

Aberdeen City Council

2024/25 Annual Audit Report - DRAFT



 AUDIT SCOTLAND

Prepared for the Members of Aberdeen City Council and the Controller of Audit
June 2025

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Introduction

1. This report summarises the findings from the 2024/25 annual audit of Aberdeen City Council (the council). The scope of the audit was set out in our annual audit plan presented to the Audit, Risk and Scrutiny Committee in May 2025. This Annual Audit Report comprises:

- significant matters arising from an audit of the council's annual accounts
- our approach to auditing the council's arrangements for meeting its Best Value duties
- conclusions on the following wider scope areas that frame public audit as set out in the [*Code of Audit Practice*](#):
 - Financial management
 - Financial sustainability
 - Vision, leadership, governance and use of resources.

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

Audit appointment from 2022/23

3. The 2024/25 financial year was the third of our five-year appointment. Our appointment coincides with the [*Code of Audit Practice*](#) which was introduced for financial years commencing on or after 1 April 2022.

4. We would like to thank councillors, senior management, and other staff, particularly the Chief Officer - Finance and his team, for their cooperation and assistance.

Responsibilities and reporting

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

6. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#), and supplementary guidance and International Standards on Auditing in the UK.

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

Auditor independence

8. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services. Our 2024/25 annual audit plan set out an audit fee of £547,070 including £10,190 in respect of the council's charities. An additional audit fee of £8,500 will be levied as a result of delays in information provided for audit. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

9. The annual audit adds value to the council by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

1. Audit of 2024/25 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Main judgements

Audit opinions on the annual accounts of the council, its group and the section 106 charities administered by the council are unmodified i.e. the financial statements are free from material misstatement, subject to the conclusion of outstanding matters.

The annual governance statement and remuneration report were consistent with the financial statements. Further improvement is required to ensure a robust overview of service performance is provided in the management commentary.

Early planning was undertaken with finance colleagues and improvements implemented to minimise the pressure on respective teams during the annual accounts period. Delays continued to be experienced however, in the receipt of property valuations resulting in material adjustments to the audited accounts and additional audit fees.

Our audit opinions on the annual accounts are unmodified, subject to the conclusion of outstanding matters.

10. The accounts for the council and its group for the year ended 31 March 2025 are scheduled to be approved by the Audit, Risk and Scrutiny Committee on 26 June 2025. As reported in the independent auditor's report:

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

- we have obtained audit assurances over the identified significant risks of material misstatement to the financial statements which were identified in our Annual Audit Plan.

Our audit opinions on Section 106 charities are unmodified, subject to the conclusion of outstanding matters.

11. Due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with charities legislation, a separate independent auditor's report is required for the council's registered charities where members of Aberdeen City Council are sole trustees, irrespective of the size of the charity.

12. Regulation 7 of the charity regulations (as amended in 2010) permits a single set of accounts for connected charities. These include charities that have unity of administration. The definition is therefore met for section 106 charities administered by the same council.

13. For Aberdeen City Council, the seven applicable charities listed below are regarded as connected and have been combined within a single set of accounts:

- Guildry and Mortification Funds
- Bridges of Aberdeen Heritage Trust
- Alexander MacDonald's Bequest
- Aberdeen Art Gallery Trusts
- Lands of Skene
- Lands of Torry
- Education Endowment Investment Trusts.

14. We received the charities accounts in line with the agreed timetable. We reported last year that two of the seven charities hold relatively small balances and could be wound up to improve the overall housekeeping of the council's charities. In December 2024, the council considered a governance update in relation to charities and agreed actions to streamline charitable activities including the winding up of Alexander MacDonald's Bequest which has a minor balance.

15. Our independent auditor's report for the charities confirms that:

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

Overall materiality was assessed as £24 million

16. We apply the concept of materiality in both 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. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values.

17. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and reviewed on receipt of the unaudited annual accounts. Values for 2024/25 are summarised in [Exhibit 1](#).

Exhibit 1
Materiality values

Materiality level	Amount
Overall materiality - This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. For the year ended 31 March 2025, we set our materiality at 2% of gross expenditure.	£24 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.	£15 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold’ amount.	£600,000

Source: Audit Scotland, Annual Audit Plan 2024/25

Our audit work responded to the risks of material misstatement we identified in the annual accounts

18. [Exhibit 2](#) provides a summary of the audit assurances we have obtained over the significant risks of material misstatement. It also sets out our audit assurances in respect of other areas of audit focus where we considered there to be risks of material misstatement to the financial statements.

Exhibit 2**2024/25 Risks of material misstatement to the financial statements**

Risks of material misstatement	Assurances, results and conclusions
<p>1. Significant Risk of material misstatement due to fraud caused by management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Controls</p> <ul style="list-style-type: none"> Assessing the design and implementation of controls over journal entry processing. <p>Methodology and assumptions</p> <ul style="list-style-type: none"> Assessing any changes to the methods and underlying assumptions used by management to prepare accounting estimates compared to the prior year. <p>Testing</p> <ul style="list-style-type: none"> Making inquiries of relevant officers about inappropriate or unusual activity relating to the processing of journal entries and other adjustments and substantively testing journal entries throughout the year. Evaluating any significant transactions outside the normal course of business. Confirming through substantive testing that income and expenditure transactions around the year-end have been accounted for in the correct financial year. Testing samples of accruals and prepayments. <p>Results: Subject to the satisfactory conclusion of outstanding matters, we are satisfied that there is no material misstatement due to management override of controls.</p>
<p>2. Due to the rolling programme basis of property valuation, there is a risk that the carrying value of assets not revalued in the year do not reflect their current value.</p> <p>Where the differences in value are likely to be significant, this increases the risk of material misstatement in the financial statements</p>	<p>Controls</p> <ul style="list-style-type: none"> Evaluating the approach that the council adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. <p>Management Experts</p> <ul style="list-style-type: none"> Evaluating the competence, capabilities and objectivity of the professional valuers. <p>Methodology and assumptions</p> <ul style="list-style-type: none"> Assessing the methodology used by the valuers by considering whether valuations were conducted in accordance with the RICS Valuation Professional Standards 'the Red Book'. Assessing the reasonableness of valuations conducted by the professional valuers, including the use of any assumptions. <p>Testing</p> <ul style="list-style-type: none"> Substantively testing the reconciliation between the financial ledger and the asset register, including a sample of land and building assets revalued in the year.

