end. • The narrative in the financial instruments note was enhanced to give additional detail of the nature of the investments and the loan fund balance with the Council. • A post balance sheet note was not included in the draft financial statements. The audit fee for the Trust Funds is agreed separately, and the audit has been delivered at the rate agreed at our audit planning stage of £12,000. Thank you to the officers involved in the audit of the three charitable trusts.

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Other findings – other matters

Other Matter	Commentary	Conclusion
Infrastructure Assets	In accordance with the temporary relief offered by Local Government Circular 09/2022 Statutory Override Accounting for Infrastructure Assets, and extended by Finance circular 8/2024, the 2025/26 accounts did not include disclosure of gross cost and accumulated depreciation for infrastructure assets. This is due to historical reporting practices and resultant information deficits meaning the asset position would not be accurately presented in the financial statements. The Statutory Override is temporary, and whilst it will continue to apply in 2026/27, the Council need to ensure their records are up-to-date and in a position where they could disclose the correct information in the accounts if required. Note: The statutory override has been in place since August 2022 and has been extended in Scotland until 31 March 2027.	Whilst there will be no requirement to include this information in the 2026/27 accounts, as part of the look ahead process, the Council must ensure it has adequate processes in place to account for its Infrastructure Assets when the statutory override is no longer in place.

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Other findings – information technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating – security management	ITGC control area rating – technology acquisition, development and maintenance	ITGC control area rating – technology infrastructure	Related significant risks / other risks
General ledger - (Oracle)	ITGC design, implementation and operating effectiveness.	Green	Green	Green	Green	All significant risks
Payroll - (iTrent)	ITGC design and implementation effectiveness only.	Green	Green	Green	Green	Valuation of pension liability
Fixed Assets – (CIPFA)	ITGC design and implementation effectiveness only.	Green	Green	Green	Green	Property, Plant and Equipment

Assessment

- 🔴 - Significant deficiencies identified in IT controls relevant to the audit of the financial statements.
- 🟠 - Non-significant deficiencies identified in IT controls relevant to the audit of the financial statements / significant deficiencies identified with sufficient mitigation of risk.
- 🟡 - IT controls relevant to the audit of financials statements judged to be effective at the level of testing in scope.
- ⚫ - Not in scope for testing

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Other findings – information technology (2)

IT control deficiencies

As part of our audit work, we obtained an understanding of the IT environment related to all key business processes, identified any risks from the use of IT relevant to our audit and assessed the relevant ITGCs in place to mitigate these risks. We reviewed all three IT systems referred to on the previous page.

We have identified control deficiencies in the asset manager and payroll systems. These deficiencies are not considered to be significant and are historic issues which we have reported previously. We have provided details of these issues to management and our recommendations on how these issues could be resolved. The Council have provided a response to these issues.

We also noted the findings of an internal audit review of cyber security, which resulted in a Limited Assurance opinion. The review identified a number of areas where controls could be strengthened and made several recommendations to enhance the Council's cyber security arrangements. Management has accepted these recommendations and are progressing actions to address the issues identified.

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04 Wider scope and best value conclusions

Wider scope and best value arrangements

Our responsibilities under the Code extend beyond the audit of the financial statements. The Code sets out four audit areas that frame wider scope into specified reporting criteria. These are as set out below:



Financial management

Has the body got sound budgetary process, financial capacity and the control environment and internal controls are operating effectively.



Financial Sustainability

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



Vision, Leadership and Governance

How effective are the body's scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.



Use of Resources to Improve Outcomes

How the body makes best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources and reporting performance against outcomes.

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Wider scope conclusions

This section of our report documents our conclusions from audit work on the wider scope areas set out in the Code. We take a risk-based audit approach to wider scope work. Within our audit plan we identified one significant risk in respect of financial sustainability.

Wider scope area	Our risk considerations and focus	Significant risk identified - final stage		Wider scope conclusion
Financial Management	The arrangements in place at the Council to ensure sound financial management, accountability and the arrangements to prevent and detect fraud, error and other irregularities	No		The Council delivered the 2025/26 budget through effective monitoring and reporting of its finances, resulting in a final underspend against budget of £7.776 million, with the balance transferred to reserves. The Council are yet to achieve the Scottish Government target that 1% of a local authority's budget is allocated via Participatory Budgeting. The Council reported significant slippage in its 2025/26 capital budget, largely as a result of the timing of expenditure. Whilst we recognise external factors can impact planned timelines, the Council must ensure that the capital budget set at the start of the year is realistic, which will avoid significant re-profiling of budget during the year.
Financial Sustainability	The projected financial position of the Council in the medium to longer term and the relevance and appropriateness of assumptions applied to financial plans that will allow the council to effectively deliver services in the future	Yes		The Council approved a balanced budget for 2026/27, however this is predicated on delivering £9.254 million of savings during the financial year. Current forecasts indicate that the Council is on track to deliver all planned savings. The Council's Medium Term Financial Strategy confirms that significant savings will be required to bridge the projected funding deficit of approximately £158 million over the next five years, which includes an anticipated £29.8 million deficit in relation to the IJB. The Council must identify ways to alleviate the significant budget gap over the life of the strategy. Delivering sustainable savings and transformational change will become increasingly important to secure the Council's long-term financial sustainability.
Vision, Leadership and Governance	The effectiveness of the Council's governance arrangements and the arrangements in place to deliver the vision, strategy and priorities set by the council	No		The Council have appropriate governance arrangements in place which enables effective and transparent decision making. The Council's self-evaluation arrangements provide a structured basis for continuous improvement and governance oversight. The Council has effective arrangements for monitoring and implementing Internal Audit recommendations, with strong management oversight and good progress made in addressing outstanding actions.
Use of Resources to Improve Outcomes	How the Council demonstrates economy, efficiency and effectiveness through its use of financial and other resources	No		The Council has appropriate arrangements to report outcomes against Council priorities, with Directorates reporting performance in a timely manner. In response to our previous recommendation, the Council has enhanced the quality and accessibility of its Annual Performance Report in 2026 through the revised reporting format. There is evidence that the Council are performing above target against several local indicators. In relation to LGBF indicators, the Council's performance has been relatively static across the previous twelve months.

- No risks identified
- Other risks identified.
- Significant risk identified.

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Wider scope audit – financial management

Wider scope area	Wider scope audit response and findings	Conclusion
Financial management (continued)	2025/26 Financial Performance - Revenue The Council approved the revenue budget for 2025/26 and the Medium-Term Financial Strategy at the Council meeting on 27 February 2025. As part of the budget setting process, the Council also set indicative budgets for each final year up to 2029/30. For 2025/26, the Council approved revenue expenditure of £801.588 million and confirmed funding of £821.596 million. The Council made a strategic decision to increase reserves as part of the 2025/26 budget and anticipated that £20.008 million would be transferred to reserves at year end to strengthen the Council's financial resilience. Throughout the year, the budget and projected outturn have been reported to Members and updated for known changes. For 2025/26, the Council's expenditure of £800.377 million was lower than total income of £828.037 million. As outlined, the Council had budgeted to transfer £20.008 million to reserves and ultimately transferred £27.592 million to earmarked reserves. As a result, the year-end outturn represented an underspend of £7.776 million. The table on the following page shows the Council's outturn position for 2025/26.	The Council were transparent about the financial position throughout the year and delivered the budget through effective monitoring and reporting of its finances.

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Wider scope audit – financial management (2)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial management (continued)	The Council's 2025/26 outturn is reflected in the table below:	The Council delivered a significant underspend in 2025/26, resulting in a strengthened reserves position and improved financial resilience.

2025/26 Financial Outturn	Initial Budget (£m)	Revised Budget (£m)	Actual (£m)
Directorate expenditure	767.157	777.018	768.036
Other expenditure	34.431	33.336	32.341
Total expenditure	**801.588**	**810.354**	**800.377**
Scottish Government Grant income	(505.093)	(511.611)	(511.117)
Council Tax income	(186.114)	(188.238)	(186.531)
Business rates	(130.389)	(130.389)	(130.389)
Total income	**(821.596)**	**(830.238)**	**(828.037)**
Net expenditure	**(20.008)**	**(19.884)**	**(27.660)**
Transfer to usable reserves	**20.008**	**19.884**	**27.592**
Total	**-**	**-**	**(0.068)**

Source: 2025/26 Annual Accounts & year-end outturn report

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Wider scope audit – financial management (3)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial management (continued)	The Council is a key partner in the Aberdeenshire Integration Joint Board (IJB). The Council's financial relationship with the IJB is supported by aligned strategic and financial planning arrangements. IJB funding is incorporated within the Council's Medium-Term Financial Strategy, ensuring consistency with the Council's financial planning, governance framework and affordability objectives. Budget-setting and financial monitoring arrangements for the IJB operates alongside the Council's own processes, supporting integrated oversight and financial management. The 2025/26 IJB revenue budget and savings plan was approved by the IJB Board on 19 March 2025. The final revised budget was £502.925 million, with the Council agreeing a funding contribution of £171.180 million. The final budget identified an overall funding shortfall totalling £17.155 million. To enable the IJB to set a balanced budget for 2025/26, the Council and NHS Grampian, as the IJB's funding partners, agreed to underwrite the remaining budget gap. The Council's share of this commitment was £7.377 million, and a provision for the full amount was included within the Council's 2025/26 revenue budget to mitigate the risk of future financial pressures arising from the IJB's financial position. This was part of the budgeted transfer to reserves. Total expenditure for 2025/26 was £485.184 million, which was significantly lower than budgeted, and as a result, the IJB did not require the full amount of underwritten funding. The Council's financial risk associated with the contribution to the IJB reduced significantly during the year, and following the removal of the underwritten funding from the budget, the IJB delivered an overspend against budget of £3.147 million. The Council's share of the year end overspend totalled £1.372 million, substantially lower than the £7.377 million provision set aside within the Council's budget. As a result, the Council's provision for the IJB overspend was largely no longer required. After £2.0 million was repurposed through the 2026/27 budget process, the remaining £4.005 million was returned to the Transformation Reserve, which replenished a previous drawdown made in 2024/25, strengthening the Council's reserves position and reducing its financial exposure.	The IJB's financial position improved considerably during 2025/26, reducing the additional funding required from partners at year end compared with the level anticipated in the budget.

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Wider scope audit – financial management (4)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial management (continued)	**Financial Performance - Savings** To balance the 2025/26 budget, recurring savings of £26.819 million were approved at the time of budget setting. The year-end outturn report, presented to Council in June 2026, provides an overview on the savings delivered during 2025/26:	The Council delivered a significant portion of planned savings, but not the full target. Savings reporting has strengthened during the year, with the Council introducing enhanced monitoring arrangements that track the delivery of savings on a project-by-project basis.

	£m
Budgeted savings	26.819
Service specific savings achieved	11.322
Transformation and efficiency savings achieved	8.679
Savings not achieved	6.818

Achieved savings during 2025/26 totalled £20.001 million, all of which were deemed to be recurring in nature. Several planned savings totalling £6.818 million were not achieved during the year. To offset the non-delivered savings, services delivered in-year underspends through operational efficiencies and staff vacancies.

We have previously reported that the Council should provide Members with clearer reporting on the delivery of planned savings. During 2025/26, the Council enhanced its financial monitoring reports taken to Full Council by including a summary of the savings position, outlining savings achieved to date and assessing the deliverability of remaining savings using a RAG rating system. This represents a positive improvement and provides Members with greater oversight of progress but we note that the reporting remains relatively high level.

Furthermore, the financial monitoring reports presented to each Policy Committee include an appendix detailing the status of individual savings initiatives. This enhances transparency by providing project-level reporting on savings delivery, enabling clearer identification of savings that have been achieved, partially achieved, or remain outstanding. As a result, the recommendation raised in the previous audit has been actioned.

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Wider scope audit – financial management (5)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial management (continued)	<u>Housing Revenue Account</u> The Council approved the 2025/26 Housing Revenue Account (HRA) budget on 27 February 2025, with budgeted income of £76.160 million. The budget reflected the Council's previously agreed 5% rent increase for both 2025/26 and 2026/27. Planned expenditure for the year was £67.248 million, with budgeted capital funded from revenue (CFCR) of £8.912 million. The budget was subject to minor revisions during the year, and the outturn is reflected in the table below:	The HRA delivered a favourable outturn against budget, generating additional resources for capital investment through an increased CFCR contribution

	Initial Budget £m	Revised Budget £m	Outturn £m
Total expenditure	67.248	68.852	67.720
Total income	(76.160)	(76.160)	(76.831)
Total net income	(8.912)	(7.308)	(9.111)
Transfer to/(from) reserves	-	(0.500)	(0.025)
Capital funded from current revenue	8.912	7.808	9.136

The HRA reported a net income position of £9.111 million for 2025/26, exceeding the revised budget of £7.308 million by £1.803 million. The favourable variance was primarily due to lower staffing and borrowing costs, together with income exceeding budget from tenant recharges and additional rental income generated from new-build properties. These were partly offset by higher expenditure on supplies and services. The improved outturn enabled an increased contribution from current revenue to capital (CFCR) of £9.136 million.

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Wider scope audit – financial management (6)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial management (continued)	<u>Financial performance – Capital</u> The Council approved the Capital Plan for 2025/26 at the February 2025 Council meeting, which set a capital expenditure budget of £86.160 million. Following the approval of the capital budget for 2025/26, the Council approved amendments to the original budget, mainly due to carry forwards from 2024/25, which resulted in the capital budget increasing to £89.332 million. All revisions to the capital budget revisions were approved by Full Council. As the year has progressed, further revisions were made to the capital budget, all of which have been approved by Full Council. The monitoring report provides explanations for all changes to the budget, ensuring members have an appropriate level of detail of the proposed changes. The final budget for 2025/26 totalled £96.127 million.	The Council reported significant slippage in its 2025/26 capital budget, largely as a result of the timing of expenditure. We note that there are events outside the Council's control which can lead to delays.

2025/26 Capital Plan – expenditure by Directorate	Original budget £m	Revised budget £m	Actual £m	Variance £m
Business Services	6.506	6.506	6.365	0.141
Education & Children's Services	36.706	40.904	23.879	17.025
Environment & Infrastructure Services	42.548	48.236	34.717	13.519
Health and Social Care Partnership	0.400	0.481	0.524	(0.043)
Total Expenditure	**86.160**	**96.127**	**65.485**	**30.643**

The final year end actual outturn was £65.485 million, an underspend of £30.642 million compared to the revised capital plan. This represented a delivery rate of 68% of the revised capital plan.

