

Aberdeenshire Council

Report to Councillors and the Controller of Audit

on the 2006/07 Audit



Aberdeenshire Council

Report to Councillors and the Controller of Audit

on the 2006/07 Audit

Contents

Key Messages	2	Governance	26
Introduction	5	Financial statements	30
Performance	6	Final Remarks	34
Financial position	18	Appendix: Action Plan	1



Key Messages

Introduction

In 2006/07 we looked at the key strategic and financial risks being faced by the council. We audited the financial statements and looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes in 2006/07 and the outlook for the period ahead.

Key outcomes from 2006/07 audit

We have given an **unqualified** opinion on the financial statements of Aberdeenshire Council for 2006/07. We have, however, drawn attention to a failure to comply with the statutory requirement that all significant trading organisations break even on a rolling three year basis. The catering significant trading operation made an aggregate loss of £2.9 million in the three years to 31 March 2007. This was mostly due to the additional liability arising from equal pay compensation payments.

Final accounts preparation processes and working papers were generally good and this enabled the audit to progress smoothly. However, the audit identified a number of capital accounting issues that remained unresolved at the year end. Although these were not material to our audit opinion, they require to be investigated and resolved prior to the preparation of the 2007/08 financial statements.

The council is committed to continuous improvement as demonstrated by a range of initiatives including best value service reviews and the Kaizen process. In preparation for the best value audit, the council has prepared an improvement agenda which brings together all of its improvement priorities in the immediate and medium term. Supporting a stronger approach to scrutiny and challenge through improvements to performance information, and improving performance relating to academic attainment in schools, waste management and recycling, and planning are highlighted as requiring immediate action.

The council has an integrated performance management framework which links various improvement activities within a single framework, and has recently developed a framework for policy-led budgeting. High level indicators are being developed to measure the council's progress towards achieving its vision to be the best area and best council in Scotland. The council is currently working to improve the quality and presentation of performance information to support scrutiny by councillors but has yet to prepare an annual report summarising its performance in 2006/07.



One of the ways the council measures its comparative performance is using statutory performance indicators. In 2006/07, the council's performance improved for nineteen (33%) and declined for twenty (35%) of the statutory performance indicators when compared to 2005/06. The council acknowledges that it needs to develop a consistent approach to reporting SPIs to councillors. Plans are in place to include the SPIs within a new service performance management report, the format of which is currently being developed by officers.

The Social Work Inspection Agency concluded that the social work service in Aberdeenshire is achieving good outcomes for most people who use services. Resources are well managed overall and vulnerable people are appropriately safeguarded. In many cases, good outcomes are achieved by working in partnership with people who use services but more could be done to strengthen partnerships with carers.

By 31 March 2007, the council had restored its general fund working balance to over £5 million, the minimum the council considers it requires to hold in order to respond to unforeseen financial pressures without a significant impact on council tax levels.

Management of the Education, Learning and Leisure Service has improved following the appointment of the new Director. With the help of consultants, the Service delivered its 2007-2010 service plan ahead of the agreed timetable and progressed key priorities, including the HMiE action plan in preparation for their follow up visit. The Service continued to experience a range of over and under-spends during 2006/07. A key challenge for the new Director is to ensure that future budgets are aligned with management responsibility and current levels of service delivery.

Outlook for future audits

The new political administration is currently developing its strategic plan for the period 2007-2011. This document will set out the strategic direction of the council and is critical to ensuring that the administration's priorities are delivered.

The council faces a number of significant financial pressures in the medium to longer term. These include the costs of fully implementing the single status agreement, increased demand for home care and care management services, and increased energy costs. In addition, it is not yet clear what impact the new Scottish Government will have on local government finance, in particular in relation to the local government settlement and council tax funding. Medium term financial plans will need to be closely monitored to take account of such pressures.



Aberdeenshire council has recognised the importance of delivering efficiency savings as an integral part of service delivery and has demonstrated a clear commitment to the efficiency agenda. Total efficiencies of £2.6 million were reported for 2006/07. This is despite delays in developing the joint procurement strategy with Aberdeen City which resulted in budgeted savings of £1 million not being achieved. The 2007/08 budget includes a further £1 million of savings from improved procurement practices. Failure to achieve the level of savings anticipated will increase financial pressures and may impact adversely on the quality of services provided.