Risks of material misstatement	Assurances, results and conclusions
	<p>Disclosures</p> <ul style="list-style-type: none"> Assessing the adequacy of the council's disclosures regarding the assumptions in relation to the valuation of land and buildings. <p>Results: Subject to the satisfactory conclusion of outstanding matters, we are satisfied the current valuation of land and buildings is not materially misstated.</p>
<p>3. There is a risk that the assumptions and methodologies used in determining the pension position are unreasonable and/or any small change in the estimates used could result in material changes in the valuation</p>	<p>Controls</p> <ul style="list-style-type: none"> Assessing management's arrangements for the provision of membership data to the actuary, together with any assumptions to calculate the pension position. <p>Management Expert</p> <ul style="list-style-type: none"> Evaluating the competence, capabilities and objectivity of the actuary. <p>Benchmarking Assumptions</p> <ul style="list-style-type: none"> Through the work of an independent expert, challenging the key assumptions applied. <p>Testing</p> <ul style="list-style-type: none"> Agreeing the data provided by the council to North East Scotland Pension Fund for use within the calculation of the scheme valuation. Obtaining assurances from North East Scotland Pension Fund over the completeness and accuracy of data provided to the actuary. <p>Disclosures</p> <ul style="list-style-type: none"> Considering the adequacy of the disclosures regarding the value of the pension liabilities included in the financial statements and the sensitivity of the value to the assumptions. Assessing whether the disclosures are in accordance with the Code's requirements. <p>Results: Subject to the satisfactory conclusion of outstanding matters, we are satisfied the approach taken to determine the pension position is reasonable.</p>

Material misstatements were adjusted in the audited accounts

19. Since the unaudited accounts were submitted for audit in May, a number of adjustments have been made to the financial statements. The main adjustments are listed below and further information is included with other significant matters in [Exhibit 3](#):

- An increase of £107 million in the value of non-current assets and the revaluation reserve due to delays and misstatements in the receipt of property valuations.
- Grossing up of Aberdeen City Integration Joint Board (IJB) income and expenditure by £137 million in line with accounting requirements. There is no change to the IJB net expenditure position.
- A reduction of £300 million in debtors and creditors on the Balance Sheet to correct the presentation of balances which should have been netted off.

20. In addition, the council changed their reporting segments in 2024/25 in line with the new management structure. This required service costs listed in Cost of Services on the Comprehensive Income and Expenditure Statement (CIES) to be reported under new directorate headings and in order for the prior year figures to be comparable, they were also restated. The audited accounts have been amended to remove internal transactions from the service lines. As a result, the audited figures are more comparable between years.

21. Other misstatements were identified during our audit and while it is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, the final decision on this lies with those charged with governance, taking into account advice from senior officers and materiality.

22. Management opted not to adjust for the misstatements set out in [Appendix 1](#) (Summary of unadjusted misstatements), as the amounts were not considered material in the context of the accounts. Had the accounts been adjusted, the net impact would have been to increase income on the CIES by £8.3 million with a corresponding increase in Net Assets.

Significant findings from the audit in accordance with ISA 260

23. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. There were no major issues identified in respect of the qualitative aspects of the annual accounts process.

24. The significant findings are summarised in [Exhibit 3](#).

Exhibit 3**Significant findings from the audit of the financial statements****Issue****1. Changes in the valuation of property, plant and equipment (PPE)**

The council revalues its assets on a rolling programme basis with some categories of asset revalued each year. In 2024/25, the following categories were revalued – the 3R schools, car parks, halls and specialist assets such as the Energy from Waste plant. We acknowledge that the Property Team responsible for the valuations are also managing the council's assets affected by Reinforced Autoclaved Aerated Concrete (RAAC) and therefore resources will have been prioritised accordingly.

Teca and Torry Heat Network are specialist assets and were valued by an external specialist on behalf of the council. These valuations were not available when the unaudited accounts were prepared. An additional £92.951 million has now been added to non-current assets to reflect the increase in value.

During the audit, it was noted that several assets which should have been revalued in the year were omitted from the valuation schedules. The valuation had been undertaken but the valuation schedules were incomplete or incorrect. There were also a number instances where assets had been incorrectly classified in the asset register and were therefore included in the wrong category in the note to the accounts.

Resolution

Excluding the late valuation of specialist assets, the value of property plant and equipment in the audited accounts has been increased by £15.418 million with a corresponding increase in the revaluation reserve (a non-cash unusable reserve). In addition, assets totalling £21.579 million have been re-classified from assets under construction to other land and buildings (£15.864 million) and long-term investments (£5.715 million).

2. Grossing up IJB expenditure and income

The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) guidance (April 2018) on accounting for the integration of health and social care requires the grossing up of expenditure and income. Staff and services to support the IJB, for example IJB ledger and financial services, may be provided by a local authority partner. Where a reduction in the partner contribution is agreed as compensation or consideration for the provision of the services, the authority's partner contribution in the IJB accounts should be grossed up with the cost of the services recognised as IJB running costs to balance this. A similar approach is adopted in the local authority's accounts, that is, to gross up the authority's contribution and to separately show the consideration received. This adjustment had been omitted from the IJB line in the council's CIES.

Issue

Resolution

The audited accounts have been amended to gross up expenditure and income by £137 million. There is no effect on the council's net expenditure or General Fund balance as a result.

3. IFRS16 – new accounting requirements for service concession arrangements and other leases

The implementation of IFRS 16 is mandatory for local government bodies from 2024/25. Under IFRS16, a lessee is required to recognise right-of-use assets and associated lease liabilities on the Balance Sheet.

As part of our audit work, we considered the arrangements used by management to identify potential lease arrangements. The council set up a cross-service working group to identify lease arrangements. This was a robust piece of work and consequently the council were well prepared in producing the relevant information for inclusion in the 2024/25 accounts.

At 31 March 2025, the council recognised £32.0 million right of use assets with a corresponding lease liability in their balance sheet. We reviewed the adjustments and disclosures made by the council and confirmed that these were in line with the standard and guidance.

In addition to leases, the reporting standard applies to service concession arrangements. These are more commonly known as Public Private Partnership (PPP) schemes where a private sector operator uses an asset to provide a public service and is paid over the period of the arrangement.

IFRS16 requires the PPP lease liability to be remeasured to include indexation changes over the period of the lease. Previously such charges had been treated as expenses in the year. An opening balance adjustment at 1 April 2024 was therefore required to account for the change.

It only became clear around the end of the financial year that the requirements of the accounting standard also applied to service concession arrangements. As these were considered more complex than standard leases, MUFG Corporate Markets were appointed to undertake the review which was completed in June 2025, after the unaudited accounts were prepared.

Resolution

The review of service concession arrangements increased the value of right of use assets and the corresponding lease liability by £15.1 million. We have yet to complete our review of the council's adjustments and disclosures.