The underspend primarily reflects delays in the timing of expenditure rather than reductions in project scope. Recurring procurement and tendering delays, supply chain and lead-time constraints and late or re-profiled grant funding have all contributed to slippage, with the majority of expenditure expected to be carried forward into 2026/27.

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Wider scope audit – financial management (7)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial management (continued)	The main drivers of the underspend were: • Peterhead cultural quarter – the project underspent by £10.756 million as a result of the main construction spend not proceeding in 2025/26 following unaffordable tender returns and a delayed second procurement exercise. • Bridges and structures – programme delays arose from a combination of site-specific constraints, design changes, procurement issues, and ongoing consultant and resourcing shortages, resulting in the deferral of several schemes and slippage against the planned delivery programme. • Roads network resurfacing – underspends were largely a result of adverse weather and surface water conditions delaying planned capital works We have previously reported that the Council have had issues in relation to capital slippage. We noted in our 2024/25 Annual Audit Report that the Council underspent against its 2024/25 Capital Plan by £38.201 million, due to several projects facing delays and complications. The council recognise that capital plans are prone to slippage and continued focus will be on ensuring that budgets set are appropriate. More detail on capital planning for 2026/27 can be found at **page 61.** Housing Revenue Account - Capital Outwith the main capital planning approach, the Council prepare a Housing Capital Plan, which is approved by Full Council as part of the Housing Revenue Account budget. The programme for 2025/26 was approved at the Council meeting in February 2025 and confirmed a total budget of £31.413 million. The Plan reflects the investment priorities which tenants identified within surveys, alongside other regulatory requirements. The Housing Capital Plan reported a year-end outturn of £21.558 million against a budget of £31.413 million, resulting in an underspend of £9.855 million. The underspend was primarily due to delays in housing development and improvement projects, utility connection issues, market conditions affecting property acquisitions, and paused sheltered housing schemes. We note the reasons for the delays, all of which are considered reasonable in the circumstances. The delays did not have significant impact on the Council's strategic housing objectives, with the affected projects expected to progress in future periods.	The Council have continued to experience significant levels of capital slippage during 2025/26 and must ensure that the capital budget agreed in advance of the financial year is realistic.

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Wider scope audit – financial management (8)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial management No risk identified.	<u>Financial Management Arrangements</u> The Council has a suite of financial monitoring reports that are presented to Members throughout the year. The outturn against the revenue budget is reported on a quarterly basis to both Full Council and relevant Policy Committees, with a final outturn report delivered following the end of the financial year. All in-year financial information is reported on a regular and timely basis and there are several supporting appendices to the monitoring reports which provide detail on a service level basis, changes made to budget during the year and progress against the savings delivery plans. <u>Participatory Budgeting</u> The Scottish Government have a set target that 1% of a local authority's budget should be allocated via Participatory Budgeting. The Council's 1% Participatory Budgeting target for 2025/26, based on the Local Government Finance Circular, was £6.27m. This represents 1% of total estimated revenue expenditure, less assumed Council Tax income, in line with the definition agreed by COSLA and the Scottish Government. For 2025/26, the Council has reported that £1.078 million of the budget was subject to Participatory Budgeting. This is a significant improvement from the prior year total of £0.227 million, however, it continues to be below the Scottish Government target. The Council have outlined that delivering participatory budgeting continues to be challenging in the context of ongoing financial pressures and constrained service budgets, which limits opportunities to allocate funding through this mechanism. While the Council has developed a broader approach to community engagement, incorporating consultations, targeted engagement and participation forums, Participatory Budgeting has become a less prominent feature of community involvement. Although around 20,000 people engaged with the Council through Engage Aberdeenshire during 2025/26, the Council should continue to seek opportunities to implement participatory budgeting in line with Scottish Government expectations and guidance, ensuring communities have a direct role in influencing decisions on the allocation of public resources. This would help demonstrate a continued commitment to community empowerment while complementing wider engagement activity delivered through the Council's Place Strategy. **We have raised a recommendation at Appendix C.**	Regular and comprehensive financial reporting provides members with oversight of budget performance, savings delivery and financial risks. The Council have not yet achieved the Scottish Government target that 1% of a local authority's budget should be allocated via Participatory Budgeting. The Council has developed a broader approach to community engagement which ensures communities are involved in decision making processes.

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Wider scope audit – financial sustainability

Wider scope area	Wider scope audit response and findings	Conclusion
Financial sustainability Significant risk: The Council continue to face significant financial pressures. The Council prepare a Medium Term Financial Strategy which identifies the significant level of challenge the Council will face in future years and shows a projected cumulative financial gap over the length of the strategy totalling £158.001 million.	<u>Short Term Financial Planning – Budget Setting 2026/27</u> The 2026/27 budget was approved by the Council on 26 February 2026. Assuming all savings are delivered, the Council have set a break-even budget for 2026/27. The budget includes an expected £2.380 million transfer to reserves and additional funding to the IJB of £6.476 million. The Council also set indicative budgets for 2027/28 – 2030/31 as part of the budget approval. As part of the budget setting process, the Council initially identified a funding gap of £30.208 million which was closed through a combination of measures. The gap was reduced via an increase in expected settlement changes, alongside additional income in year, however this was partially offset by additional investment in the IJB and the Council. The remaining gap was closed through service disinvestment/efficiencies, a proposed empty homes/second homes Council Tax premium, the use of re-purposed 2025/26 earmarked reserves, and a 10% Council Tax increase. This is reflected in the table below:	The Council agreed a break-even budget for 2026/27. The 2026/27 budget is predicated on delivering £9.254 million of savings and failure to deliver these savings could place additional pressure on the Council's financial position.

	£m	£m
Budget shortfall		30.208
Additional income	(30.078)	
Real living wage funding to IJB	8.186	
Savings	(9.254)	
Policy Changes / Repurposed reserves	(4.899)	
Council Tax increase (10%)	(3.823)	(39.868)
Budget surplus after savings and additional income		(9.660)
Share of IJB Shortfall		6.476
Additional investment – Council		2.784
Balance to reserves		0.400

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Wider scope audit – financial sustainability (2)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)	The Council has incorporated the re-purposing of earmarked reserves totalling £2.7 million into its 2026/27 budget. This comprises £2.0 million of unutilised reserves from the IJB underwriting reserve established in 2025/26, together with £0.7 million of unused project funding carried forward into 2026/27. As these resources relate to funding set aside in previous years that was no longer required for its original purpose or remained unspent at year end, their use within the 2026/27 budget is reasonable and does not create additional financial pressure on recurring revenue budgets. Short Term Financial Planning – Budget Monitoring 2026/27 The Council presented the Quarter 1 revenue monitoring report to Full Council on 24 September 2026. The report provides an update on the Council's performance against the 2026/27 budget. At the end of Quarter 1, the Council is projecting an underspend against budget for 2026/27 of £4.870 million. The favourable position is largely driven by staffing vacancies and lower capital financing costs resulting from deferred borrowing and reduced capital expenditure. The Council note that the favourable position should not be interpreted as evidence that the Council's underlying financial challenge has reduced. As outlined previously, savings of £9.254 million were approved when the budget was set. The monitoring report provides an update on progress towards achievement of savings on a RAG basis and outlines: • £0.886 million of savings are complete • £6.668 million are assessed as green - on track to be delivered in full and recurring • £1.700 million are assessed as amber - partially delivered or off track, but recoverable Overall, progress against the approved savings programme remains positive, with all £9.254 million of planned savings either delivered, on track, or considered recoverable. No savings are currently assessed as high risk, indicating that the Council remains well positioned to achieve its savings target for the year.	The Council is on track to deliver all planned savings as part of the 2026/27 budget.

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Wider scope audit – financial sustainability (3)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)	The Aberdeenshire IJB presented its Quarter 1 Revenue Monitoring Report to the September 2026 Board meeting, providing an update on financial performance against its 2026/27 budget and revised projections for the remainder of the year. At the end of June 2026, the IJB reported an underspend of £2.956 million, and is forecasting a year-end budget surplus of £0.358 million for 2026/27. The forecast surplus represents an improvement in the IJB's 2026/27 financial position and indicates that budgetary pressures are being managed within the available resources. Based on the latest projections, it is unlikely that the Council will be required to provide any additional financial support to the IJB during 2026/27. Housing Revenue Account (HRA) As part of the budget setting process, the Council approved a 2026/27 HRA revenue budget of £74.063 million. The HRA is primarily funded through rental income and charges from tenants of £78.719 million. As part of the budget setting, the Council approved a 5% increase in housing rents for 2026/27. The Council also approved the HRA Capital Plan budget of £31.110 million, which is primarily funded from £20.729 million (67%) of prudential borrowing. As part of the revenue monitoring update to Council in September 2026, the Council confirmed the HRA revenue budget is forecast to be balanced overall at the end of quarter one. The main pressure is within Asset Management and Repairs, where repairs inflation is forecast to create an overspend. This is offset by under-budget positions across a number of areas including tenancy services and sheltered housing. The HRA Capital Plan is forecasting expenditure of £23.792m against the budget of £31.110m, resulting in a forecast underspend of £7.318m. The main variance of £7.250 million is within the Housing Improvement Plan and reflects delays in the commencement of the Housing Improvement Plan 2 project and reprofiling of expenditure into future years. See page 62 for more detail on slippage of capital budgets.	The IJB is forecasting an underspend against its 2026/27 budget, reducing the risk of further financial contributions being required from the Council during the year. The HRA revenue budget is projected to break-even, however the Council are again projecting a significant capital slippage within HRA in 2026/27.

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Wider scope audit – financial sustainability (4)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)	Medium Term Financial Strategy The Medium Term Financial Strategy (MTFS) was approved by Full Council on 26 February 2026 and sets out a challenging financial outlook for the Council, with ongoing demand pressures, limited growth in funding, and a continued requirement to deliver savings and transformational change to support long-term financial sustainability. The projections included in the MTFS are reflected in the table below:	The council is using transformation to assess and identify new and innovative ways to alleviate the significant budget gap identified over the life of the MTFS. As funding pressures continue and opportunities for efficiencies become more limited, delivering sustainable savings and transformational change will become increasingly important to secure the Council's long-term financial sustainability. The Council aim to deliver the MTFS through a combination of transformation, prioritisation and disinvestment, alongside strengthened financial and performance grip.

	2026/27	2027/28	2028/29	2029/30	2030/31
Total revenue	(868.584)	(885.727)	(891.335)	(897.090)	(902.996)
Estimated net expenditure	859.738	915.132	946.536	985.544	1,027.216
Transfer to reserves	2.380	4.000	4.000	4.000	4.000
Net expenditure/(income)	(6.476)	33.405	59.201	92.454	128.220
Share of IJBs MTFS deficit	6.476	8.966	11.439	24.346	29.781
Cumulative funding gap	-	42.371	70.640	116.800	158.001

The MTFS confirms the Council's overall budget gap to financial year 2030/31 is projected to be £158.001 million, which includes anticipated additional funding to the IJB over the period. This is a significant increase on the previously reported funding gap in the previous iteration of the MTFS. The inclusion of the IJB figures is an improvement to longer term planning as it presents a holistic view of the Council's overall financial position. The MTFS reflects the wider financial sustainability risk to the Council and the need to continue to identify new ways to deliver services via approaches to transformation. More detail on the IJB financial outlook is on the following page.

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Wider scope audit – financial sustainability (5)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)	The Council's financial challenge remains structural rather than cyclical and requires a combination of service reprioritisation, transformation and increases in Council Tax to maintain financial balance. The MTFS references planned Council Tax increase in future years and for 2026/27, the Council approved a 10% increase in Council Tax as part of the budget. The Council's projected share of the IJB's future funding shortfalls has been incorporated into the Medium-Term Financial Strategy (MTFS). These projections are based on the IJB's forecast expenditure over the next five years and assumptions regarding future funding contributions from NHS partners. The IJB's current financial projections identify a cumulative funding gap of £66.2 million over the five-year period. Based on existing funding arrangements, the Council's share of this deficit is estimated at £29.8 million (45%). While these projections provide an indication of the potential financial impact on the Council, they are dependent on a range of assumptions, including future funding levels and the successful delivery of service redesign and efficiency programmes. As such, the estimates remain subject to change as the IJB's financial plans evolve. Given the scale of the projected deficit, it is important that the Council continues to maintain effective oversight of the IJB and seeks assurance that robust plans, governance arrangements, and savings mechanisms are in place to manage the financial challenge and mitigate the risk of additional cost pressures arising for the Council. In previous years, we have recommended that the Council should seek to identify the medium term savings anticipated from its transformation and other projects, and update the MTFS to include plans to address the identified funding gap. The Council confirmed that, as part of the 2027/28 budget-setting process and the forthcoming refresh of the MTFS, work is underway to identify and quantify anticipated savings from transformation initiatives and other projects for inclusion within the MTFS. Savings arising from transformational activity will be developed, monitored and progressed through the newly established Directorate Boards. While work is ongoing to identify and quantify savings arising from transformation and other projects, no specific medium-term savings proposals have been agreed beyond the current financial year. As a result, the Medium Term Financial Strategy continues to contain a significant level of unidentified savings and does not yet fully demonstrate how future funding gaps will be addressed. As a result, this recommendation remains valid and should be progressed as part of the next update to the Medium Term Financial Strategy.	The Council must maintain a clear focus on the IJB's projected deficit and ensure that robust and deliverable plans are in place to address the underlying financial pressures.

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Wider scope audit – financial sustainability (6)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)	<u>Reserves</u> The Council's reserves remain limited relative to the scale of its revenue budget and the level of financial risk it faces. While reserves provide important financial resilience and flexibility, they are finite and cannot support recurring expenditure on a sustainable basis. The 2026/27 budget has been balanced without reliance on reserves, reflecting a prudent approach to financial management and helping to maintain capacity to manage future risks and uncertainties. Furthermore, the 2025/26 budget and 2026/27 budget included a planned increase to existing reserves balances. At the end of 2025/26, the Council held general fund reserves totalling £89.427 million, with £27.410 million earmarked for specific purposes and a further £52.945 million committed for specific projects. The £52.945 million includes £18.9 million held in a Risk and Inflation Reserve which is available for unanticipated events and expenditure. The remainder totalling £9.072 million is held in free general reserves. We consider that the level of free general reserves is insufficient to adequately protect the Council from unanticipated events/expenditure. In February 2025, the Council approved a revised reserves strategy to maintain uncommitted General Fund reserves at 3.5% of its net revenue budget, equivalent to approximately £29 million. To support this objective, the Council has committed to setting aside £4 million annually between 2027/28 and 2030/31, with this investment reflected within the MTFS. This demonstrates a proactive approach to financial planning and will strengthen the Council's financial resilience, providing greater capacity to manage future financial pressures and uncertainty.	Overall, while the Council's current level of free reserves remains below that required to provide adequate financial resilience, its planned investment to rebuild reserves demonstrates a prudent and sustainable approach to strengthening the financial position in future years.