The co-operation and assistance given to us by Aberdeenshire Council councillors and staff during our audit is gratefully acknowledged.

Audit Scotland

October 2007



Introduction

1. This report summarises the findings from our 2006/07 audit of Aberdeenshire council. Findings are drawn together within four sections: performance; financial position; governance and financial statements. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the council going forward.
2. The scope of the audit was set out in our Audit Risk Analysis and Plan (ARAP), issued to the council in May 2007. The ARAP set out our views on the key business risks facing the council and described the work we planned to carry out under the following strategic themes:
 - demonstrating good governance and real accountability
 - adopting a strategic framework to deliver change
 - sustainability and funding future improvement
 - using performance management to deliver quality services
 - promoting community well being.
3. We also undertook the following detailed exercises which resulted in separate audit reports:
 - review of the council's progress in addressing the key risks identified in our 2005/06 report on the new housing system
 - assessment of council's staff's perceptions of information security within the organisation.
4. Where appropriate in this report, we refer to key messages from these separate reports.
5. Overall conclusions on the council's management of key risks are discussed throughout this report. The Appendix sets out the key risks highlighted in this report which we wish to draw to the attention of councillors and the action planned by management to address them.
6. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and councillors during the course of our audit work.



Performance

Introduction

7. In this section we summarise key aspects of the council's reported performance during 2006/07 and provide an outlook on future performance, including our views on the current status of identified risks. We also comment on the findings of national performance audit studies.

Corporate objectives and priorities

8. The Corporate Plan for 2003 – 2007 sets out the key goals and priorities for the council until 2007 and explains how it plans to achieve these. The plan is set out in five themes, which cut across a variety of services:
 - Community Well Being
 - Jobs and the Economy
 - Learning
 - A Sustainable Environment
 - Quality Services
9. Following the May 2007 elections, the political make-up of the council is 24 Liberal Democrat, 22 Scottish National Party, 14 Conservative and 8 Independent councillors. The former Liberal Democrat/Independent administration has been replaced with a Liberal Democrat/Conservative coalition. Work is ongoing to develop an updated corporate plan for 2007 – 2011, incorporating relevant manifesto commitments.

Overview of performance in 2006/07

Measuring Performance

10. The council has an integrated performance management framework which links various improvement activities within a single framework. Services have identified their core activities, together with a key result and performance indicators for each activity. Indicators have been reported to Committees every quarter since 2005/06, although the council has yet to prepare an annual report of its 2006/07 performance against the corporate plan.