4. Correction of presentation misstatements in debtors and creditors

The financial ledger includes control accounts for payroll deductions such as PAYE and national insurance contributions, for example an account for deductions and another account for the remittances to HMRC. The year end debtor or creditor in this case is the net amount of the balances on the related accounts. Due to an error in compiling the accounts however, the balances were separated and included in debtors or creditors depending

Issue

on whether the balance was a debit or a credit. This inflated debtor and creditor balances by £300 million in error.

Resolution

This matter has been rectified in the audited accounts.

5.Revaluation of council dwellings

The council undertakes a full valuation of council house stock every five years and reviews its valuation on an annual basis. This valuation is based on specialist and management assumptions using the 'beacon method' in accordance with mandatory LASAAC guidance.

The discount factor applied to council dwellings in 2024/25 dropped from 42.57% to 38.56% to reflect the increase in market rents and therefore a widening gap between social rent and market rents. This is the first time in several years that an improvement in market rents has been observed, the position having been stagnant for some time. As a result, there has been a downward valuation of council dwellings. In addition, the council has 366 properties affected by RAAC and these have been included at nil value. Overall, these matters reduced the value of council dwellings by £137.6 million (14% of the opening net book value at 1 April 2024). This reversed the previous year's position when the value of council houses had increased due to a narrowing of the gap between social and market rents. In 2023/24, council rents were increased by 5.32% which was the first increase in several years.

Resolution

Based on our review of the council's approach to valuation of council dwellings, we are satisfied that the inputs and assumptions made by the valuer are reasonable and support the valuation.

6.Disclosure of accounts relating to Low Emissions Zone

The council received approval for the introduction of a Low Emission Zone (LEZ) in the city centre in 2022, with enforcement commencing in June 2024. Under The Low Emission Zones (Scotland) Regulations 2021, the council is required to prepare a statement of account each year disclosing the costs of proposing, making and operating the scheme. This should be published in the authority's annual accounts.

In August 2024, LASAAC issued guidance on the disclosure of LEZ cost and revenues within financial statements. Having considered the requirement in the regulations to prepare a statement of account, LASAAC considered that a proportionate approach is for the statement of account to take the form of a disclosure note to the financial statements.

The council's LEZ statement of account, set out at Note 39 to the financial statements, required adjustment.

Issue**Resolution**

The audited statement has been amended to reflect a revised figure for revenues from fines and now includes more narrative on the proposed use of net revenues raised.

Source: Audit Scotland

Management commentary

25. The Local Authority Accounts (Scotland) Regulations 2014 require the annual accounts to include a management commentary prepared in accordance with statutory guidance. While the guidance allows flexibility in terms of the level of performance information included, there is an expectation that a commentary sets out the council's assessment of its performance during the year, using core financial and non-financial indicators to enhance a service's 'story'. It should provide a bridge with the financial statements and highlight the key messages and movements within the financial results.

26. A high-level snapshot of the position of council indicators across quartiles compared to other councils has been provided for the first time this year. This shows that the council is steadily improving. This provides a good overview but further improvement is needed through the inclusion of key service indicators to demonstrate performance, provide a focus on delivery of priorities and show whether planned outcomes are being achieved.

Recommendation 1

A review of the council's timetable and chief officers' responsibilities for the production of the accounts is required. This is to ensure the required information is identified early and provided by relevant officers across the council in a timely manner to meet an agreed timetable for delivery of the audited accounts.

Corporate ownership of the annual accounts

27. Local government accounts require to be prepared and submitted for audit by 30 June each year. The statutory deadline for the conclusion of the audit is 30 September each year. Aberdeen City Council however operates an accelerated timetable to deliver audited accounts by 30 June and meet its Bond reporting requirements to the London Stock Exchange.

28. Compared with other local government bodies, this means that the period available for the preparation and audit of Aberdeen City Council's annual accounts is a significantly condensed and intense period of activity. It is therefore critical that the council's supporting processes are more integrated and as streamlined as possible.

29. In each of the three years of our audit appointment, we have reported delays in the availability of property valuations which have implications for the value of non-current assets included on the council's Balance Sheet. To avoid qualified audit opinions, the Chief Officer – Finance has made material adjustments to the accounts each year. This has absorbed additional time and has placed increased pressure on both the finance and external audit teams to deliver the audited accounts.

Recommendation 1

A review of the council's timetable and chief officers' responsibilities for the production of the accounts is required. This is to ensure the required information is identified early and provided by relevant officers across the council in a timely manner to meet an agreed timetable for delivery of the audited accounts.

Financial systems of internal control operated effectively

30. As part of our audit, we identify and assess the council's internal control framework and conclude on the adequacy of scrutiny over the operation of fundamental controls in key financial systems. Our objective is to gain assurance that the body has systems for recording and processing transactions which provide a sound basis for the preparation of financial statements which are free from material misstatement.

31. The following are fundamental controls which we routinely expect to find in operation across financial systems:

- Segregation of duties: ensuring access to systems are restricted to appropriate levels and/or user activities are regularly reviewed (to negate the possibility of individuals processing transactions all the way through the payments process).
- Reconciliations: ensuring feeder systems are effectively reconciled to other systems (e.g., general ledger); using third-party information (suppliers' statements) and reconciling with payment systems.
- System documentation: system documentation should be maintained which details key controls to be carried out by staff to prevent fraud or error.
- Monitoring: scrutiny monitoring should be at a level that would allow managers to identify anomalous payments at an early stage.

32. The council has ten financial systems which we regard as key systems for the purposes of the financial statements. In 2024/25, we assessed the controls operating within the general ledger and payroll systems and reviewed our assurances from audit work conducted on other systems in the previous year. Overall, we concluded that the council has relevant controls in place and they are operating appropriately.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusions

The council has appropriate arrangements to secure sound financial management. Quarterly management accounts are provided to the Finance and Resources Committee. The council reported a break-even position for the year after use of reserves to meet an additional contribution to the Integration Joint Board.

Collection rates for local debt (i.e. rent arrears and council tax) are improving.

Controls within the main financial systems were operating satisfactorily and standards of conduct and arrangements for the prevention and detection of fraud were adequate.

The council operated within budget in 2024/25

33. The council approved its 2024/25 budget in March 2024. It was set at £627 million and required savings of approximately £25 million to achieve a planned balanced budget. This was largely met from a mix of raising fees and charges, a reduction in non-domestic rates relief, an increase in council tax and use of reserves.

34. A break-even position was achieved for the year after the use of reserves. There were a range of over- and underspends across services which affected the council overall and council departments individually.