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Wider scope audit – financial sustainability (7)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)	<u>Transformation Strategy</u> As set out in the Medium-Term Financial Strategy, transformation is one of the key mechanisms through which the Council will support long-term financial sustainability. The Controller of Audit Report highlighted the need for clearer visibility of transformation activity and greater alignment between strategic ambition and demonstrable savings and benefits. As a result, the Council approved a revised Transformation Strategy on 15 January 2026 which places greater emphasis on place-based transformation and aligns services more closely to the needs, priorities and assets of local communities. We note that the Transformation Strategy was approved prior to the updates made to the MTFS as part of the 2026/27 budget setting. The Transformation Strategy sets out the Council's response to the projected budget gap over four years, alongside rising demand from demographic change. Building on the Council's Place Strategy and Scotland's Place Principle, it aims to protect statutory duties while shifting delivery through digital self-service, simplified customer journeys, earlier intervention, and needs-based resource allocation. Benefits are expected to follow an "invest to save" principle, covering both financial and non-financial gains. The strategy confirms Transformation is now Directorate-led, supported by a central Programme Management Office and four cross-cutting workstreams. The strategy sets out a tiered reporting structure: Directorate Boards report monthly to a Strategic Change Board (against agreed KPIs), with bi-annual milestone reviews and an annual strategic health-check. Furthermore, Policy Committees receive quarterly updates within their remit; and Full Council receives bi-annual progress reports. The Council has strengthened its transformation governance and benefits realisation arrangements through the introduction of a Savings Dashboard, which tracks both historic and forecast savings across revenue, carbon and workforce reductions, with regular monitoring by Directorate Boards and independent verification of delivered savings by Finance. The introduction of a mandatory Financial Assessment Template for business cases has also improved the identification and monitoring of anticipated savings from project inception. In addition, performance reporting to the Strategic Change Board has been enhanced through the development of Directorate Board trackers, providing greater transparency and accountability for transformation programme delivery.	The Council have set a balanced budget for 2026/27 without the planned use of general reserves balances. Furthermore, there is no planned use of general reserves outlined in the MTFS. The Council plans to increase reserve levels over the period covered by the MTFS, in line with its reserves strategy.

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Wider scope audit – financial sustainability (8)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)	2026/27 Capital Planning and Monitoring At its meeting on 26 February 2026, the Council approved an updated medium to long-term Capital Plan, setting out planned investment over the five-year period from 2026/27 to 2030/31 and the longer term to 2040/41. For 2026/27, the Council approved expenditure of £103.609 million which is funded as follows:	The Council approved revisions to the Capital Plan in June 2026.

2026/27 Capital Funding	£m
General Capital Grant	17.239
Other Grants from Scottish Government	2.420
Levelling Up Funding (UKG)	13.231
Nestrans	0.290
Other Contributions	1.399
Capital Receipts	1.750
PFI / PPP Funded	0.883
Cash and Prudential Borrowing	66.397
Total	103.609

Following the approval of the Capital Plan, amendments were made to the 2026/27 capital budget during quarter one, resulting in a revised budget of £113.633 million. The changes were mainly due to carry forwards from 2025/26, and the revised Capital Plan was approved by Full Council on 25 June 2026.

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Wider scope audit – financial sustainability (9)

Wider scope area	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)	The Council presented the Quarter 1 capital monitoring report to Full Council on 24 September 2026 which provides an update on the Council's performance against the 2026/27 capital budget. At the end of Quarter 1, the Council is projecting an underspend against budget for 2026/27 of £8.008 million, with total capital spend in 2026/27 projected to be £105.625 million. The forecast slippage is assessed as timing-related rather than a reduction in the approved capital requirement. The majority of the underspend relates to the Peterhead Cultural Quarter project and reflects the reprofiling of expenditure to align with revised post-contract cash flow forecasts. This will reduce planned expenditure in 2026/27, with spending deferred to 2027/28. Additionally, the flood prevention project will not be delivered within 2026/27, as the timescales required to scope, procure and complete the works extend beyond a single financial year. We have previously reported concerns regarding capital slippage, noting that the Council underspent against its 2024/25 Capital Plan by £38.201 million. While the Council has acknowledged that some degree of slippage is inherent in the delivery of capital programmes, the 2026/27 Capital Plan is already showing signs of delay. These delays mainly relate to two specific projects, Peterhead Cultural Quarter and flooding project works, with expenditure likely to be incurred in future years. Continued monitoring and robust oversight of project delivery will be essential to minimise further slippage and ensure planned investment is delivered on a timely basis. Our prior year recommendation remains valid. <u>Capital and Long-Term Borrowing</u> The Council Capital Plan, which covers the period 2026/27 to 2040/41, outlines an anticipated capital expenditure of £664.149 million over the 15-year period to 2040/41 and demonstrates the Council's commitment to investing in its assets and infrastructure. Budget allocations across the life of the plan are indicative and will be reviewed and updated once more information is known. Planned capital investment over the life of the five-year plan is projected to be £335.339 million. Approximately 57% of the five-year capital programme is expected to be funded by cash and prudential borrowing, with the remaining 43% from grants and other receipts. The plan is reflected on the following page.	The Council is forecasting slippage in the 2026/27 capital programme, with the majority relating to two specific projects.

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Wider scope audit – financial sustainability (10)

Wider scope area	Wider scope audit response and findings	Conclusion

Financial sustainability (continued)

Capital Plan	2026/27	2027/28	2028/29	2029/30	2030/31	Total
Planned capital expenditure	103.609	100.908	52.593	42.077	36.152	335.339
General Capital Grant	(17.239)	(21.152)	(21.152)	(21.152)	(21.152)	(101.847)
Other Grants from Scottish Government	(2.420)	(0.100)	(0.100)	(0.100)	(0.100)	(2.820)
Other Funding	(17.553)	(9.235)	(6.256)	(4.163)	(3.587)	(40.794)
Cash and Prudential Borrowing	(66.397)	(70.421)	(25.085)	(16.662)	(11.313)	(189.878)
Total Funding	(103.609)	(100.908)	(52.593)	(42.077)	(36.152)	(335.339)

In setting the Capital Plan, the Council must adhere to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities, which requires the Council to set an Annual Treasury Management Strategy demonstrating the affordability and sustainability of the financing of the Capital Plan. The Council have approved a methodology for keeping capital expenditure within affordable limits (known as the cap). The Council has established a locally determined affordability ceiling of 8.5%, supporting its assessment of affordability under the CIPFA Prudential Code when preparing the 2026/27 - 2030/31 Capital Plan.

The estimated borrowing costs for the next five years have been calculated and estimated as a percentage of expected revenue streams. The ratio is increasing over the period, but remains below the approved cap. For 2026/27, the percentage is calculated as 6% and rises to 7.8% by year five of the plan. This ensures the Council's capital plan is affordable. Given the pressure on the General Fund revenue budget and the low level of reserves it is critical that the Council remains within the affordability ceiling of 8.5%.

The Council's Capital Strategy is currently out of date, and officers are currently progressing the development of a refreshed Capital Strategy, which will aim to provide a clearer and more consistent framework for future investment decisions. The strategy is being developed in close alignment with the Corporate Asset Management review and is planned for introduction in 2027/28.

The Council's Capital Plan requires a significant level of borrowing in the early years of the plan.

The Council has considered the affordability cap as part of the capital budget setting.

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Wider scope audit – vision, leadership and governance

Wider scope area	Wider scope audit response and findings	Conclusion
Vision, leadership and governance No risk identified.	<u>Council Governance</u> The political administration of the Council continues to operate as a coalition between the Scottish Conservatives, Scottish Liberal Democrats and Independent Councillors. Aberdeenshire Council comprises 70 Councillors representing 19 wards. As no single party holds an overall majority, effective leadership and cross-party collaboration are essential to ensure that key decisions are taken and the Council's strategic priorities are delivered. All elected members sit on Full Council, which is responsible for setting the annual budget, determining council tax and housing rent levels, approving strategic plans, and making decisions on matters reserved to the Council. The Provost serves as the Council's civic leader and chairs Full Council meetings, while the Council Co-Leaders provide strategic direction, oversee the delivery of Council priorities, and work closely with partners and elected members. Councillors also play a key governance role through scrutinising financial performance and monitoring expenditure to provide assurance that spending remains aligned with approved budgets and financial objectives. The Council's governance framework includes four principal policy committees: Business Services, Infrastructure Services, Education and Children's Services, and Communities. Directorates report regularly to these committees, which are responsible for reviewing performance, scrutinising proposals, and making decisions within their respective remits. This committee structure supports effective oversight and decision-making across the Council's key service areas. Any proposed changes to service delivery, performance reporting, policies, or work programmes are considered through the Council's governance structure, with matters reported to the relevant policy committees and, where appropriate, Full Council for decision. The Council also operates six Area Committees, which consider issues affecting their local communities and make recommendations to policy committees on strategic matters and Council policy. In addition, a number of specialist committees support the Council's governance arrangements, including the Aberdeen City Region Deal Joint Committee and the Sustainability Committee.	The Council have appropriate governance arrangements in place which enables effective and transparent decision making.

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Wider scope audit – vision, leadership and governance (2)

Wider scope area	Wider scope audit response and findings	Conclusion
Vision, leadership and governance (continued)	The Audit Committee plays a key role in the Council's assurance framework. Its responsibilities include oversight of internal and external audit activity, governance, risk management, and financial reporting, as well as scrutiny of the Integration Joint Board's health and social care arrangements where these relate to services delivered by the Council under delegated directions. Regular reports presented to the Committee include internal audit findings, updates on governance and key policies, progress against the Corporate Improvement Plan, and committee self-assessment reviews. The Council's governance arrangements are detailed within the Annual Governance Statement (AGS), which forms part of the Annual Accounts. We have reviewed the disclosures contained within the AGS and are satisfied that they are appropriate and consistent with our understanding of the Council's governance framework. Through our attendance at Audit Committee meetings, we observed that papers were comprehensive, of a high standard, and circulated sufficiently in advance to support informed consideration by members. Meetings allow adequate time for discussion of agenda items, enabling the Committee to challenge effectively, scrutinise key issues, and fulfil its governance responsibilities. <u>Approach to Self-Evaluation</u> The Council adopted the Public Service Improvement Framework (PSIF) self-evaluation model in November 2021 as its principal mechanism for assessing organisational performance and demonstrating compliance with its Local Code of Corporate Governance. In addition to a rolling programme of self-evaluation undertaken across individual services, the Council conducts an annual organisation-wide assessment to review its overall effectiveness and identify opportunities for improvement. The focus of each annual review aligns with the theme of Audit Scotland's Best Value Annual Thematic work, with Asset Management selected as the subject for the 2025/26 self-evaluation. The Council completed the self-evaluation in early 2026, with the resulting improvement opportunities consolidated into a Self-Evaluation Improvement Plan. To support effective oversight and delivery, the identified actions were subsequently incorporated into the Corporate Improvement Plan, enabling regular monitoring of progress and reporting through the Council's established governance arrangements.	The Council has effective governance arrangements in place to support the achievement of its objectives and the proper stewardship of public resources. The Council's self-evaluation arrangements provide a structured basis for continuous improvement and governance oversight.

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Wider scope audit – vision, leadership and governance (3)

Wider scope area	Wider scope audit response and findings	Conclusion
Vision, leadership and governance (continued)	<u>Risk Management</u> The Council's senior management is responsible for establishing and maintaining effective risk management arrangements, internal controls, accounting records and governance processes. The Chief Internal Auditor provides independent assurance on the adequacy and effectiveness of these arrangements and reports the findings to the Audit Committee. The Council's Risk Management Policy, approved by the Business Services Committee in January 2022, sets out the framework for identifying, assessing, managing and monitoring risks across the organisation. During 2025/26, Internal Audit completed a review of the Council's risk management framework, with the findings reported to the Audit Committee in October 2025. The review concluded that reasonable assurance could be placed on the Council's risk management arrangements, while also identifying a number of opportunities to further strengthen the framework. Management has agreed actions to address these recommendations, which are due for completion by March 2027. The Council maintains a Corporate Risk Register, supported by four Directorate Risk Registers covering each service area. During 2025/26, these registers were subject to member scrutiny and review to ensure that identified risks remained relevant and that mitigation measures continued to be appropriate and effective.	The Council has adequate risk management arrangements in place and should continue to take appropriate action to mitigate the risks identified within its risk registers, particularly those assessed as high risk.

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Wider scope audit – vision, leadership and governance (4)

Wider scope area	Wider scope audit response and findings	Conclusion
Vision, leadership and governance (continued)	<u>Internal Audit</u> The council has its own internal audit function which is led by the Chief Internal Auditor. Internal audit activity is reviewed and monitored by the Audit Committee, with the assistance of the Director of Business Services. The roles and responsibilities of Internal Audit are defined in an internal audit charter. The year-end internal audit opinion was presented to the Audit Committee on 18 September 2026. The Internal Audit opinion for 2025/26 was "the Council had an adequate and effective framework for governance, risk management and control, covering the period 1 April 2025 to 31 March 2026." This statement was included in the 2025/26 Annual Governance Statement alongside the results of Internal Audit work undertaken during the year. In 2025/26, Internal Audit identified major risks across nine reviews, compared to eleven in the prior year. The key risks stemmed from the following reviews: • Roads Year End Stock Take • Route Map 2030 and Beyond • Security in Schools • HSCP Workforce Planning • Secure Care Provision • Commercial and Industrial Lets • Cyber Security • Museums • Place Strategy Implementation A major risk rating results in a limited assurance opinion and for each of the above areas, the reporting confirmed that only Limited Assurance could be taken. The Annual Governance Statement includes commentary on the major risks identified during 2025/26.	Internal Audit provided a reasonable assurance opinion over the adequacy and effectiveness of the internal control system for the year ended 31 March 2026. Internal Audit delivered the majority of planned activity during 2025/26 and no significant alterations were made to planned activity.