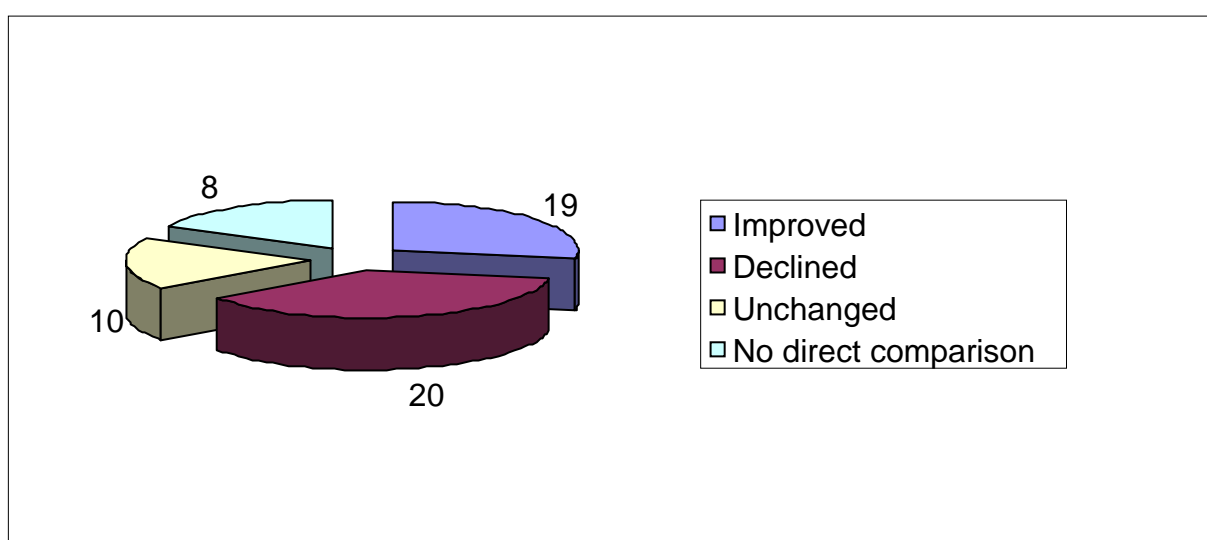


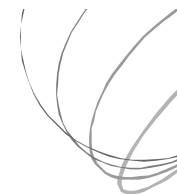
- High-level indicators are also being developed to measure the council's progress towards achieving its vision to be the best area and best council in Scotland. The council is working to improve the quality and presentation of performance information to support scrutiny by councillors.

Key risk area 1

Statutory performance indicators

- One of the ways the council measures its comparative performance is using statutory performance indicators (SPIs). The council uses the number of statutory performance indicators in the top quartile to measure the achievement of its vision of being the best council. In 2005/06, the council had 18 (23%) of its SPIs in the top band.
- The council's Public Performance Report also draws on the SPIs to measure how well the council has performed compared to the best and worst performing councils in Scotland. A 'traffic light' system is used to help readers understand the council's performance, with red indicating the council is in the bottom 25% and green that the council is in the top 50% of all councils.
- Although at the time of writing, the council has yet to publish its Public Performance Report for 2006/07, the SPIs have been audited and are published on the council's website. These show that, overall, the council's performance improved for nineteen (33%) and declined for twenty (35%) of the statutory performance indicators when compared to 2005/06:





15. In the absence of an Annual Report prepared by the council, we have used the 2006/07 SPIs to summarise the council's performance in 2006/07. Our analysis is based on the SPIs used by the council to report its performance in the 2005/06 Public Performance Report. SPIs were not used to measure the performance of the Jobs and Economy theme in 2005/06.

Community Well Being

Improvement has been reported in 6 of the 11 SPIs. In particular, performance has improved in the majority of housing indicators with significant improvement reported in the percentage of sales of houses completed within 26 weeks (85.6%) and current tenants' arrears as a percentage of net rent due (3.8%). The average time taken to assess someone as homeless has, however, deteriorated significantly to 17.6 weeks. Performance against the criminal justice indicators has been more mixed, with one improving, one deteriorating slightly and one staying the same.

Learning

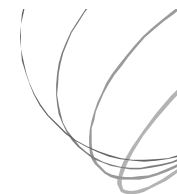
The council draws on SPIs for school occupancy, library use and attendance at sport and leisure facilities under this theme. The 2006/07 SPIs show occupancy levels have deteriorated in secondary schools, whilst attendance at pools and other indoor sports and leisure facilities has increased. In addition, the percentage of the population that are borrowers from public libraries has fallen to 20% from 23%, whilst the percentage that use learning centres and learning access points has increased to 11% from 8.5%.

A Sustainable Environment

Waste management SPIs are used to measure the council's performance under this theme. There has been improvement in the amount of municipal waste recycled by the council, although the percentage of landfill waste that was biodegradable has remained constant at 63%. Performance against all of the refuse collection indicators has deteriorated. In particular, there has been a significant increase in the net costs of collection (from £33.63 in 2005/06 to £52.25 in 2006/07) and disposal (from £79.36 to £115.12) per premise and the number of complaints per 1,000 households, which increased from 10.9 to 27.8, following the introduction of two-weekly collections.

Quality Services

The council reports indicators covering benefits administration, development services, roads and lighting and protective services under this theme. The majority have deteriorated during 2006/07, with reductions in the condition of the road network, the percentage of consumer complaints dealt with within 14 days of receipt, and the percentage of planning applications dealt with within 2 months. Significant improvement was shown in the percentage of street light failures repaired within 7 days whilst the accuracy of processing of benefits claims increased from 95 % to 96.8%.