35. Aberdeen City Integration Joint Board incurred a deficit of approximately £10 million in 2024/25 after use of its reserves. In line with the Integration Scheme, the partners, NHS Grampian and Aberdeen City Council, have an obligation to make additional contributions to meet any shortfall. As a result, the council provided a further £4 million by drawing from reserves. The IJB has incurred operational deficits in recent years but previously had reserves to cover the shortfall. With their reserves now fully utilised, this is the first time the IJB has had to seek additional funding from partner bodies.

Revenue budget monitoring processes were appropriate

36. The Finance and Resources Committee receives comprehensive management accounts on a quarterly basis including a balance sheet position. As well as providing regular and up-to-date financial information for the quarter, the council's performance against budget is reported with an explanatory commentary on the variances.

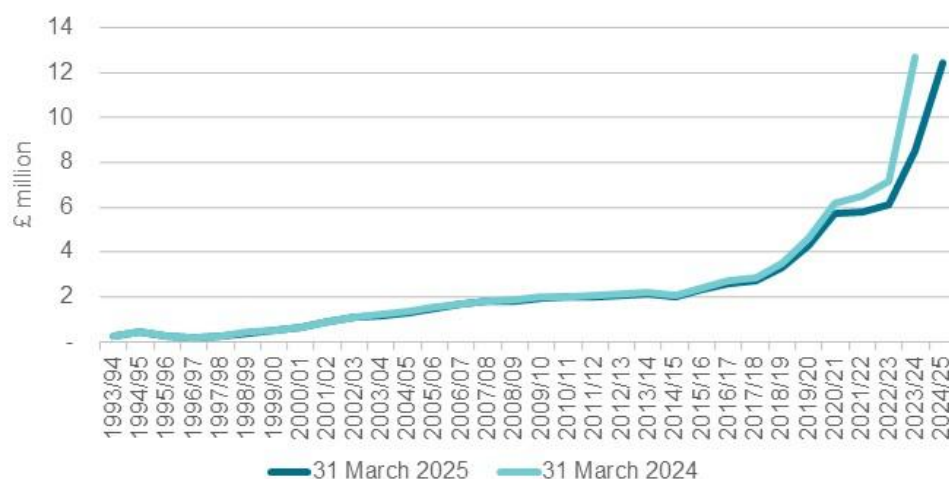
Collection rates for local debt are improving

37. The cost-of-living crisis has brought new pressures or exacerbated existing ones. There is increasing financial hardship and a decline in levels of mental wellbeing. Low-income households and people already experiencing inequalities are most affected.

38. Councils have a key role in tackling these issues and providing support. While the council is facing a growing demand for services, there is improvement in the collection of local debt.

39. Council tax collection rates have improved in the year from 91.73% in 2023/24 to 92.06% in 2024/25. [Exhibit 4](#) shows the arrears position at 31 March 2025 analysed across all financial years with council tax debt.

Exhibit 4 Council tax arrears



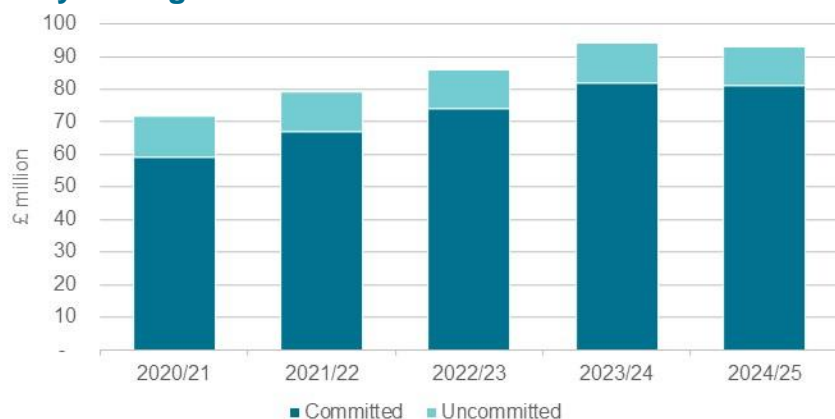
Source: Aberdeen City Council – council tax system reports

The level of General Fund reserves has slightly decreased

40. One of the key measures of the financial health of a body is the level of reserves held. The council's level of usable reserves slightly reduced from £158.644 million in 2023/24 to £154.182 million in 2024/25.

Exhibit 5

Analysis of general fund balance



Source: Audited Accounts

41. [Exhibit 5](#) provides an analysis of the general fund reserve over the last five years split between committed and uncommitted reserves. There has been little movement in the overall level of committed funds at the year end. Balances increased due to an increase in earmarked funding from the Scottish Government and revenue raised from Low Emission Zone fines while other balances have been used during the year to provide funding for affordable housing and additional support for the IJB.

Housing revenue account reported a small deficit

42. The council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set at a level which will at least cover the costs of its social housing provision. The HRA outturn was a deficit of £3 million.

Exhibit 6

Total rent arrears split between current tenant arrears and former tenant arrears



Source: Aberdeen City Council Outturn Reports

43. There was an 4.7% increase in rents in 2024/25 increasing rental income by £6 million to £104 million. There has been an improvement in the level of rent arrears, decreasing by £2.252 million (11.5%) since 31 March 2024. This is split between current tenant arrears which decreased by £1.243 million (9.9%) and former tenant arrears which decreased by £1.009 million (14.2%). [Exhibit 6](#) shows the rent arrears position.

44. There continued to be an overspend on repairs and maintenance during the year due to increasing expenditure on void properties. Rent loss due to voids has tripled over the last five years rising from £3.017 million to £9.343 million. Recognising that this position is not sustainable, a condition survey of the council's housing stock is currently underway. This will provide the underlying data for a housing stock asset management plan and will enable a further update of the council's 30-year Housing Revenue Account Business Plan.

Recommendation 2

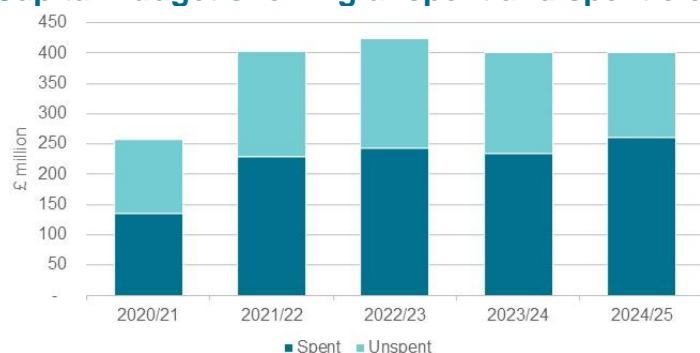
The results of the condition survey should be used to inform the next full valuation of the council's housing stock which is due by 31 March 2026.