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Wider scope audit – vision, leadership and governance (5)

Wider scope area	Wider scope audit response and findings	Conclusion
Vision, leadership and governance (continued)	Internal audit provide update reports to each Audit Committee meeting. This includes reporting on any inspections completed in the previous quarter and updates on the progress of the Internal Audit Plan for that financial year. Furthermore, Internal Audit also provide an update on follow-up reviews to evidence the implementation of recommendations. The most recent update report was presented to the Audit Committee in September 2026, and confirmed that there are currently 25 outstanding audit recommendations rated as follows: • One rated as Severe • Two rated as Major • 19 rated as Moderate • Three rated as Minor For the 25 outstanding recommendations, updates on progress have been provided by management for all recommendations. From our review of internal audit reports and audit committee reports, we have not identified any evidence of significant gaps in the assurance obtained by the audit committee in relation to the work programme undertaken by Internal Audit.	There is effective follow up by management, with progress against audit recommendations being followed up at each Audit Committee meeting. The Council have made good progress in addressing outstanding Internal Audit recommendations and are taking appropriate action to ensure all open recommendations are addressed.

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Wider scope audit – vision, leadership and governance (6)

Wider scope area	Wider scope audit response and findings	Conclusion
Vision, leadership and governance (continued)	<u>Partnership Working</u> The council, alongside NHS Grampian, is a key partner of the Aberdeenshire IJB and therefore has an interest in the governance arrangements of the IJB. The Chief Officer of the IJB regularly attends Council and Audit Committee meetings and provides reports summarising details of the Board's activities. The Council participates in the Aberdeen City Region Deal (ACRD), a partnership between the UK Government, Scottish Government, Aberdeen City Council, Aberdeenshire Council and Opportunity North East. The Deal aims to support the growth and transformation of the region's key sectors, promote sustainable economic development, and create green employment opportunities. The Deal has continued to grow in scale, with its total value increasing to £1.012 billion, primarily driven by increased private sector investment. As a result, the proportion of funding provided by the private sector has risen from 59% to 73% of the overall programme. By 31 March 2026, delivery remained well advanced, with 96% of available resources utilised and 89% of government funding drawn down. An interim evaluation of the deal was completed during 2025 to review the programme's progress, achievements, and lessons learned to date. Key outputs delivered through the Deal have included the Net Zero Technology Centre, the Full Fibre Project, the Duct Network Extension and the Strategic Transport Appraisal. The City Network Extension secured £59 million of private sector investment and enhanced digital connectivity across the region, while the other projects contributed to innovation, business support, digital infrastructure and strategic transport planning. The evaluation identified opportunities to strengthen future programme delivery, including the introduction of more proportionate reporting arrangements, streamlined decision-making processes and greater flexibility in funding models. It also highlighted the importance of embedding net zero considerations. While some projects experienced delays and cost pressures, completed projects delivered their intended business case outcomes and supported the region's strategic objectives.	The Council have appropriate arrangements in place to ensure oversight of the operations of its partners.

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Wider scope audit – vision, leadership and governance (7)

Wider scope area	Wider scope audit response and findings	Conclusion
Vision, leadership and governance (continued)	<u>Partnership Working – North East Scotland Investment Zone</u> The Council are a key partner in the North East Scotland Investment Zone (NESIZ), a £160 million project to boost productivity, accelerate business growth and provide more high-priority jobs in the region. The proposed Investment Zone interventions represent a spending package for North East Scotland of £112 million across 16 interventions. The Council acts as the accountable body for NESIZ and is responsible for receiving, managing and administering funding provided by the UK and Scottish Governments. The NESIZ Joint Committee was established in March 2026, and is responsible for monitoring the effectiveness of the implementation and delivery of the NESIZ alongside its role in approving business cases and overall programme funding. NESIZ was initially established as a 10-year programme; however, no project delivery was possible in the first year due to the time required to conclude the gateway approval process with the UK and Scottish Governments. The programme is now in its second year, and we note that five business cases have been approved by the Joint Committee to date. A progress update presented to the August 2026 Joint Committee highlighted that the delayed start may affect projects' ability to fully achieve their intended outcomes within the original timeframe and could also impact the overall utilisation of committed funding. We will continue to monitor programme delivery and progress towards the anticipated outcomes as projects move into the implementation phase. During 2025/26, the Council received £2.866 million of funding, of which £0.277 million was utilised to meet the administration costs associated with delivering this function. No funding was distributed to third parties during the year. As at 31 March 2026, £2.589 million remained held on behalf of NESIZ and is expected to be distributed in future years in line with the objectives of the programme. The Council has taken its accountable body responsibilities seriously and established appropriate governance and control arrangements to ensure that project proposals are subject to robust scrutiny before approval. While this approach has contributed to delays in progressing some projects, it provides greater assurance that public funds are used appropriately and that proposed outcomes are realistic, achievable, and capable of being delivered.	The Council have appropriate arrangements in place to ensure oversight of the operations of its partners.

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Wider scope audit – use of resources

Wider scope area	Wider scope audit response and findings	Conclusion
Use of resources to improve outcomes No risk identified	<u>Aberdeenshire Council Plan 2024-2029</u> The Aberdeenshire Council Plan covers the period 2024-2029 and was approved by the Council in June 2024. The Plan confirms the strategic priorities of the Council: • A sustainable economy • Connected communities • Living well locally The Council Plan is concise and clearly identifies outcomes and performance indicators which will assist the Council in achieving the strategic priorities. In order to deliver its priorities, the Council have a Performance Management Framework which aims to support a culture of continuous improvement and to provide the best outcomes for communities. The Performance Management Framework was updated in March 2025 to reflect the new Strategic Performance Information Direction (2024), published by the Accounts Commission in January 2025. Details on performance monitoring arrangements can be found at page 72. To support delivery of the Council Plan, each Directorate has developed a Strategic Directorate Plan that translates the Council's high-level strategic priorities into specific Directorate objectives and actions. The plans include key Council Plan performance indicators, designed to demonstrate progress against the Council's Strategic Priorities and Statutory Performance Indicators (SPIs). These indicators comprise a combination of local measures and Local Government Benchmarking Framework (LGBF) indicators and are reported to the relevant Policy Committees on a six-monthly basis. Heads of Service within each Directorate have also developed Business Plans which incorporate performance measures that illustrate how each Directorate is contributing to the Council's priorities. For the duration of the Council Plan 2024-29, Directorates will report on a curated set of 25-30 indicators from the Business Plans within their remit.	The Council have an approved Corporate Plan, and the achievement of priorities is monitored via the Performance Management Framework.

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Wider scope audit – use of resources (2)

Wider scope area	Wider scope audit response and findings	Conclusion
Use of resources to improve outcomes (continued)	The Strategic Leadership Team (SLT) has overall responsibility for overseeing performance against the Council's priorities and embedding the Performance Management Framework across the Council. Performance is monitored through quarterly reviews of Council and Directorate reports, with corrective action agreed where improvement is required. Elected Members scrutinise progress through the Annual Performance Report presented to Full Council each September and through six-monthly Business Plan updates reported to Policy Committees. Directorate Reporting Education and Children's Services The year-end performance monitoring report is split across four areas; Education, Children's Services, Resources and Performance priorities and Communities Wellbeing and Partnership. Overall, Education and Children's Services (ECS) has a positive trajectory for performance measures: • 22 indicators are assessed as on target or exceeding targets • two indicators are assessed as just off target • three indicators are assessed as off target Both Education and Children's Services achieved full compliance with their performance indicators, with improvements in exclusion rates and child protection plan outcomes. Resources and Performance met target on six of nine measures, with exceptions in primary school estate utilisation and free school meal uptake (the latter affected by discontinuation of the underlying census dataset). The most significant exceptions were in Communities Wellbeing and Partnership, where two of seven measures were missed target in relation to adult CLD award completions and SQA music course entries. Both off-target indicators were attributed to staffing and post-pandemic recovery factors.	The Council are publishing performance information in a timely manner. Directorates are reporting performance in a timely manner and there is evidence that the Council are performing above target in several indicators. For areas not at target, the Council have identified improvement actions to improve overall performance.

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Wider scope audit – use of resources (3)

Wider scope area	Wider scope audit response and findings	Conclusion
Use of resources to improve outcomes (continued)	Business Services The year-end performance monitoring report is split across four areas; Sustainable Economy, Connected Communities, Living well Locally and Climate Change. The Business services year end performance update includes progress against 27 performance measures which are made in line with the Council's strategic priorities: • 15 indicators are assessed as on target or exceeding targets • eight indicators are assessed as off target • four are for data only Strong performance was noted in council tax collection, construction projects (with all 39 completed within budget in Quarter 4), reduction in operational assets via the Operation Oyne disposal programme, and customer service call wait times despite rising call volumes. Areas for improvement include the percentage of capital plan expenditure, investigation-stage complaint resolution, percentage of staff digital enabled, workforce "thriving" survey results which have declined on the prior year and on-time delivery of key projects. Infrastructure The year-end performance monitoring report for Infrastructure Services has a positive trajectory for performance measures: • eight indicators are assessed as on target or exceeding targets • two indicators are assessed as off target Strong performance was noted in road condition, with B Class, C Class and unclassified roads all ranking in the top quartile in Scotland, building warrant turnaround times, which exceeded both targets in Quarter 4, and the supply of marketable employment land. Areas for improvement include the percentage of planning applications determined within agreed timescales, the length of core path opened or improved annually and household recycling rate, which remains below target. The 2025/26 year-end performance report was not formally reported to Infrastructure Services Committee. Management have acknowledged the omission and provided members with the performance report detail. To prevent this reoccurring in future, management have reinstated a reporting timetable and two person checking process to ensure no reports are missed.	The Council are reporting strong performance data across both Business Services and Infrastructure, with many indicators exceeding performance targets.

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Wider scope audit – use of resources (4)

Wider scope area	Wider scope audit response and findings	Conclusion
Use of resources to improve outcomes (continued)	Health and Social Care Partnership (HSCP) The Aberdeenshire Council Integration Joint Board prepare an Annual Performance Report, which was presented to full Council on 24 September 2026. This report provides a detailed overview of key challenges, achievements and performance over the year. The HSCP's performance is monitored against the 23 national core suite of integration indicators which provides the framework for all HSCPs in Scotland to benchmark their performance and progress towards delivery of the nine National Health and Wellbeing Outcomes. Our review of the 2025/26 performance report highlights that out of the 19 national indicators where data is reported: • Nine indicators were showing as green (Current position is the same or better than Scotland), • Five indicators were showing as amber (Current position is worse than Scotland but within 5%) • Five indicators were showing as red (Current position is worse than Scotland by more than 5%). The five indicators showing as red are reflected in the table below:	Whilst the IJB is above or in line with the Scottish average for the majority of reported indicators, we note that performance has declined for eleven of the reported indicators for the most recent reporting period.

Indicator Title	IJB Previous Score (23/24)	IJB Current Score (25/26)	Scotland Average
Percentage of adults supported at home who agreed that they are supported to live as independently as possible	78.4%	67.8%	73.6%
Percentage of adults supported at home who agreed that they had a say in how their help, care, or support was provided	66.2%	55.9%	63.9%
Percentage of adults supported at home who agreed that their health and social care services seemed to be well co-ordinated	69.8%	52.4%	65%
Percentage of people with positive experience of the care provided by their GP practice	62.3%	62.2%	70.7%
Percentage of adults supported at home who agreed they felt safe	79.3%	69.4%	74.7%

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Wider scope audit – use of resources (5)

Wider scope area	Wider scope audit response and findings	Conclusion
Use of resources to improve outcomes (continued)	<u>Annual Performance Report</u> The Council presented its Annual Performance Report to members at the 24 September 2026 Full Council meeting. The report is fully aligned to the Council Plan and reports performance information across the Council's three priorities. In the prior year, we highlighted opportunities to improve the presentation of performance information within the Annual Performance Report. The Council has significantly reformatted the 2025/26 report, resulting in a clearer and more accessible presentation of performance information. The revised format includes structured tables and graphical analysis of key performance indicators, together with trend information and comparative performance data covering the previous three years. This enables readers to more easily assess performance against targets, understand changes over time, and identify areas of improvement or decline. As a result, we consider the prior-year recommendation to be fully addressed. <u>National Benchmarking Data</u> The Council particates in the Local Government Benchmarking Framework (LGBF). The outputs include information about how all Scotland's councils perform and includes a range of indicators. The most recent national benchmarking overview report 2024/25, was published in March 2026. The Council presented the 2024/25 LGBF results to the Audit Committee in May 2026. The LGBF datasets are first scrutinised by directorate management teams, who agree improvement actions for indicators performing in the bottom two quartiles. These actions are then consolidated into an overall improvement plan which is included as an appendix within the LGBF report. The LGBF report presented to the Audit Committee includes key national messages on overall issues affecting Scottish Councils. It also shows the LGBF in a local context, outlining areas where the Council is performing well and the areas for improvement.	The Council has enhanced the quality and accessibility of its Annual Performance Report through the revised reporting format.

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Wider scope audit – use of resources (6)

Wider scope area	Wider scope audit response and findings	Conclusion
Use of resources to improve outcomes (continued)	The data for LGBF is live and is available for any member of the public to review for their council area. A review of the Council's LGBF indicator performance was undertaken in September 2026 and is reflected below:	The LGBF data shows that the Council has areas of over performance and under performance when compared to the Scotland average. The Council's overall performance has remained broadly static in 2026. The LGBF website provides a performance overview which shows 39% of LGBF indicators have improved in the last 12 months, 40% are showing a decline in performance and 21% are in line with the previous period.