16. The council acknowledges that it needs to develop a consistent approach to reporting SPIs to councillors. Plans are in place to include the SPIs within a new service performance management report, the format of which is currently being developed by officers.
17. Each year we review the reliability of the council's arrangements to prepare SPIs. Overall, the quality of working papers provided to support the SPIs this year was poor, with wide inconsistency across services. There was insufficient checking of data prior to submission to audit and not enough ownership of the indicators by services.
18. No indicators were classified as unreliable this year compared to two in 2005/06. This was mainly due to services being provided with the opportunity to correct their indicators prior to submission to Audit Scotland. In total, eleven (19%) indicators were changed from those submitted for audit.
19. The council failed to report two indicators in 2006/07 (library stock turnover and waste management – cleanliness). The council chose to publish the library stock turnover indicator despite being advised by Audit Scotland that it had been assessed as a failure to report following discussion with the Scottish Library Service.

Key risk area 1

Social Work Inspection

20. During 2006, the Social Work Inspection Agency (SWIA) inspected the Social Work Service provided by Aberdeenshire Council and concluded that:

'The social work service in Aberdeenshire is achieving good outcomes for most people who use services. It is well regarded by many people who use services and by people in other agencies. The social work service plays an important role in many local communities. It has a stable, committed and competent workforce which is well managed and supported with good training opportunities. Social work staff work well with staff from other services and agencies to provide good quality services. Front line staff and managers have been actively involved in making improvements in some areas.

Resources are well managed overall and vulnerable people are appropriately safeguarded. In many cases, good outcomes are achieved by working in partnership with people who use services but more could be done to strengthen partnerships with carers. The social work service has encouraged local developments, and in so doing has managed to provide services which respond to local needs. Managers now need to make sure that services provide equally good outcomes for people, wherever they live.



There is evidence of good political, strategic and professional leadership. The social work service is well regarded within the council and makes an important contribution at a corporate level. The council requires to make sure there are sufficient resources to provide the services which social work is expected to deliver.'

21. The report highlights five key areas for improvement:
- ensuring staff have manageable workloads and that the work they do is appropriately recorded
 - improving ways of supporting carers and involving them in planning services
 - ensuring that plans are linked to key priorities, that resources are identified to carry them out and that progress can be measured,
 - establishing a performance management system for all areas of the service
 - resolving the gap between the level of service provision and available resources.
22. SWIA made 12 recommendations for improvement. The council's progress towards implementing the recommendations is reported to the Social Work and Housing Committee every six months. The latest monitoring report, as at August 2007, records most of the actions as ongoing with most of the target dates not yet passed. The council is, however, making progress towards meeting the milestones included in its action plan.

Best value audit

23. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of best value based on a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.
24. The council's best value audit is currently in progress with the fieldwork scheduled to commence in October 2007.



Performance outlook – opportunities and risks

Introduction

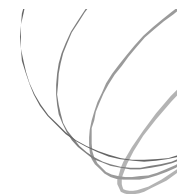
25. As stated in paragraph 2, our ARAP identifies some of the strategic risks to Aberdeenshire Council delivering on its stated objectives and priorities in the years ahead. In the following paragraphs, we comment on the progress made by the council during the year and the key risks yet to be fully addressed. Where appropriate, matters arising in a number of these areas are also reported in more detail elsewhere in this report. Risk exists in all organisations which are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be risk aware, and have sound processes of risk management, rather than risk averse. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.

Demonstrating good governance and real accountability

26. Effective scrutiny is central to good governance, with a significant role for councillors in scrutinising performance, holding management to account on service delivery and supporting the reform and modernisation agenda.
27. In common with many councils, the May 2007 elections have resulted in a considerable number of new councillors, with 31 of the 68 elected councillors new to the council. This has required support from officers to ensure that adequate training and development programmes were provided.
28. The council provided a three day induction programme for all councillors. Overall, 71% attended on all or some of the days. Additional training was provided to members of the Scrutiny and Audit Committee. Protocols have been developed for the operation of multi-member wards and Standing Orders, the Scheme of Delegation and the List of Delegated Powers to officers updated appropriately.
29. The council made some progress towards improving its corporate governance arrangements during the year. More work is required, however, to embed risk management throughout the organisation and develop business continuity plans to minimise disruption to important systems caused by major failures or disasters.