Capital expenditure increased in 2024/25

45. The total capital budget in 2024/25 was £401 million, of which £278 million related to general services and £123 million to the housing revenue account. The total amount spent was £261 million, an increase of £26 million compared to 2023/24. Of the £140 million underspend, £133 million related to the general fund and £7 million to the HRA. [Exhibit 7](#) shows that the percentage of capital budget utilised is the highest of recent years however, a challenging construction sector is the underlying reason for recurring underspends on the capital programme. For example, supply chain difficulties, high inflation and re-tendering exercises are contributing factors to several delayed projects.

Exhibit 7

Capital Budget showing unspent and spent elements



Source: Aberdeen City Council Outturn Reports

Borrowing levels continue to increase

46. While the council managed its borrowing activities within the authorised limit and operational boundaries set within its treasury management strategy, its level of external debt is increasing and with that, the cost of interest is increasing. The higher the level of interest to be financed each year, the less there is available in the budget to support service delivery.

47. At 31 March 2025, long-term borrowing stood at £1.267 billion (2024 £1.146 billion), an increase of £121 million on the previous year. During the same period, short-term borrowing increased from £410 million to £439 million, an increase of £29 million.

The council has appropriate financial control arrangements in place

48. From our review of the design and implementation of systems of internal control, including those relating to IT, relevant to our audit approach and our testing of the operating effectiveness of specific controls, we did not identify any major weaknesses which could affect the council's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Internal audit provided a reasonable level of assurance

49. The council's internal audit service is provided by the chief internal auditor of Aberdeenshire Council under a shared service arrangement. Internal audit reports in respect of financial year 2024/25 were reported to the Audit, Risk and Scrutiny Committee during the year. The chief internal auditor's 2024/25 annual report and opinion will be considered by the committee in June 2025 when he is expected to confirm that, in his opinion, the council has operated an adequate and effective framework for governance, risk management and control during the year.

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

50. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, to safeguard public assets and aim to prevent and detect fraud, error and irregularities, bribery and corruption.

51. The council has established procedures in place including whistleblowing and counter fraud policies.

Update on significant fraud identified in 2023/24

52. Our 2023/24 Annual Audit Report referred to a former council employee who had diverted fraudulent payments totalling £1.109 million to his own bank account over a period of 17 years. This matter was subsequently the

subject of a statutory report by the Controller of Audit published in January 2025. [Statutory Report: Council tax refunds - a significant fraud](#)

Improvement plan

53. It was recognised that the council had promptly developed an improvement plan in response to the identified fraud and that internal audit had been engaged at a later stage to review progress and further consider the adequacy of internal controls. The statutory report concluded that the changes made to internal controls had yet to be embedded in a way that fully addressed the issues identified.

54. The council updated its improvement plan with all actions now due to be completed by December 2025. The scope of the actions had been extended beyond the council tax service where the fraud had been perpetrated to consider similar controls and processes across all the council's financial systems.

55. The council's Risk Board meets six-weekly and has responsibility for monitoring the improvement plan, internal audit are due to undertake a follow-up review in July 2025 and a progress report is scheduled to be considered by the Audit, Risk and Scrutiny Committee in September 2025. We will monitor the outcome of these actions before assessing the council's overall response.

Financial loss to the council

56. The fraudulent payments were taken from council tax accounts in credit. While the council will transfer a credit balance to the taxpayer's new account, if there is one, in many cases a refund will be due to the taxpayer but this is only possible if bank account details are held. Where it has not been possible to obtain bank details and make a refund, the balance is held in credit on behalf of taxpayers until claimed.

57. The council continues to undertake work to reinstate the correct balances for accounts affected by the fraud. As part of this process, the council has identified a number of taxpayers and made refunds of £327,000 as at 31 March 2025.

58. The total amount of the fraud was £1.109 million. The court progressed a proceeds from crime claim which recovered £0.105 million, a further £0.415 million has been recovered from the perpetrator and the remainder is the subject of an insurance claim currently being assessed by the council's insurance broker.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

A sound approach to medium and longer-term financial planning is in place to manage ongoing financial challenges. A five-year financial plan is prepared showing the savings required each year to deliver a break-even position.

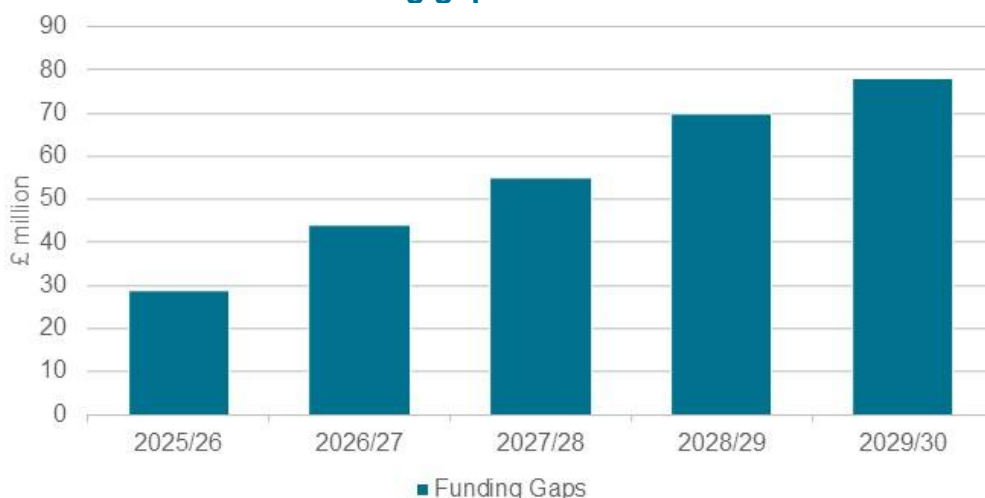
The council has implemented a second programme of challenging transformation and service redesign to address a funding shortfall of £78 million over the next five years.

Medium and longer-term financial plans are in place

59. The council approved its current medium-term financial strategy (MTFS) in October 2024, which covers the periods 2025/26 to 2029/30. The aim of a medium-term financial strategy is to pull together in one place the known factors affecting the financial position and financial sustainability of an organisation over the medium term. The budgets within the financial strategy are showing funding gaps of £29 million in 2025/26 rising to a cumulative £78 million by 2029/30 as illustrated in [Exhibit 8](#).

Exhibit 8

Identified cumulative funding gaps 2025/26 – 2029/30



Source: Aberdeen City Council Medium Term Financial Strategy

Transformation plans

60. The council agreed a new Target Operating Model for 2022-27 to support the transformation needed to deliver savings and efficiencies as shown by [Exhibit 9](#). The objectives of the Target Operating Model are to:

- support the council to address the 5-year funding gap
- continue to exploit digital technologies to enable services to adopt new technology for various activities and processes to accelerate and streamline processes
- develop an organisational workforce that is flexible ensuring all staff have the necessary skills to work effectively within the council's operating model.