	Scotland	Aberdeenshire
Cost per primary school pupil	£7,606	£7,132
Cost per secondary school pupil	£9,338	£9,479
% of pupils from 20% most deprived areas gaining 5+ awards at Level 5	53%	37%
School attendance rates per 100 pupils	91%	92.8%
% of 65+ with long term care needs receiving personal care at home	62.3%	56.8%
% of carers who feel supported to continue in caring role	31.9%	28%
Gender Pay Gap %	1.4%	-1.1%
Sickness absence days per teacher	7.8	7.3
Sickness absence days per employee (non-teacher)	14.5	11.3
Cost per attendance at sports facilities	£3.77	£3.78
Average time per business and planning application (weeks)	14.3	8.7
Proportion of procurement spent on local enterprises	30.6%	27.7%
Net cost per waste collection per premises	£77.26	£86.18
Percentage of A Class roads considered for maintenance treatment	30.6%	22.5%
Proportion of total household waste arising that is recycled	44.3%	44.7%
CO2 emissions area wide per capita (t CO2e)	4.29	6.04

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Wider scope audit – use of resources (7)

Wider scope area	Wider scope audit response and findings	Conclusion
Use of resources to improve outcomes (continued)	<u>National Performance Audits:</u> The Auditor General for Scotland and the Accounts Commission regularly publish performance audit reports that provide insight into key risks, challenges and areas of good practice across local government. Many of the issues highlighted are directly relevant to the Council and can support Members and officers in considering current and future service delivery, financial sustainability and strategic planning. During the year, reports of relevance included: • Local Government Budgets 2025/26, which examined the significant financial pressures facing councils and the challenges of delivering balanced budgets; • Local Government Performance: Spotlight on Culture and Leisure Services, which considered the sustainability, demand and future delivery of culture and leisure services; • Local Government in Scotland: Financial Bulletin 2024/25, which provided an overview of the financial position of Scottish local authorities and highlighted the continuing need for transformation and long-term financial planning. • Integration Joint Boards: Finance Bulletin 2024/25, which reviewed the financial performance of Scotland's Integration Joint Boards and highlighted ongoing pressures within health and social care services The Council should continue to consider the findings and recommendations of these reports when assessing its own financial and operational arrangements, as many of the findings are in line with the challenges currently being faced by the Council. <u>Public Sector Reform</u> Scotland's Public Service Reform Strategy commits to a fundamental shift in how public services are designed and delivered, moving towards a system that is preventative, better joined up, and more efficient in meeting people's needs. Under the Programme for Government 2026-31, this translates into a broader modernisation agenda: cutting bureaucracy, restructuring health boards, and reviewing how social care is governed and delivered. For local authorities, the reform agenda encourages greater service sharing, reduced duplication and waste, and a stronger role for local communities in shaping the services that affect them. The Council has confirmed that, at this stage, the specific financial and operational impact of these reforms has not yet been determined.	The Council is facing the same type of financial challenge as seen across the local government sector in Scotland. The reform agenda presents both opportunity and uncertainty, and its impact for local government is currently unknown.

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Best value conclusions

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

The audit work performed on the arrangements the council has in place for securing Best Value and its community planning arrangements found these were effective and appropriate. The work we have completed to support this conclusion is outlined below:

The Accounts Commission's approach to Best Value involves reporting on individual local government bodies and thematically across the local government sector through performance reports. Our work on the Best Value thematic is set out below.

Best Value Thematic – Asset Management

In 2025/26, the Accounts Commission has directed auditors to report on how well are councils managing their assets to achieve their corporate objectives and respond to challenges around financial sustainability and climate change? Our report, setting out our findings and improvement recommendations was presented to Members in September 2026. Our conclusions, based on a series of questions posed by the Accounts Commission are set out below.

To what extent does the council have a clear asset management strategy and plans that are affordable, align with its corporate objectives, the changing needs of its population, and net zero commitments?

The Council has recently refreshed the Strategic Asset Plan. The Corporate Asset Management Plan has also been updated and is scheduled for approval in Autumn 2026. Both are aligned to the Council's corporate priorities, and the Council must now focus on effective implementation to ensure the intended benefits are realised going forward. However, several of the service asset plans are now considered to be out of date, and the Council is currently developing new plans for relevant services. We note that within both documents, there is minimal detail on the performance of the Council's existing estate and no information around the current condition of assets or occupancy rates of buildings. This is information that is readily available to the Council and could be incorporated into overarching plans.

Through the Building and Estates Transformation programme, a number of improvement activities have been identified which are being progressed and focus on rationalisation, consolidation, income/capital receipts and energy reduction. The Council has a good track record of disposing of assets and has reduced the operational asset portfolio by approximately 35% from 2010, demonstrating that estate rationalisation has been a strategic priority for several years. However, the majority of improvements are either ongoing, or in their infancy. At present, approximately 12% of the estate (63 assets), representing 3.3% of the total gross internal floor area, is vacant and progressing through the asset disposal process, with a number of properties either under offer or actively being marketed. Continued focus and effective delivery will be required to realise the anticipated efficiencies and long-term benefits.

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Best value conclusions (2)

The Council have approved the Capital Plan 2026-2041 which confirms a borrowing requirement of £289 million over the period. Gross external debt totalled £1.054 billion in March 2026 and is expected to increase to approximately £1.33 billion by March 2029. This will increase the revenue requirement to service debt, which must be met through additional income or service savings. The Council have set an affordability ceiling "cap" in line with the CIPFA prudential code confirming that their Capital Plans are affordable. We consider that the cap is an appropriate mechanism for ensuring that capital expenditure is affordable. Significant challenges remain, particularly in meeting future investment needs, managing an ageing estate, and operating within constrained capital funding, which limit the pace of transformation and investment.

The Council have a range of documents which highlight net zero considerations and a goal to reach net zero by 2045. The removal of the 75% emissions reduction target by 2030 reflects the Council's acknowledgement that it was not achievable within current funding levels. While the net zero by 2045 commitment remains in place, progress has been slower than originally envisaged and the Council is currently off target with regard to reducing carbon emissions.

To what extent do the council's governance and accountability arrangements support effective asset management?

The Council's governance and accountability arrangements provide a clear framework that supports effective asset management; however, the Council must ensure that refreshed asset management actions are reported on an ongoing basis. Asset management decisions are transparent and aligned with the Council's priorities. The Council have clear arrangements in place for monitoring the delivery of the Capital programme. The Council have experienced challenges in the delivery of certain Capital projects, resulting in recurring underspends against budget. For 2025/26, the Council reported an underspend of £30.6 million.

The Council's LGBF performance for asset management is in line with the Scottish average and there are positive signs of improving performance trends across key indicators in recent years.

Historically, the Council has consistently underspent against its approved capital budget, resulting in significant slippage within the programme. This pattern reflects ongoing challenges in delivering planned projects within the intended financial year, often due to scope and design changes from projects, price changes, and dependencies on external partners or contractors. This has impacted the Council's ability to achieve the pace of capital investment originally set out in its plans and resulted in the re-profiling of expenditure to future years.

To what extent does the council have a robust approach to working with partners and communities in managing its assets?

The Council demonstrates a strong and proactive approach to partnership working and community engagement in the management of assets. There are well-developed arrangements for partnership working and co-location, which enhance service delivery and maximise the use of the Council's estate. The Council has clear examples of both partnership working and community asset transfer.

The Council has mechanisms in place to engage with stakeholders, support community involvement, and work collaboratively with partners to maximise asset use and value. Asset management decisions are informed by local needs, support the Council's priorities, and contribute to positive outcomes for communities.

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Best value conclusions (3)

Place Plans are being developed and will be long-term and based on the needs of communities. We note that these are at an early stage and the Council is not yet able to point to significant outcomes from the Place Plans.

Controller of Audit Report

At least once every five years, the Controller of Audit reports to the Accounts Commission on each council's performance in meeting its Best Value duties. Aberdeenshire Council was selected for review in 2025/26, with the Controller of Audit report published on 25 March 2026.

The Commission's findings from the review are noted below:

1. Aberdeenshire Council's Plan 2024–2029 sets out a clear vision for the area and reflects the challenges created by its geography and projected demographic trends, which will increase service demand and costs. The clarity of its priorities, shaped through community and stakeholder engagement, is notable given the council's complex political landscape. Continued collaboration between officers and elected members will be essential, particularly in light of the £81.4 million cumulative budget gap identified in the Medium-Term Financial Strategy. The importance of the council's own deadline of delivering savings and transformation plans by June this year cannot be overstated, and we will observe the development of these plans with close interest.

2. The council is well governed, takes informed decisions, and performs strongly in many areas. However, their projected budget gap is amongst the largest in Scotland (as a percentage of their total revenue budget) and undelivered savings in previous years mean it is vital for the council to set out more clearly how it will bridge future budget gaps. We welcome the more specific savings proposals identified for 2026/27, which will support clearer tracking and reporting, and we look forward to the auditor's assessment of this approach.

3. Given demographic and other pressures, the council's Transformation Strategy is critical to long-term financial sustainability but relies on projects that deliver financial and non-financial benefits. We endorse the auditor's recommendations around producing a more detailed transformation programme, and to standardise governance and reporting across all transformation activity, with clear performance information and milestones being developed. This will strengthen members' ability to monitor progress, risks and outcomes, essential in the current and projected fiscal context.

4. We commend the council's strong commitment to community engagement in setting priorities. This should continue as detailed transformation projects develop, given the likely impact on service users and communities. The council's intention to produce locally informed 'place' plans is positive, particularly given its size and diversity. We look forward to seeing how this commitment will be supported going forward.

5. We are encouraged by the council's extensive partnership working, which provides a strong platform for the future. However, to address its significant financial challenges, the council should now prioritise partnerships that can deliver meaningful transformation at local, regional or national level.

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Best value conclusions (4)

6. We recognise that partnership working carries risks. The Ness Energy from Waste project, jointly undertaken with Aberdeen City and Moray Councils, has experienced contractual issues in 2025/26, creating financial and service-delivery risks for all three authorities. Given the project's scale and importance, we ask the council to undertake and share a 'lessons learned' review.

7. The Aberdeenshire Integration Joint Board (IJB) continues to represent a financial risk to the council. We welcome the early identification of the funding shortfall and the proactive joint work between the council, NHS Grampian and the IJB to address this and although a gap remains, progress is positive. Amid growing demographic pressures, the council and partners will need to balance carefully their commitment to improving outcomes for service users with making the necessary changes to ensure financial sustainability.

Next Steps:

Following the publication of the Controller of Audit Report, the Council have implemented a Best Value Improvement Plan which is intended to strengthen grip, assurance and delivery. The Improvement Plan does not create a separate or disconnected set of actions and as a result, the improvement activity has been incorporated within the Corporate Improvement Plan. The main areas of focus are as follows:

- Funding gap and pace of delivery
- Savings delivery and financial realism
- Transformation delivery
- Community engagement and place
- Partnerships and shared risk

The Corporate Improvement Plan is reported to the Audit Committee and Full Council on a six-monthly basis, providing members with regular updates on the progress of agreed improvement actions.

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Best value conclusions (5)

Council service performance improvement

The Accounts Commission's Statutory Performance Information (SPI) Direction 2024 is the latest statutory requirement that tells Scottish Councils the performance information they must publish and report to the public. It came into effect from 1 April 2025 and applies for the period 2025/26 to 2027/28. The SPI Direction requires the council to publish information that will:

- enable comparisons of performance between councils and over time
- show how well it is improving local outcomes with community planning partners in their area.

Auditors have a statutory duty to satisfy themselves that the council has made proper arrangements for preparing and publishing SPI in accordance with the Direction and report a conclusion in the Annual Audit Report.

The arrangements the council has in place for preparing and publishing SPI were assessed by considering:

- whether information reported allowed comparison of performance between councils and over time
- the indicators it uses for reporting and whether it maximises use of the Local Government Benchmarking Framework (LGBF) indicators
- whether information reported was balanced, timely, and accessible
- whether information reported covered the four key areas set out in the Schedule to the Direction.

Audit work on the arrangements the council has in place for preparing and publishing SPI concluded the arrangements in place were effective and appropriate. More detail on the overall approach to performance reporting can be found at page 72.

The 2025/26 Annual Governance Statement outlines the Council's assessment of how it is performing against its duty of Best Value and the progress and status of recommendations raised in the previous years' Best Value thematic reviews. The Annual Governance Statement also confirms the Council have adopted the Public Service Improvement Framework (PSIF) self-evaluation model. PSIF is a self-assessment approach to support improvement in organisations, with a comprehensive review of their own activities and results.

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Appendices

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A. Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements made during the course of the audit are set out in the table below, together with their impact on the Comprehensive Income and Expenditure Statement (CIES), the balance sheet, and the reported net expenditure of the Council for the year ending 31 March 2026.

Note that with any of the adjustments there is no impact upon usable reserves.

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £'000	Impact on total gross expenditure £'000
PFI IFRS 16 remeasurements We identified that the Council's original calculations for the IFRS 16 remeasurements relating to the PFI-PPP models were incorrect. The biggest corrections were in the Schools PPP scheme and the Alford scheme. The Council has updated the accounts to reflect the corrected calculations. The overall impact on the financial statements was a decrease in PFI liabilities of £6.122 million and a corresponding increase in unusable reserves of £6.122 million.		Dr PFI and PP Liabilities £6,122 Cr Unusable reserves (£6,122)	Nil

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A. Audit adjustments (2)

Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. This list of misclassification and disclosure changes reflects presentational adjustments to the financial statements which have no impact on the Council's reported financial position.

Disclosure	Auditor recommendations	Adjusted?
General	There were minor changes noted to grammar and to correct spelling and other consistency issues. The Council has corrected these in the final version of the financial statements. Such changes are expected and do not warrant detailed explanation.	Yes
Management Commentary	The management commentary was updated to reflect the updated 2025/26 performance data following the Performance Report being published in September 2026 and to include final details on the Participatory Budgeting delivery in 2025/26. We identified an opportunity to enhance the disclosures within the accounts by including additional narrative explaining the nature, scope and significance of the Peterhead Community Campus project, which is one of the Council's major capital developments currently in progress.	Yes
Annual Governance Statement	We requested additional disclosure was added to the Annual Governance Statement to confirm the addendum to the Delivering Good Governance Framework applied for the first time in 2025/26. We also requested that additional information be added on the Controller of Audit report issued by the Accounts Commission in March 2026, including details of the actions taken by the Council to address findings. The Council also provided extra detail on previous best value recommendation raised as part of the thematic reviews in previous audits.	Yes
Note 1: Accounting Policies (1.16)	We identified that the lease accounting policy should be updated to reflect the fact that 2025/26 was no longer the transition year and was now standard practice.	Yes

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A. Audit adjustments (3)

Misclassification and disclosure changes (continued)

Disclosure	Auditor recommendations	Adjusted?
Note 13: Property, Plant and Equipment	We identified that additional disclosure should be added to the PPE note to confirm the reason for the opening balance adjustment was to reflect a correction to the accounting treatment for the 2024/25 PFI/PPP remeasurement.	Yes
Note 33: Defined Benefit Pension Scheme	We identified that additional disclosure was required to provide an update on the legal judgement on the Virgin Media case, confirming that there remains uncertainty as to whether the case will apply to the Local Government Pension Schemes.	Yes

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A. Audit adjustments (4)

Impact of unadjusted misstatements

During the course of the audit, there were no unadjusted non-trivial misstatements which were made that require reporting within our Annual Audit Report.

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A. Audit adjustments (5)

Impact of unadjusted misstatements in the prior year

The table below provides details of all unadjusted misstatements brought forward from the 2024/25 audit. Management did not amend the 2024/25 financial statements for these errors, as they were not material. All points have been addressed by the Council during 2025/26.