Key risk area 2

30. The council's planning framework is a key mechanism for holding officers to account. Last year we reported that there had been a deterioration in the planning framework with some services experiencing problems in delivering their plans in accordance with the agreed timetable. In 2006/07 this has been addressed, with all services meeting the timetable for delivering their 2007-2010 service plans.



31. In 2005/06, we reported that the Education and Recreation Service management team had difficulty in working together to meet the Service's immediate objectives and priorities. In order to alleviate some of these problems, consultants were appointed in July 2006 to support the management team.
32. The consultants were employed until the new Director of Education, Learning and Leisure took up post in February 2007. During this time, they helped produce the Service's 2007-2010 plan ahead of the agreed timetable and worked with the management team to progress key priorities, including the action plan arising from the HMiE education authority inspection in preparation for the follow up visit in 2007.
33. The service continued to experience a range of over and under-spends during 2006/07. A key challenge for the new Director of Education, Learning and Leisure is to ensure that future budgets are aligned with management responsibility and current levels of service delivery.

Key risk area 3

34. The council's corporate governance arrangements are discussed in more detail in paragraphs 97 to 122 below.

Adopting a strategic framework to deliver change

35. The council set an ambitious target of the end of September 2007 for approval of its new Strategic Plan covering the period 2007-2011. Due to the new administration's desire to have increased political involvement in the development of the plan, this milestone was not met. The council plans to present the Strategic Plan to the council for approval in November 2007.
36. The council commenced a wide-ranging review of its assets during 2006/07. It is anticipated that this will be completed in 2007/08 and will inform the development of an asset management strategy and plan. These documents should improve the sustainability of capital investment decisions.
37. The council faces particular challenges with regard to its workforce due to the area's low unemployment levels. During the year, the council developed a draft workforce strategy to provide a framework to address workforce issues. Work is also underway with Services to profile both the existing and projected workforce requirements in the short, medium and long term. Progress has been slower than anticipated and the initial timescale for approval of the strategy (June 2007) has been missed. In the absence of such a strategy, there is a risk that the council does not have a corporate approach to workforce planning and therefore staff resources are not deployed effectively to deliver quality services.

Key risk area 4



Sustainability and funding future improvement

38. At the end of March 2006 the council had depleted its general fund working balance due to the impact of equal pay claims. By 31 March 2007, the council had exceeded its target to restore this balance to £5 million, the minimum the council considers it requires to hold in order to respond to unforeseen financial pressures without a significant impact on council tax levels.
39. The council continues to face significant challenges both in relation to the delivery of its improvement agenda and in managing ongoing financial pressures such as the costs of fully implementing the single status agreement, increased demand for home care and care management services, and increased energy costs.
40. During the year, the council developed a framework for policy-led budgeting and linked all of the core activities included in Service's plans to the 2007/08 revenue budget. This analysis provides a benchmark of where the council is in terms of service delivery by identifying the cost of current core activities. The council acknowledges that more needs to be done to complete the linkages between council policies and budgets.

Key risk area 5

41. The Efficient Government Initiative has incorporated some assumed efficiency savings into annual financial settlements, presenting an ongoing challenge as efficiency gains through service redesign are likely to take some time to be fully realised. The council made £2.6 million of efficiency savings in 2006/07 and have included an additional £1 million of efficiency savings in balancing the 2007/08 budget. Failure to achieve the level of savings anticipated will increase financial pressures and may impact adversely on the quality of services provided.

Key risk area 6

42. The council's financial position is discussed in more detail in paragraphs 60 to 96 below.

Using performance management to deliver quality services

43. Within Aberdeenshire Council, there is a culture of continuous improvement, of reviewing practices and considering where there are opportunities to do better. The Kaizen Blitz process has proved a powerful tool in involving a cross-section of staff, especially front-line staff, in finding solutions or ways to improve the performance of a service or activity. To date, 45 business processes have been reviewed using Kaizen.