Costs pressures

61. Council borrowing has increased by £150 million over the 12 months to 31 March 2025 as shown in [Exhibit 9](#) and represents a 9.7% increase on the previous year. Although the cost of borrowing has been historically low for some time, the council's interest costs almost doubled in 2023/24 to £60 million and has remained at a similar level in 2024/25 (£65 million). New borrowing will therefore continue to be more expensive, increasing the financial pressures on the council. In addition, existing debt may need to be refinanced.

Exhibit 9 Council Borrowing



Source: Aberdeen City Council Audited Accounts

We carried out audit work in response to financial sustainability risks identified in our 2024/25 Annual Audit Plan

62. [Exhibit 10](#) sets out the wider scope risks relating to financial sustainability we identified in our 2024/25 audit. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 10

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

Audit risk identified in Annual Audit Plan	Assurance procedure	Results and conclusions
<p>1. Financial sustainability</p> <p>The council has been reducing its cost base in recent years. A further programme of transformation commenced in August 2022 when the council adopted a new Target Operating Model (TOM 1.2) intended to address a funding gap of £134 million over five years.</p> <p>The council's revenue budgeted expenditure for 2024/25 is approx. £560 million. This reflects proposed savings and efficiencies of some £50 million. Longer term, the council's funding shortfall, increases from £30 million in 2024/25 to £110 million in 2028/29. Delivery of planned savings and efficiencies would reduce the above shortfall to £25 million in 2024/25 and £85 million in 2028/29.</p> <p>With ring-fenced funding and significant financial challenges, there are mounting pressures on the sustainability of council services.</p>	<p>Regular budget monitoring</p> <p>Quarterly management accounts</p> <p>Medium term financial planning arrangements.</p>	<p>We reviewed the Target Operating Model and Medium-Term Financial Strategy. The strategy assesses the financial position over a 5-year period and is refreshed annually as part of the council's budget setting process.</p> <p>We concluded that sound arrangements are in place to support the council's financial sustainability.</p>

4. Best Value

Councils have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions.

Conclusion

Requisitioned meetings have doubled the number of council meetings held in the year. While the level of challenge and scrutiny in the council has increased as a result, it has not led to any new decisions or actions. The significant increase in meetings places additional demands on elected members and officers and limits the time available for implementing policy decisions.

A comprehensive review of the council's scheme of governance was undertaken during the year. There is scope to provide further clarification on delegated matters deemed to be politically sensitive.

The council's commitment to a training programme to support scrutiny across its committees is welcomed.

Best Value work in 2024/25

63. For 2024/25, the scope of Best Value work includes conclusions on:

- Best Value thematic work covering transformation
- effectiveness of council performance reporting
- progress made against previous year improvement actions.

64. As set out in the [Code of Audit Practice](#), Best Value audit is integrated with other wider-scope annual audit work. Therefore, in addition to the work set out in the remainder of this section, Best Value work has informed the content and conclusions set out in respect of our wider scope responsibilities (refer to [Section 5](#)).

Best Value thematic work

65. Annual thematic Best Value work is set by the Accounts Commission.

66. In May 2024, we reported on the first best value thematic which focused on the council's leadership of the development of new local strategic priorities. Our report recognised that the council had undertaken a major transformation programme and was embarking on an equally ambitious second phase. Our report highlighted a number of robust arrangements in place including:

- The council's vision and priorities being well articulated and embedded within its strategic planning framework
- Positive action had been taken to encourage wider involvement in community engagement and empowerment
- The council's robust approach to budgeting and medium-term financial planning.

67. However, the report also reflected on the political tensions observed in the council chamber, their impact on council business through requests for additional meetings and the increased demands on officers reducing their capacity to implement decisions. Elected members were encouraged to participate in cross-party working and review the adequacy of the council's scrutiny arrangements.

68. Based on our activities as part of the 2024/25 audit, the following sections set out our observations and judgements on the council's progress with implementing the recommendations from the leadership thematic.

Member-to-member working together

69. The councillors' code of conduct states that 'councillors and employees should work in an atmosphere of mutual trust and respect'. The Accounts Commission has also stressed the importance of councillors and officers working well together. This means everyone taking personal responsibility to forge good working relationships built on a culture of trust, and the application of good conduct and behaviour. Where these are absent it is difficult for any organisation to make progress.

70. Based on our observations, elected member behaviours have deteriorated. There is less respect and more frustration in the chamber and on occasion, the tone of questions to officers is persistent and more demanding. There is little evidence of collaboration between political groups, most debate has a political undertone and is therefore contentious. In our view, the working environment is one of conflict rather than collaboration.

71. Requested meetings have now become the norm at Aberdeen City, doubling the number of full council meetings held during 2024/25 from eight to sixteen. This is a significant increase since our 2022/23 thematic report when we reported a 40% increase in meetings. This places additional demands on elected members and officers and limits the time available for implementing policy decisions.

72. Elected members have a right of access to confidential council information but it is on a 'need to know basis'. While a range of exempt information may be of general interest to councillors, there is no right of access unless it can be demonstrated that the information is reasonably necessary for the proper performance of members' duties. These principles are reflected by the council through its Member Officer Relations Protocol which was recently reviewed as part of the scheme of governance. Access to information, however, continues to be an area of contention between members and officers particularly in

relation to the sharing of legal advice as demonstrated by two recent requisitioned meetings considering Traffic Management Orders.

73. In general, the additional meetings have challenged the council's position on specific matters and to a certain extent they were requisitioned to address frustrations that sufficient information was not being shared as a matter of routine. In most cases however, while opportunities for additional scrutiny were created, no new decisions were taken or new actions agreed, the additional meetings have mostly reaffirmed existing actions or noted progress being made on relevant projects.

Officers use of delegated powers

74. The council undertakes an annual scheme of governance review with proposals coming forward from an elected member working group, the Governance Reference Group. While the Group has cross-party membership, member engagement is mixed and some members have indicated that they do not feel their views are being heard.

75. While the reference group is a working group rather than a committee, it has generally been chaired by an elected member. There is scope to minimise the political element if an officer facilitated the meeting instead of a chair and if all voices and contributions could be given equal consideration when developing recommendations.

Recommendation 3

The council may wish to consider having an officer facilitate the Governance Reference Group meetings instead of an elected member acting as chair.