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting in prior year
Trusts & Endowments The Council administers a number of Trusts and Endowments and discloses a summary of their balances along with its own accounts. Included in the assets of the Trusts' is £2.661 million which has been invested by the Council in its Loan Fund and is shown in the Council's accounts as a borrowing. The Council is unable to provide direct evidence to support the value of the Loan Fund investment which belongs to the Trusts, and we have had to place reliance on the reconciliation of the total cash balance held by the Council (including the amount borrowed from the Trusts) to external confirmations. There is therefore a doubt over whether the amount disclosed in the accounts of the Trusts and Endowments is accurate, although we note there is consistency between the Trust and the Council's accounts. For 2025/26, management have ensured there is supporting evidence which confirms the cash balance held on behalf of the Trust at year end.				
Provisions We have reviewed the Council's provision for general debtors and consider this to be over-optimistic such that there is potentially an overall under-provision of around £3 million. Management have amended the methodology for provisions in 2025/26 which we have assessed as reasonable.	CR Balance sheet – Short term debtors (£3,000) DR Balance sheet – Usable reserves – general fund £3,000		Nil	Non-material error.

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A. Audit adjustments (6)

Impact of unadjusted misstatements in the prior year

Detail	Statement of Changes in Net Expenditure £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting in prior year
Property, Plant and Equipment Upon inspection of Banchory Sports Village, it was found that the incorrect GIA had been used. We have quantified this error, and it has resulted in an understatement of OLB balance as at 31 March 2025. This has been adjusted in 2025/26 with the correct GIA now used.		CR Balance sheet – Unusable reserves – Revaluation reserve (£1,138) DR Balance sheet – Property, Plant and Equipment £1,138	Nil	Non-material error.

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B. Action plan and recommendations – financial statements audit

We have identified one financial statement recommendation for Aberdeenshire Council and the group during our audit of the financial statements for the year ended 31 March 2026. We have agreed our recommendations with management and will report on progress on these recommendations during our 2026/27 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being report to you in accordance with auditing standards.

Assessment	Issue and Recommendation	Management Response
Medium	**1. Local Code of Corporate Governance** The Council have not updated its Local Code of Corporate Governance to align with the revised CIPFA/SOLACE Delivering Good Governance in Local Government guidance, which places greater emphasis on robust governance reviews, the use of assurance evidence, and a forward-looking assessment of governance arrangements. **Recommendation:** We recommend that the Council incorporate the requirements and expectations of the revised CIPFA/SOLACE guidance, ensuring that governance arrangements remain current, effective and fully aligned with the requirements applicable from 2025/26 onwards.	Management accepts the recommendation. The Council will review and update its Local Code of Corporate Governance against the revised CIPFA/SOLACE guidance, addressing the requirements applicable from 2025/26. The review will strengthen the use of documented assurance evidence and assess the effectiveness of governance arrangements, including emerging risks and future needs. The Council will identify any gaps, agree actions and responsibilities, and submit the revised Code for approval through the appropriate governance arrangements. Progress will be monitored through to completion. **Action Owner:** Legal Services Manager **Timescale for implementation:** 30 September 2027

- High – significant effect on the financial statements.
- Medium – limited effect on the financial statements.
- Best practice

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C. Action plan and recommendations – wider scope audit

We have identified one wider scope recommendation for Aberdeenshire Council and the group during our wider scope audit procedures for the year ended 31 March 2026. We have agreed our recommendations with management and will report on progress on these recommendations during our 2026/27 audit.

Issue and Recommendation	Management Response
1. Participatory Budgeting The Council continues to engage extensively with local communities through a range of consultation and participation activities. While progress has been made in increasing the use of participatory budgeting, delivery remains significantly below the Scottish Government's target. The Council should continue to identify opportunities to expand participatory budgeting and strengthen community involvement in decisions on the allocation of public resources. **Recommendation:** The Council should explore opportunities to increase the use of participatory budgeting where appropriate, ensuring communities have a direct role in influencing spending decisions and supporting compliance with Scottish Government guidance on community empowerment and participation.	We submit an annual return to COSLA as part of the Participatory Budgeting (PB) reporting process. In recent years, it has become increasingly challenging to achieve the Scottish Government's 1% Participatory Budgeting target. This reflects the continued pressures on Local Authority budgets and a shift in focus towards the allocation of grant funding, rather than project-based budgets, as the primary mechanism for delivering PB activity. In response, the Council has prioritised demonstrating meaningful participatory democracy through its community engagement activities. This approach enables residents to influence decisions, shape service improvements, and contribute to changes affecting their communities, in line with the Council's Engagement and Participation Policy. While opportunities to apply Participatory Budgeting have become more limited due to financial constraints, the Council remains committed to using PB principles where appropriate. Participatory Budgeting approaches will continue to be applied. **Action Owner**: Corporate Policy and Performance Leader **Timescale for implementation:** 31 March 2027

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D. Action plan and recommendations – best value thematic 2025/26

Based on the audit work performed in 2025/26, the four recommendations arising from the best value thematic review are set out below. Given the timing for implementation of each recommendation, no follow up on recommendations has been made at this time.

Issue / risk	Recommendation	Agreed management response
1. Monitoring of asset management actions The Council have recently approved its Strategic Asset Plan, which considers land and property, with the wider Corporate Asset Management Plan planned to be presented to Committee during autumn 2026. In recent years, there has been limited reporting of asset management actions due to the strategy documents being out of date, resulting in actions not being updated on an ongoing basis. Effective monitoring and reporting of action plan progress is essential to ensure that asset management actions are progressed. It provides transparency and enables early identification of risks or delays to projects and supports timely corrective action. As these documents have now been updated and include a set of planned actions and delivery timescales, the Council must ensure that there is regular monitoring and reporting on progress of any actions included in the Corporate Asset Management Plan and Strategic Asset Plan. This will enable the Council to track whether planned actions are being delivered.	The Council should ensure that appropriate arrangements are in place to monitor the progress of asset management actions.	The Strategic Asset Plan 2026-31 was approved in April 2026 and includes a detailed Asset Management Action Plan with defined actions and delivery timescales. This Action Plan is a live document with progress, currently, being reviewed regularly by the Building and Estates Transformation Theme Board and reported through the Council's governance framework to appropriate boards and committees. The Council will further establish formal monitoring and reporting arrangements for all actions contained within the Strategic Asset Plan, in addition to the preparation of an annual Property Performance Report as included within the Strategic Asset Plan. The Corporate Asset Management Plan 2026-31, which is currently being finalised in advance of progressing through the Council's approval process, will also note future developments and arrangements, with these to be reported upon to appropriate boards and committees as part of Capital Plan monitoring. **Action Owner: Principal Asset Management Officer** **Timescale for implementation:** 30 April 2027 (or next reporting cycle) and annually thereafter

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D. Action plan and recommendations – best value thematic 2025/26 (2)

Issue / risk	Recommendation	Agreed management response
2. Asset Management Planning An asset management plan should provide an overview of the current performance of the Council's estate. Our review of the existing Strategic Asset Plan and Corporate Asset Management Plan confirmed that there was minimal detail on the performance of the Council's existing estate and no information around the current condition of assets or occupancy rates of buildings. Furthermore, whilst there is some evidence and examples of the Council looking at how it can transform its asset base to meet future needs, there could be more consideration around how the Council, its services and the community is changing (e.g. trend in school population versus places available).	The Council should include key information on the performance of its estate within its key asset planning strategy documents, including consideration on how service delivery and its communities are changing	Aberdeenshire Council currently holds and maintains a significant amount of asset performance data across a number of corporate systems. This includes asset condition, maintenance requirements and suitability information for the operational portfolio, alongside capacity, (school rolls and occupancy data for key office locations). In addition, individual Services maintain and report on operational performance measures relevant to their assets, e.g. Live Life Aberdeenshire collates and reports on visitor numbers/footfall and lets data across its facilities. Furthermore, operational and premises-related costs are recorded against individual assets and are accessible through corporate Power BI reporting tools, providing visibility of both current and historic expenditure. Whilst this information is routinely used to inform operational and strategic decision-making, it is recognised that the Strategic Asset Plan does not include this information with the Strategic Asset Plan being a high-level/overarching document which outlines how Aberdeenshire manages its asset base. Granular detail in respect to asset performance would not be contained within these documents which have a 3-5 year life span, with granular detail in respect to (operational) asset performance, in recent years, being provided directly to Area Committees as part of Business Services Performance Reports (where requested) with this covering condition and suitability assessments at asset/facility level. (continued)

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D. Action plan and recommendations – best value thematic 2025/26 (3)

Issue / risk	Recommendation	Agreed management response
2. Asset Management Planning (continued)	(continued)	As highlighted within the Strategic Asset Plan, it is acknowledged that, regular, reporting arrangements over-and-above current performance indicators are being developed which will form annual updates to appropriate committees. This annual Property Performance Report will include core performance data in respect to condition; suitability; utilisation; finance; disposal activities and carbon/climate with a number of these items/activities not currently reported upon. Future updates to, and iterations of, the Strategic Asset Plan will be timed to coincide with the annual Property Performance Report which will draw together information from the various sources to provide a clearer overview of the estate. The Council recognises the need to ensure asset planning takes cognisance of changing service requirements, demographic trends and community needs. Future asset planning documents will therefore continue to be informed by relevant service demand and population data, including school roll projections, occupancy trends, community usage and wider service transformation requirements, ensuring that investment and estate rationalisation decisions are evidence based and aligned with future service delivery objectives. **Action Owner: Principal Asset Management Officer** **Timescale for implementation:** 30 April 2027 (or next reporting cycle) and annually thereafter

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D. Action plan and recommendations – best value thematic 2025/26 (4)

Issue / risk	Recommendation	Agreed management response
3. Capital Strategy The Council's Capital Strategy is out of date, and officers are currently progressing the development of a refreshed Capital Strategy, which will aim to provide a clearer and more consistent framework for future investment decisions. The strategy is being developed in close alignment with the Corporate Asset Management review and is planned for introduction in 2027/28.	The Council should complete the review of the Capital Strategy and ensure it aligns with other key documents	The Council is progressing a refresh of its Capital Strategy as part of wider work to strengthen the links between the Council Plan, asset management, long term financial planning and capital investment decisions. The approach seeks to establish a clearer "golden thread" from the strategic outcomes set out within the Council Plan, through service planning and asset management planning, to investment prioritisation and ultimately the Capital Investment Plan. The emerging approach is intended to ensure that capital investment decisions are driven by clearly identified service outcomes, asset need, risk, affordability and whole life value rather than individual project opportunities in isolation. This would provide a more transparent and evidence based framework for investment priorities, ensuring that limited capital resources are directed towards those assets and programmes that make the greatest contribution to the Council's strategic objectives and long term sustainability. The approach also seeks to move towards managing the Capital Plan as a multi year investment programme rather than a series of annual capital budgets, allowing improved project development, programme management and delivery across the Council's asset portfolio. This would support the development of a stronger pipeline of projects and improved programme readiness while maintaining affordability controls. This remains an emerging concept and has not yet been subject to formal or informal governance review. Further work is required to develop the detailed operating model, governance arrangements, investment prioritisation methodology and the future role of the Capital Plan Group and associated governance structures. **Action Owner:** Roads and Infrastructure Head of Service **Timescale for implementation:** 31 March 2028

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D. Action plan and recommendations – best value thematic 2025/26 (5)

Issue / risk	Recommendation	Agreed management response
4. Capital Slippage Historically, the Council has consistently underspent against its approved capital budget, resulting in significant slippage within the programme. This pattern reflects ongoing challenges in delivering planned projects within the intended financial year, often due to scope and design changes from projects, price changes, and dependencies on external partners or contractors. This has impacted the Council's ability to achieve the pace of capital investment originally set out in its plans and resulted in the re-profiling of expenditure to future years. The Council projected an underspend against budget throughout 2025/26, and at the end of the year, the capital plan reported an underspend against budget of £30.642 million. There was a significant decrease in planned expenditure between quarter three and quarter four.	The Council should ensure that capital budgets set are appropriate, that timescales for project spend are reasonable and that risks of project slippage are identified at an early stage.	The Capital Plan Group is developing an approach that views the Capital Plan as a single five-year investment programme rather than five separate annual plans. While the Council can only formally approve Year 1 expenditure because of annual local government financial settlements, many projects require several years of development, design, procurement and construction before delivery is realised. The emerging approach seeks to provide greater visibility of, and a degree of programme commitment to, projects within Years 2, 3 and 4, enabling a more mature pipeline of projects to be developed and brought forward as opportunities arise. This will support improved resource planning, design development, procurement scheduling and overall programme management across the capital portfolio. A risk-based programme management approach is also being developed to provide flexibility across the programme, allowing projects to move forwards or backwards in response to emerging risks and opportunities. The intention is to smooth annual expenditure profiles by advancing projects that are ready to proceed when delays occur elsewhere, reducing year-to-year variability in capital spend whilst maintaining overall programme delivery. This approach will inevitably require consideration of current governance arrangements. In particular, it is likely to require a framework that supports the progression of scheme development and preparatory expenditure beyond the single-year approval horizon, whilst recognising that future years remain subject to annual budget setting and funding settlements. The aim is not to commit future spending in advance of approval, but to improve programme readiness and delivery confidence across the five-year period. The developing framework will therefore seek to strike an appropriate balance between the risk of capital plan slippage and the risk of overcommitting future borrowing requirements. **Action Owner:** Roads and Infrastructure Head of Service **Timescale for implementation:** 31 March 2028

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E. Follow up of prior year recommendations

We identified the following issues in our prior year audits of Aberdeenshire Council's financial statements, which resulted in four recommendations being reported in our 2024/25 Annual Audit Report. We have performed additional work in year to obtain assurance whether the recommendations from prior years have been closed and resolved in the current year or whether the issue still exists and the recommendation remains open and/or in progress. All four recommendations have been cleared.