76. A comprehensive review of the scheme of governance was undertaken between October 2024 and March 2025 and was approved by the council in April 2025. Changes to the scheme were approved by the council after a lengthy period of questions and debate in the chamber. There was little scrutiny on the detail of the changes or discussion on the models which could be adopted to strengthen scrutiny.

77. The council's statement on powers delegated to officers state 'in exercising such a power, the relevant officers should be mindful of the potential for political sensitivity or controversy and, where appropriate, should consider consulting with elected members or referring the matter to council or one of its committees or sub-committees'.

78. In our May 2024 report, we highlighted that some members had raised concerns that they were hearing what they regard as 'politically sensitive' decisions on social media rather than through formal council communication channels. We therefore suggested a review of the delegated powers including consideration of potential types of issues likely to cause concern and when

consultation with members would be appropriate. There has been no change to this delegated power in the latest review.

79. We compared the council's delegated powers with those of three other city councils and we found that two require consultation with elected members on matters deemed to be politically controversial. As a minimum, it would be helpful and more transparent if criteria were developed to provide a framework for officers in considering the circumstances when consultation and/or a report to elected members would be appropriate.

Recommendation 4

It would be more transparent if criteria were developed to provide a framework for officers in considering the circumstances when consultation and/or a report to elected members would be appropriate in respect of delegated matters deemed to be politically sensitive.

Developing scrutiny

80. We have observed both good and poor behaviours at the Audit, Risk and Scrutiny Committee during the year. While the committee forms an important part of the council's governance structure, there is scope for it to be less political in its conduct of business and for members to be more collegiate, to be assured on governance matters through a shared understanding and conversation on topics. The mood in the committee room is confrontational at times creating a perception that the aim is political point scoring rather than effective scrutiny of council services and performance.

81. CIPFA issued a position statement setting out their views on audit committee practice and principles that local government bodies should adopt. The Audit, Risk and Scrutiny Committee operates in line with the position statement regarding purpose, core functions and engagement with officers and auditors.

82. We understand that the council has a commitment to work with the Improvement Service to develop a training programme to enhance scrutiny. We welcome this intention and recommend that the programme consider how best to support the committee in fully demonstrating CIPFA's good practice characteristics for effective audit committee membership as set out below:

- A membership that is trained to fulfil their role so that members are objective, have an inquiring and independent approach, and are knowledgeable.
- A membership that promotes good governance principles, identifying ways that better governance arrangement can help achieve the organisation's objectives.

- A strong, independently minded chair, displaying a depth of knowledge, skills, and interest. There are many personal skills needed to be an effective chair, but key to these are:
 - promoting apolitical open discussion
 - managing meetings to cover all business and encouraging a candid approach from all participants
 - maintaining the focus of the committee on matters of greatest priority.
- Willingness to operate in an apolitical manner.
- Unbiased attitudes – treating officers and auditors fairly.
- The ability to challenge senior management when required.
- Knowledge, expertise and interest in the work of the committee.

Recommendation 5

The council should ensure the CIPFA characteristics for effective audit committee membership are incorporated in the proposed training programme for elected members.

83. The Audit, Risk and Scrutiny Committee has a scrutiny remit for the council. The terms of reference permit the committee to determine that further action is required once a matter, process or practice has been the subject of a report to council or committee and the consideration of the matter concluded by council or said committee action (with some exceptions). Any scrutiny will not prevent, or alter, any decision being taken and will only review the effectiveness of decision making, or monitoring and may make recommendations to the relevant committee or council.

84. As the committee had not considered any reports under this remit, we suggested there was scope to use the committee more effectively to scrutinise council decisions. The terms of reference for all committees have now been revised to reinforce their role in undertaking scrutiny of policy, performance and risk. We will continue to monitor the council's development of scrutiny across its committees.

Workforce and innovation

85. The Best Value thematic review in 2023/24 considered workforce and innovation. We issued a strong report with positive findings which was considered by the Audit, Risk and Scrutiny Committee in September 2024. Key messages included:

- Workforce planning is effectively integrated with the council's strategic priorities and is integral to the ongoing delivery of transformation. The council actively monitors progress with its workforce plan and provides regular reports on priority areas to elected members.

- There is a structured approach to staff engagement and providing support. Robust arrangements are also in place to engage with Trade Unions and with elected members through the Staff Governance Committee.
- Internal recruitment supported by learning and development is the preferred route for filling vacancies and investment in a younger workforce is being made through the use of apprenticeships, internships and work placements. Innovative technologies are intended to create additional capacity through improved productivity and robotic process automation pilots have made efficiencies.
- The council has well established arrangements for flexible working which have been extended through hybrid and remote working.

Transformation

86. The focus of the 2024/25 Best Value thematic review is transformation. This will consider how the council is redesigning services to maintain outcomes and deliver services more efficiently. Conclusions and judgements on the thematic review will be covered in a separate management report to be reported to the Audit, Risk and Scrutiny Committee in September 2025.

5. Vision, leadership, governance and use of resources

Public sector bodies must have a clear vision and strategy and set priorities for improvement. Through effective planning, they work with partners and communities to improve outcomes, make best use of resources and foster a culture of innovation.

Conclusion

Governance arrangements are appropriate and operated effectively.

The council's performance against the Scottish average of indicators in the Local Government Benchmarking Framework has fallen compared with the previous year. It is above the average in 41% of indicators compared with 54% previously.

The council's arrangements for the publication of statutory performance indicators are sufficient to meet statutory requirements.

Governance arrangements are appropriate

87. The council's governance arrangements were set out in the annual governance statement in the annual accounts. We reviewed these arrangements and concluded that they are appropriate.

The council is open and transparent

88. Agenda papers and minutes for council meetings, including financial and performance information, detail the decisions made and are publicly available on the council's website. In addition, there is livestreaming of council meetings and webcast recordings are also available from the website.

89. The council's website also allows public access to a wide range of information including the register of councillors' interests, current consultations and a wide range of performance data including the annual accounts. In addition, the council has a listed bond and therefore all stock exchange announcements are publicly available from the website.

90. In recent years, through the council's transformation programme, access to more services has been made available online with help provided via online guidance and the use of chatbots.