Recommendations from the financial statements audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor conclusion
Cleared	**Recognition of investment properties** The Council was in the process of letting out parts of its office building with a view to generating rental income. At 31 March 2024, we have estimated the value of those assets currently being let, to be around £1.400 million. As this is immaterial, these assets are still being presented as property, plant and equipment instead of investment properties. **Recommendation** We recommend that the Council continues to monitor its investment properties to ensure that a material error does not arise.	The building works within Woodhill House were not completed until 2026/27 and the lease to Police Scotland for the extended area commenced on 19 May 2026. Accordingly, the extended lease arrangement was not in place at 31 March 2026. Woodhill House will be revalued as at 31 March 2027 as part of the Council's 2026/27 valuation programme, at which point management will assess the resulting use of the property against the investment property classification requirements of the CIPFA Code and make any necessary reclassification. Management has therefore reviewed the position at 31 March 2026 and considers that no material classification issue arises. The recommendation has been addressed through the year-end review process and ongoing monitoring will form part of the 2026/27 accounts process.	The Council have confirmed they are reviewing the level of investment properties and have implemented a process which ensures this is reviewed annually. **Recommendations closed.**

- [Red] Recommendation is open
- [Amber] Recommendation is in progress
- [Green] Recommendation is closed

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E. Follow up of prior year recommendations (2)

Recommendations from the financial statements audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor conclusion
Closed	**£nil net book value assets** The Council holds vehicles, plant, furniture & equipment assets with a total gross cost of £52.960 million which have been fully depreciated at 31 March 2024. **Recommendation** The Council should perform a review of assets with £nil net book value to ensure that they remain in use and, if they do, the Council should assess the appropriateness of the UELs applied. The Council should embed a formal process for reviewing assets which have outlived their useful economic lives on an annual basis, to ensure the assets are still in existence.	This was progressed in 2025/26 in consultation with services and a number of updates were made to the asset register. Work continues in this area as other assets fully depreciate and we continue to progress in 2026/27.	The Council now undertakes a comprehensive verification exercise for all assets held at Nil NBV on an annual basis. While the review process is established and operating effectively, it has not yet been formally documented within the Council's fixed asset procedures. The Council intends to incorporate the process into its existing fixed asset documentation, with annual reviews undertaken by service areas and supported by retained evidence. Based on the implementation of an annual verification process for all Nil NBV assets and the Council's commitment to formalise the process within its fixed asset procedures, we consider the previous recommendation to have been addressed. Continued documentation of the process will further strengthen the control framework and support consistency in its application. **Recommendation closed.**
Closed	**Cash reconciliations** Although all were trivial in value, we identified a number of errors in the Council's bank reconciliations. **Recommendation** Bank reconciliations should be simplified and reviewed in detail for any errors.	We continue to review our procedures to ensure bank reconciliations remain clear and accurate. Pending completion of the current audit, we consider the recommendation closed	We reviewed the year end bank reconciliation as part of our audit procedures. Due to the nature of the Council's bank accounts the reconciliation is more complex, however our testing did not identify any issues, including our review over reconciling items at year end. **Recommendation closed.**

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E. Follow up of prior year recommendations (3)

Recommendations from the financial statements audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor conclusion
Closed	**Internal Recharges** A total of £103 million of internal recharges have been removed from the income and expenditure of the accounts. Of these, only around £70 million of the expenditure transactions were identifiable as internal recharges. Therefore, we have been unable to test the remaining £33 million of expenditure. The untested expenditure recharges are substantial in value, and we have had to place reliance on our testing of the income leg of the internal recharges to gain sufficient assurance over them. Additionally, we have had to perform additional testing over the 'other expenditure' due to not being able to remove the recharges from our testing population, which has taken additional time. **Recommendation** We recognise that there has been significant improvement in this area from last year. However, we would recommend that the Council should continue to work towards all recharges being identifiable and should work to reduce the quantity of internal recharges.	Work continues in this area. For 2025/26, Finance introduced a process whereby internal recharges are reviewed regularly, and the corresponding expenditure transactions are traced and assigned unique identifiers. This allows them to be removed from the audit testing population, where appropriate. Of the £99.589 million of internal income processed, only £39,000 of directly related expenditure could not be traced and removed from the data provided.	We have reviewed internal recharges as part of our testing of income and expenditure, removing the internal recharges from our sampling population. The listings provided for audit were a substantial improvement in 2025/26 and we were able to confirm the entire internal recharge population. Whilst minor variances were identified, these were trivial and did not represent any additional audit risk. The Council continue to work on processes to streamline the internal recharge process, however the Council are now able to produce a listing of income and expenditure recharges which agree and which we can use in our sampling methodology. **Recommendation closed.**

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E. Follow up of prior year recommendations (4)

We identified the following issues in our prior year wider scope work, which resulted in ten recommendations being reported in our 2024/25 Annual Audit Report. We have performed additional work in year to obtain assurance whether the recommendations have been closed and resolved in the current year or whether the issue still exists and the recommendation remains open and/or in progress. Six out of ten recommendations have been cleared with four remaining in progress.

Recommendations from the wider scope audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor conclusion
Closed	**General efficiency savings** As part of the annual budget for the past two years, the Council has included a general efficiency/transformation saving (2024/25: £6.2 million, 2025/26: £13.9 million). Management do not have any process in place for identifying and tracking the delivery of these savings, beyond the eventual over or under spend against the budget for the year. In 2024/25 none of these savings were achieved. For 2025/26, the Council has over £5.1 million of savings at risk of not being delivered by the end of the year, and these largely relate to transformation savings. **Recommendation:** We recommend that, the Council should not continue to apply 'general efficiency' savings and should identify all savings, including how these are expected to be achieved. The savings should then be tracked and performance against the budget should be clearly reported.	All savings included in the approved 2026/27 budget are specific, with clearly identified responsible officers, delivery actions and timescales. A formal monitoring process is now in place to track delivery throughout the year, with progress and forecast variances reported regularly through the Council's established financial monitoring arrangements. General, unidentified efficiency savings have not been included in the 2026/27 budget.	This recommendation has been implemented. The 2026/27 budget contains only specific, identifiable savings proposals, each supported by defined delivery plans, responsible officers and timescales. In addition, formal monitoring and reporting arrangements have been established to track delivery throughout the year, and no unallocated general efficiency savings have been included within the budget. **Recommendation closed.**

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E. Follow up of prior year recommendations (5)

Recommendations from the wider scope audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor conclusion
In progress	**Medium term savings** The Council's Medium Term Financial Strategy is predicting a cumulative funding gap of £81.403 million by 2029/30. However, the plan does not include a strategy to address the gap, or any medium-term savings plans. This is despite the Council persuing several transformation projects which are expected to deliver savings over this period. **Recommendation:** We recommend that, the Council should seek to identify the medium term savings anticipated from its transformation and other projects, and update the Medium Term Financial Strategy to include plans to address the identified funding gap.	Agreed, as part of the ongoing 2027/28 budget process and update to the MTFS, work is ongoing to identify anticipated savings from transformation and other projects, as far as possible, to build into the medium-term plan. Any savings from transformation will be developed through the newly established Directorate Boards.	The Council has taken steps to address this recommendation and is currently reviewing longer-term savings opportunities through its budget-setting process and the development of Directorate Boards. However, while work is ongoing to identify and quantify savings arising from transformation and other projects, no specific medium-term savings proposals have been agreed beyond the current financial year. As a result, the Medium Term Financial Strategy continues to contain a significant level of unidentified savings and does not yet fully demonstrate how future funding gaps will be addressed. As a result, this recommendation remains valid and should be progressed as part of the next update to the Medium Term Financial Strategy. **Action Owner:** Head of Finance **Timescale for implementation:** March 2027

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E. Follow up of prior year recommendations (6)

Recommendations from the wider scope audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor conclusion
Closed	**Effective use of resources – partnership working governance arrangements** An Internal Audit review of the Aberdeen City Region Deal (ACRD) during 2023/24 highlighted a number of areas of improvement required to the governance and monitoring in place for the Deal. An action plan was developed and is being implemented. There is a risk that further overspends may occur if the governance and monitoring for the deal does not improve as planned. The Peterhead Community Campus was scoped inaccurately meaning that budgets are insufficient and delays are now being incurred as the scope and design of the project is amended to reflect the budget. Without strong performance monitoring and robust governance arrangements, there is a risk that the project will continue to overspend and not deliver on time. (continued)	ACRD - As we head toward project closure a number of projects have concluded and regular meetings are held with the governments to keep them advised on the progress of the others. No overspends are currently being forecast although the ETLASH project has yet to go out to tender. The governments are in regular contact with the ETLASH PMO and ourselves and closely monitor progress as it develops. PCC - Peterhead Community Campus (PCC) – Update on Governance and Spend Profile - In response to the prior year external audit recommendation regarding governance, monitoring and financial oversight of PCC, enhanced monitoring arrangements have been implemented and continue to be reviewed and strengthened. This position was reflected in the Council's prior year management response, which confirmed that governance and reporting processes had already been revised and would continue to be enhanced to ensure robust oversight and effective management. (continued)	The Council has strengthened governance, reporting and financial monitoring arrangements across both the Aberdeen City Region Deal and the Peterhead Community Campus. Regular engagement with key stakeholders, ongoing scrutiny of project delivery and expenditure, and enhanced monitoring and forecasting processes provide greater assurance over project governance and financial oversight. The revised monitoring arrangements for PCC, together with the continued oversight of ACRD projects as the programme moves towards completion, demonstrate a proactive approach to managing delivery and financial risks. **Recommendation closed.**

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E. Follow up of prior year recommendations (7)

Recommendations from the wider scope audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor conclusion
Closed	**Effective use of resources – partnership working governance arrangements (continued)** **Recommendation** The Council should seek to strengthen governance arrangements, including financial monitoring, for their partnership working, namely the Aberdeen City Region Deal and the Peterhead Community Campus.	During 2026/27, following Financial Close on 16 June 2026, the contractor produced a detailed construction programme and a revised cashflow forecast. The original capital expenditure profile had been based on pre-contract estimates using a standard industry S-curve methodology. The revised profile reflects a more detailed assessment of the timing of works and associated payments based on the contractor's developed programme. The resulting change is primarily a rephasing of expenditure between financial years rather than a change in project scope, affordability or overall delivery timetable. The revised cashflow has been reviewed and scrutinised by Property officers. Whilst the projected spend profile has changed, the project delivery programme remains on track and the anticipated occupation date of August 2028 remains unchanged. Consequently, the movement represents improved forecasting accuracy following Financial Close rather than evidence of project delay or deterioration in project governance. The updated profile demonstrates the operation of the enhanced project monitoring arrangements by ensuring financial forecasts are revised to reflect the most current construction and delivery information.	

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E. Follow up of prior year recommendations (8)

Recommendations from the wider scope audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor conclusion
Closed	**Best Value – performance reporting** The Council's performance reporting in its annual performance report is overly summarised. Details of key performance indicators or trend data is not included. There is a risk that by not including detailed performance data that true performance is not properly understood. **Recommendation** The Council should seek to revisit and refresh their annual performance reporting to include key performance indicators and trend data.	Our Annual Performance Report was agreed at Aberdeenshire Council on 24 September. The format and presentation of the Annual Performance Report have been revised this year in response to recommendations from our External Auditors. Previously, the supporting performance information was accessed through links to separate performance reports and datasets. The revised approach brings key performance information directly into the report using tabular reporting, trend graphs and clearer performance summaries, allowing readers to view performance information and trends at a glance. This improves accessibility, transparency and understanding of the Council's performance, without the need to navigate multiple documents. The report also places a greater focus on outcomes, achievements, and areas for improvement. We now have a Council wide dashboard, but this is only reported internally to our Strategic Leadership Team on a quarterly basis. We have been unable to publish this externally due to accessibility issues around publishing Power Bi and dashboards, but we hope to resolve this in 2027.	The Council has addressed this recommendation through enhancements to its annual performance reporting. The revised report now includes a range of key performance indicators alongside trend data, providing greater insight into performance over time. This enables meaningful comparisons against previous years, supports the identification of emerging trends, and strengthens Members' ability to assess progress against the Council's objectives. As a result, the annual performance report provides a more robust and informative assessment of organisational performance. **Recommendation closed**

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E. Follow up of prior year recommendations (9)

Recommendations from the wider scope audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor conclusion
Closed	**Transformation Strategy impact on Medium-Term Financial Strategy** The Medium-Term Financial Strategy (MTFS) 2024-2029, approved in February 2024, identifies a £79.5m savings gap over the period of the strategy. The 2025/26 budget was balanced by including a savings target of £5.7m across council services. The 2025/26 budget also includes 'baked in' recurring savings of £6.2m, which were not fully identified in 2024/25. The Council has to make significant savings in the coming years. The Transformation Strategy is predicated on making efficiency savings across the Council. However, the savings envisaged by the Transformation Strategy are not clearly set out for each theme or project, nor the timeline for achieving them. Without this level of detail, it is not clear if the transformation strategy is far reaching enough to meet the funding gap predicted by the MTFS. However, the projects which are currently underway do not appear to be generating the level of savings which would be required. (continued)	The Transformation Strategy was agreed by Full Council on 15 January 2026 building on the strategic foundations set by the previous Transformation Strategy. The direction of Future Aberdeenshire has evolved, with Business Services, Education & Children's Services and Environment & Infrastructure Services Directorate Boards established February-April 2026. Service Transformation Projects now report to the relevant Directorate Board. Directorate Boards are responsible for providing scrutiny and oversight of the performance and progress of service transformation projects. The Directorate Boards report to the Strategic Change Board as well as reporting to Policy Committees ensuring programme oversight and governance by elected members and senior leadership. Future action is focussed on engaging via Directorate Boards to embed/strengthen governance, process & engagement with Services and Elected Members. (continued)	The Council has implemented this recommendation through the approval of its Transformation Strategy in January 2026 and the establishment of supporting governance arrangements. The strategy provides a structured framework for delivering transformation activity aligned to the Council Plan and Medium-Term Financial Strategy, with clear oversight through Directorate Boards and the Strategic Change Board. Accountability for the delivery of savings and income generation has been assigned to Directors, supported by regular monitoring and scrutiny arrangements. These developments provide assurance that transformation activity is being managed in a coordinated manner and is integrated with the Council's wider financial planning arrangements to support delivery of the Medium Term Financial Strategy. **Recommendation closed.**

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E. Follow up of prior year recommendations (10)

Recommendations from the wider scope audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor conclusion
Closed	**Transformation Strategy impact on Medium-Term Financial Strategy (continued)** **Recommendation** The Council should develop a transformation programme that aligns with the Council Plan and its Medium-Term Financial Strategy. It should ensure that the transformation strategy is sufficient, when combined with other savings, to deliver the Medium-Term Financial Strategy.	Directors will work with Finance colleagues to deliver the MTFS to ensure all savings and income generation is clearly set out and monitored to ensure credibility and consistency. Savings and income will be managed through ongoing Project work, Directorate Boards and Strategic Change Board with Directors remaining accountable for all savings and income mapped for their areas of responsibility.	

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E. Follow up of prior year recommendations (11)

Recommendations from the wider scope audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor conclusion
In progress	**Reporting outcomes of the Transformation Strategy** The Transformation Strategy includes high-level information about the types of projects that might occur in each of the themes but does not identify projects. The Council has no central list of all the transformation projects being undertaken and while this may exist in services, there is no overarching view. This makes reporting difficult as while there is reporting to Service Committees, the Strategic Change Board and Council, there is no standardised reporting. In addition to not having a centralised list, we found that it was difficult to identify from the objectives of the projects reviewed, what they would cost, what they would save, whether there was a non-financial impact that should be measured. Without setting out these measures at the inception of a project, it is impossible to report progress and success. There is a risk that transformation projects are ongoing that are not creating savings, and conversely, transformation projects that are creating savings but are not being recorded. (continued)	The Transformation Full Business Cases template was approved by the Head of Finance in February 2026 and went live March 2026. Outline Business Case templates have been trialled with a phased implementation approach. Business Case templates incorporate a linked Financial Assessment document - which is stipulated mandatory project documentation. A range of support is available to staff - this includes guidance on mandatory project elements on SharePoint Pages (published 20 November 2025), advisory support from the Strategic Finance and Transformation & Change teams, and a self-complete Benefits Management training module on ALDO (launched 1 April 2026). Existing transformation performance information provided to the Strategic Change Board has also expanded. A Savings Dashboard has been developed (July 2026) and is operational, capturing revenue, carbon & FTE savings. This tracks historic/forecasted project savings with updates to Directorate Boards and Finance verification of delivered savings. (continued)	The Council has strengthened its arrangements for the governance, monitoring and reporting of transformation activity through the establishment of Directorate Boards and the introduction of corporate dashboards. These provide consolidated information on transformation projects, supporting improved oversight, accountability and reporting. The Council has also developed a savings dashboard to monitor the delivery of benefits arising from transformation projects. The dashboard tracks forecast savings, project ownership, delivery progress and associated risks, using RAG ratings and variance reporting to highlight areas where delivery may be at risk. Regular reporting to Directorate Boards supports ongoing scrutiny and challenge of performance. While implementation across all Directorates is ongoing, the dashboard provides a stronger framework for monitoring the delivery of transformation savings and informing financial planning. (continued)

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E. Follow up of prior year recommendations (12)

Recommendations from the wider scope audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor conclusion
In progress	**Reporting outcomes of the Transformation Strategy (continued)** **Recommendation** The Council should set out clearly the expected costs, savings and outcomes of projects arising from the Transformation Strategy. For each project, the following should be considered and documented: • What are the Council's primary objectives for transformation? Objectives should be specific, measurable, achievable, relevant and time-bound. • What are the expected costs of delivering the programme and when are they expected to be incurred? • How will costs be funded? Will reserves be used and if so, how and when? • How much does the Council expect the programme to generate in savings, and when are those savings expected to be realised? • If savings are not directly realisable (for example, in the case of FTE reduction), how will savings be realised? • How will progress against the primary objectives be measured and monitored?	A mandatory Financial Assessment Template is submitted with Full Business Cases and prompts for project financial benefits, meaning an indicative savings timeline is established from the outset with benefits realisation monitored via the savings dashboard. A prototype Business Services Directorate Board Tracker was developed and presented to the Strategic Change Board and has been a regular agenda item from August 2026. Trackers for Education and Children's Services and Environment and Infrastructure are available and in development.	These developments demonstrate positive progress in addressing the recommendation. However, as the savings dashboard has not yet been fully implemented across all Directorates and its effectiveness in evidencing the delivery of planned savings is still being embedded, the recommendation remains in progress. **Recommendation remains valid.** **Action Owner:** Transformation Programme Manager **Timescale for implementation:** March 2027

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E. Follow up of prior year recommendations (13)

Recommendations from the wider scope audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor conclusion
Closed	**Approval of transformation projects** A clear governance process is in place for the approval of projects arising from the Transformation Strategy, including an Integrated Impact Assessment (IIA) and full business case. However, where projects do not require funding from the Transformation Reserve, a business case and IIA does not require to be completed. The risk arising is two-fold – firstly, transformation savings may be taking place across the Council but are not being monitored and reported as such as they are not deemed to be transformation. Secondly, not completing IIAs for new projects may mean that unintended consequences of change arise that then cost the Council money and reduce the savings projected. **Recommendation** The Council should seek to apply a standard governance process for all transformation and savings projects to ensure that proper scrutiny and assessment is applied in all cases.	A consistent and clear governance process for all transformation projects is in place with scrutiny and approval via Directorate Boards (as from February 2026), Enabler Workstream Boards, or the Strategic Change Board. Directorate Boards are also required to report quarterly to Policy Committees. A Power BI Dashboard and Power app have been developed which records and categorises all transformation, change and improvement activity taking place across the organisation. This also identifies Priority 1 projects for each directorate.	The Council has established a consistent governance framework for transformation projects, with formal scrutiny and approval through relevant Boards. Governance and oversight have been further strengthened through quarterly reporting to Policy Committees and the introduction of a centralised dashboard and project management system, which records, categorises and monitors transformation activity across the organisation. **Recommendation closed.**

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E. Follow up of prior year recommendations (14)

Recommendations from the wider scope audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor conclusion
Closed	**Project costing and savings identification** Where costs of projects have been recorded and reported, we have noted inconsistencies in the way that costs and benefits from projects are being quantified, making comparison difficult. Many of the transformation projects, particularly in the 'Big data, digital and technology' workstream, aim to generate savings primarily by creating efficiencies, saving staff time and therefore reducing overall FTE. In order for a reduction in FTE to generate real cashable savings, the Council needs to either reduce its payroll or employ the saved time on further cost saving or income generating activities. Project information reviewed is not clear how the Council intends to convert these efficiencies into real cash savings or income, the value of the savings and the timeline for their achievement. Without accurate and standardised information on cost and projected savings for projects, comparison of projects is difficult. Furthermore, without this information, there is a risk that the savings plan identified to mitigate the funding gap identified in the MTFS is inaccurate in terms of value and timing of savings. (continued)	The Transformation Full Business Cases template was approved by Head of Finance in February 2026 and went live March 2026. Outline Business Case templates have been trialled with a phased implementation approach. Business Case templates incorporate a linked Financial Assessment document - which is stipulated mandatory project documentation. A range of support is available to staff - this includes guidance on mandatory project elements on SharePoint Pages (published 20 November 2025), advisory support from the Strategic Finance and Transformation & Change teams, and a self-complete Benefits Management training module on ALDO (launched 1 April 2026).	The Council has addressed this recommendation through the introduction of standardised business case and financial assessment templates, which were implemented during 2026 and are now mandatory for transformation projects. These arrangements provide a consistent framework for identifying, quantifying and assessing project costs, benefits and anticipated savings, supporting improved comparison between projects and monitoring of delivery. The Council has also strengthened supporting arrangements through the provision of guidance, advisory support and benefits management training for staff involved in project development and delivery. The introduction of a linked financial assessment and benefits management approach provides a more structured basis for identifying and monitoring the financial and workforce impacts of transformation projects. This is further supported by the development of the savings dashboard mentioned previously. (continued)

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E. Follow up of prior year recommendations (15)

Recommendations from the wider scope audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor conclusion
Closed	**Project costing and savings identification (continued)** **Recommendation** The Council should seek to standardise how costs and benefits are quantified for business cases, so that these can be appropriately compared and the value and timing of future savings can be accurately estimated and monitored. The Council should ensure that there is a mechanism for tracking how much of the time saved from efficiencies created by transformation projects is being realised as a reduction in overall FTE numbers or being used to generate other savings or income, so that progress and success can be measured.		While the effectiveness of these arrangements will continue to be demonstrated as they mature, the Council has established the key processes, documentation and monitoring mechanisms required to standardise benefits realisation and performance monitoring. As a result, the recommendation can be considered implemented. **Recommendation closed.**

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E. Follow up of prior year recommendations (16)

Recommendations from the wider scope audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor conclusion
In progress	**Reporting progress from the Transformation Strategy** Members must be given relevant and comparable information to allow for effective decision making. Progress reporting from transformation projects could stand to be improved and standardised to allow for meaningful comparison. We did not observe any key performance indicator data being presented in support of financial and non-financial targets. Projects should have measures of performance and financial savings identified at inception to enable easier reporting on progress and achievement. Linking to recommendation 2, if there is no clear data on what the projected cost and/or savings are, how can progress be tracked and monitored. Reporting did include Red, Amber, Green status tracking of projects, but the definition of these statuses is not clear. Without this information there is a risk that projects that are over budget / under saving / behind timescale are not appropriately identified and mitigating actions enacted. (continued)	Standardised project reporting requirements have been implemented through the Financial Assessment template and developing a consistent set of financial and non-financial performance indicators to be defined at the start of each project (published on Sharepoint as part of Project documentation guidance). An initial set of Programme KPIs has been agreed by the Strategic Change Board (August 2026) and will be reported on. This includes performance monitoring of mandatory project documentation completion. A Savings Dashboard has been developed (July 2026) and is operational, capturing revenue, carbon & FTE savings. This tracks historic/forecasted project savings with updates to Directorate Boards and Finance verification of delivered savings.	The Council has made progress through the introduction of standardised project reporting requirements, including the use of financial and non-financial performance indicators and the development of a savings dashboard. The dashboard is now operational and captures projected and delivered revenue, carbon and FTE savings. The finance team are charged with verifying all savings achieved. The Council also now reports progress against its Transformation Strategy to Full Council on a twice-yearly basis, providing elected members with regular updates on delivery and outcomes. An initial suite of programme-level KPIs has been agreed by the Strategic Change Board; however, these indicators have yet to be reported on and therefore it is not yet possible to assess whether they provide sufficient information to support effective oversight of transformation activity. As such, while good progress has been made, the recommendation remains in progress pending implementation and review of the new KPI reporting arrangements. **Recommendation remains valid.** **Action Owner:** Transformation Programme Manager **Timescale for implementation:** March 2027

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E. Follow up of prior year recommendations (17)

Recommendations from the wider scope audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor conclusion
In progress	**Reporting progress from the Transformation Strategy (continued)** **Recommendation** The Council must seek to update their financial and non-financial performance reporting on transformation projects in order that oversight can be properly applied from the use of consistent performance information that is defined at project inception. This applies to reporting to SCB, Council and Service Committees. A dashboard of project reporting should be developed identifying costs projected, costs incurred, savings projected, savings achieved, timescale for achievement and key performance indicators. Where RAG status tracking is used, it should be clearly defined and where required, mitigating actions identified and reported on.		

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E. Follow up of prior year recommendations (18)

Recommendations from the wider scope audit

Assessment	Issue and risk previously communicated	Management update on actions taken to address the issue	Auditor conclusion
In progress	**Development of partnership working** At present the Council appears to be engaged in limited partnership working with other Councils, with the only notable project being a shared services function with two other Councils which is still in the very early stages of investigation. There is an opportunity for Aberdeenshire Council to explore this as it develops its transformation strategy. **Recommendation** The Council should expand their investigation of how partnership working with other Councils could provide opportunities for future transformation.	Further partnership working opportunities are currently being explored by services, and will be considered by Directorate Boards. Directorate Boards agree priority transformation projects, which includes partnership-focussed initiatives. Directorate Board dashboards now record priority projects. Further work is being undertaken to understand and document partnership working taking place and we will develop project recording categorisations to enable the provision of additional insights on partnerships.	The Council is actively exploring further partnership working opportunities through service-led reviews and Directorate Boards, where partnership-focused initiatives form part of the transformation programme. Arrangements have also been strengthened through the introduction of project dashboards and ongoing work to better document and categorise partnership activity. While positive progress has been made, further work is required to demonstrate how these arrangements are translating into tangible transformation opportunities and benefits. **Recommendation remains valid.** **Action Owner:** Director of Business Services and Heads of Services – Business Services **Timescale for implementation:** March 2027

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F. Audit fees, ethics and independence

Independence and ethics

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

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

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity, and independence of the firm or covered persons (including its partners, senior managers, managers and network firms). In this context, there are no independence matters that we would like to report to you.

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

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

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F. Audit fees, ethics and independence (2)

Fees and non-audit services

The tables on the following page set out the total fees for audit and other services charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats. None of the below services were provided on a contingent fee basis.

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

The final audit fee includes additional audit fee of £3,000, which has been agreed with the Head of Finance. The following additional audit procedures were carried out as part of our 2025/26 audit:

- Auditing standards: the previous introduction of ISA 600 Groups resulted in additional audit testing during both planning and year-end procedures for 2025/26.

The Annual Audit Report was considered by the Audit Committee on 29 October 2026 including agreement of audit fees.

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F. Audit fees, ethics and independence (3)

Fees and non-audit services

External audit fee

Service	Planned Fees	Final Fees
External Auditor Remuneration	£344,140	£347,140*
Pooled Costs	£11,870	£11,870
Contribution to Performance Audit and Best Value	£97,710	£97,710
Sectoral cap adjustment	£66,260	£66,260
2025/26 Initial Fee (informed by Audit Scotland)	£519,980	£519,980
Trust Fund Charity (not covered in the initial fee)	£12,000	£12,000
2025/26 Audit Fee	**£531,980**	**£534,980**

* This includes the additional fee of £3,000 with the reasons as already noted set out on page 116.

The fees reconcile to the financial statements (round £'000 in the financial statements):

- Fees per financial statements £535,000
- Total fees as above £534,980

Fees for other non-audit services

Service	Fees £
We confirm that for 2025/26 we did not receive any fees for non-audit services	Nil

The final audit fee reconciles to the initial Audit Scotland planned fee as follows:

- Audit Scotland initial fee £519,980
- Trust Fund Charity fee £12,000
- Additional audit fee £3,000
- Final audit fee £534,980

This covers all services provided by us and our network to the Council, its directors and senior management and its affiliates, that may reasonably be thought to bear on our integrity, objectivity or independence.

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G. Client Service Review

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Mark Stocks, Partner, 8 Finsbury Circus, London, EC2M 7EA. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to John Gilchrist, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see 2025-transparency-report.pdf.

Grant Thornton publishes an annual Audit Quality Report, which sets out details of the actions we have taken over the past year to meet our audit quality framework and provides a forward look on our plans for the future. For more details see audit-quality-report-2026-final.pdf.

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H. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	●	
Confirmation of independence and objectivity	●	●
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	●	●
Significant matters in relation to going concern	●	●
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		●
Significant findings from the audit		●
Significant matters and issue arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit		●
Significant deficiencies in internal control identified during the audit		●
Significant matters arising in connection with related parties		●

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H. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		●
Non-compliance with laws and regulations		●
Unadjusted misstatements and material disclosure omissions		●
Expected modifications to the auditor's report, or emphasis of matter		●

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Annual Audit Report, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Annual Audit Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all members and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance.

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