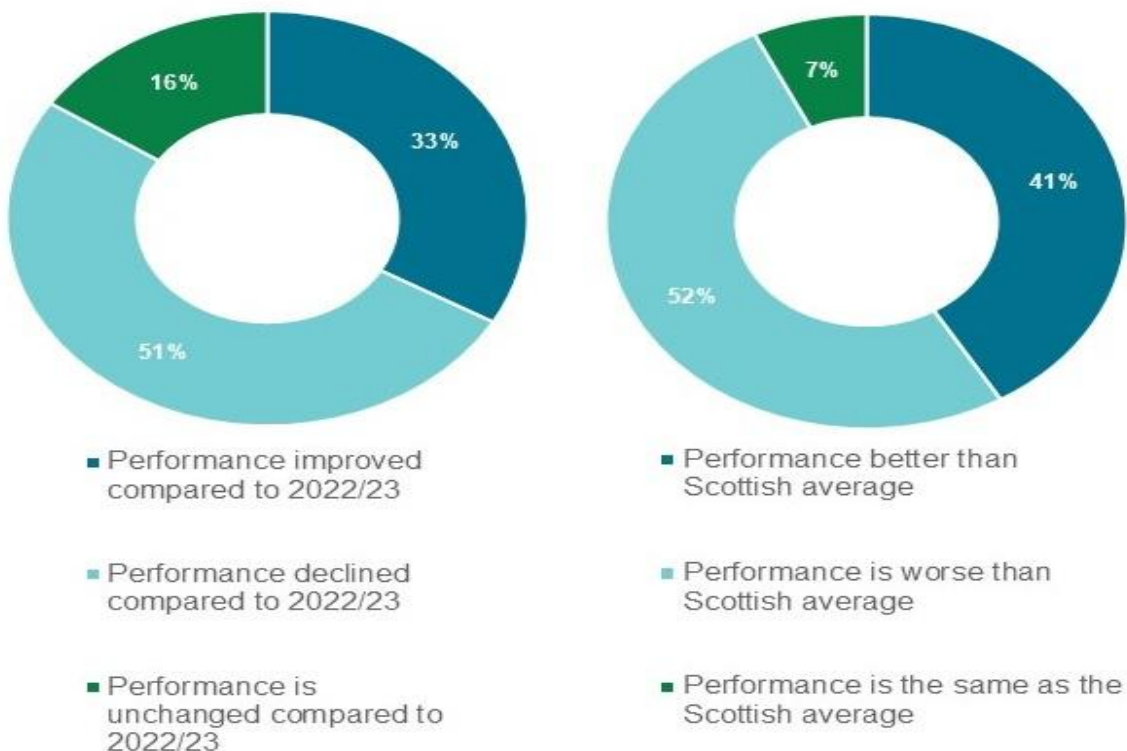
Performance against the Scottish average has fallen compared with the previous year

91. The council participates in the [Local Government Benchmarking Framework \(LGBF\)](#). The framework brings together a wide range of information about how all Scottish councils perform in delivering services, including the cost of services and how satisfied citizens are with them.

92. The LGBF indicators allow comparison over time and/or with the other 31 Scottish local authorities. An analysis of the 2023/24 data in [Exhibit 11](#) shows that 33% (47%) of the measures have improved from 2022/23 and 16% (12%) have remained the same. Against the Scottish average, the council is above average for 41% (54%) of the measures and 7% (4%) have stayed the same ([Exhibit 11](#)). For 2023/24, the council is performing in the top two quartiles for 46% (45%) of the indicators.

Exhibit 11

LGBF comparisons – 2023/24 with 2022/23 and Scottish Average



Source: Local Government Benchmarking Framework

93. A range of performance data is collected and reported during the year including:

- Quarterly reporting against the council delivery plan to management and annually to council. The delivery plan annual review is a narrative report providing updates on policy statements, key achievements for the year and progress against the council's contribution to the Local Outcome Improvement Plan (LOIP). It is supported by a public website, [Community Planning Aberdeen](#), where LOIP partners capture and publicly report a range of outcomes data on an ongoing basis.
- With regard to the council, a range of delivery plan key measures, activity numbers and percentages, is collected for each of the delivery plan areas – economy, children and young people, adults and place. Current and prior period data is provided with a direction of travel indicator and colour coding representing better/similar/worse outcomes.
- Service standards are set by each service cluster with quarterly performance scorecard reporting against standards to committee (referred to as KPIs – key performance indicators)
- Annual reporting of statutory performance indicators
- Review and use of Local Government Benchmarking data.

Arrangements for the publication of Statutory Performance Indicators meet requirements.

94. The Accounts Commission issued a new [Statutory Performance Information \(SPIs\) Direction](#) in December 2021 which applies for three years from 2022/23. It requires a council to report its:

- performance in improving local public services (including those provided with its partners and communities), and progress against agreed desired outcomes (SPI 1). The Commission expects this reporting to allow comparison both over time and with other similar bodies (drawing on Local Government Benchmarking Framework and/or other benchmarking activities).
- own assessment and audit, scrutiny, and inspection body assessments of how it is performing against its duty of Best Value, and how it has responded to these assessments (SPI 2).

95. In our opinion, there is scope for the council to be clearer in making its assessment of performance against Best Value and ensuring there is balance in its annual performance reporting. Overall, we concluded that the council's arrangements meet the main requirements of the Direction.

Appendix 1. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual accounts that are individually greater than our reporting threshold of £600,000.

The table below summarises uncorrected misstatements identified during our audit testing and have not been corrected by management. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#) and do not have a material impact on the financial statements.

Account areas	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000	Cr £000	Dr £000	Cr £000
Unspent grant funding carried as creditors, should be recognised as income.		8,300	8,300	
Total		8,300	8,300	

Appendix 2. Action plan 2024/25

2024/25 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Annual Accounts	A review of the council's timetable and chief officers' responsibilities for the production of the annual accounts is required. This is to ensure the required information is identified early and provided by relevant officers across the council in a timely manner to meet an agreed timetable for delivery of the audited accounts.	Agreed Responsible Officer: Finance Operations Manager Completion date: 31 October 2025
2. Housing stock asset management	The results of the condition survey should be used to inform the next full valuation of the council's housing stock which is due by 31 March 2026.	Agreed Responsible Officer: Chief Officer - Corporate Landlord Completion date: 31 March 2026
3. Governance Reference Group	The council may wish to consider having an officer facilitate the Governance Reference Group meetings instead of an elected member acting as chair.	Agreed Responsible Officer: Interim Chief Officer - Governance Completion date: 31 March 2026
4. Consultation with elected members	It would be more transparent if criteria were developed to provide a framework for officers in considering the circumstances when	Agreed Responsible Officer: Interim Chief Officer - Governance

Issue/risk	Recommendation	Agreed management action/timing
	consultation and/or a report to elected members would be appropriate in respect of delegated matters deemed to be politically sensitive.	Completion date: 31 March 2026
5.Scrutiny training programme for elected members.	The council should ensure the CIPFA characteristics for effective audit committee membership are incorporated in the proposed training programme for elected members.	Agreed Responsible Officer: Interim Chief Officer - Governance Completion date: 30 November 2025

Aberdeen City Council

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