44. Performance indicators have been reported to Committees every quarter since 2005/06, although the council has yet to prepare an annual report of its 2006/07 performance against the corporate plan. High-level indicators are also being developed to measure the council's progress towards achieving its vision to be the best area and best council in Scotland. The council is currently working to improve the quality and presentation of performance information to support scrutiny by councillors.

Key risk area 1

45. In preparation for the Best Value audit, the council has prepared an improvement agenda which brings together all of its improvement priorities in the immediate and medium term. Supporting a stronger approach to scrutiny and challenge through improvements to performance information, and improving performance relating to academic attainment in schools, waste management and recycling, and planning are highlighted as requiring immediate action.

Promoting community well being

46. Increasingly the council is dependent on partnership working to deliver service improvements. There is a risk that partners are unable or unwilling to work effectively in a joined-up manner and do not achieve best value in the use of public resources as a result.
47. The council is an active member of the Aberdeenshire Community Planning Partnership and leads on two of the community planning themes, Lifelong Learning and Sustainable Development. The partnership has adopted the National Standards for Community Engagement to encourage community participation, as well as a youth engagement strategy. Opportunities for engagement are available through six local groups and forum groups for each of the community plan's five themes. The council acknowledges, however, that more work requires to be done to improve community engagement over the medium term.
48. In June 2006 Audit Scotland reported on the results of a baseline study on community planning across Scotland, *Community Planning: an initial review*. The report concluded that while community planning partnerships have made progress, they need to do more to show their work is having a positive impact on public services. The partnership has used the report to benchmark its performance and has developed a small number of priorities to enable it to deliver measurable improvements in outcomes for Aberdeenshire people.



National studies

49. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are set out in the following paragraphs. Further information on these studies and reports can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk

Sustainable waste management

50. There is an increasing awareness of the need to protect the environment and to promote the sustainable use of resources. As a result of UN conventions and EU Directives, the UK government introduced a landfill tax to discourage the disposal of waste in landfill sites and set a (non-statutory) target that Local Authorities should recycle 25% of household waste by 2000. This target was not achieved.
51. Further EU Directives required Member States to "take appropriate steps to encourage the prevention, recycling and processing of waste" and to set out details of measuring processes within waste management plans. Subsequently a series of targets was set over the period to 2020 to reduce the amount of biodegradable waste going to landfill. The EC can impose a fine on the UK of up to £350,000 per day if it fails to meet its targets.
52. The purpose of Audit Scotland's study was to examine the performance of Local Authorities, the Scottish Environmental Protection Agency (SEPA) and the Scottish Government in reducing the amount of municipal waste being disposed of as landfill, including the impact and value for money achieved by the investment in this area.
53. The key findings from Audit Scotland's national report published in September 2007 highlighted that:
- while significant progress has been made in meeting interim recycling targets, the rate varies considerably between councils and the type of collection system employed
 - there has been slow progress in developing facilities to treat residual waste. There is, therefore, a significant risk that EU directive targets may not be met
 - increased recycling has led to increased cost
 - all parties need to work more effectively together to make rapid progress in waste minimisation, recycling and waste treatment to achieve the landfill directive targets.



54. The national report highlighted that significant progress has been made in meeting national interim recycling targets with the percentage of municipal waste recycled and composted increasing from 7% in 2001/02 to 25% in 2005/06. Aberdeenshire Council is among the lowest with 15% being recycled and composted in 2005/06. This increased to 21.2% during 2006/07. The council should take the opportunity to review their arrangements in the light of the recommendations, and best practice, highlighted by the study.

Dealing with offending by young people

55. Audit Scotland published reports on *Dealing with offending by young people* in December 2002 and November 2003. A follow-up study was undertaken to ascertain improvements in performance of agencies who deal with young people who offend in the context of a changing policy landscape. The performance update report was published in August 2007.
56. The key findings from the study are that the Scottish Government has shown a consistent commitment to improving youth justice services, has increased funding for these services from £235 million in 2000/01 to £336 million in 2005/06 and has provided practical support and guidance to help youth justice services to improve performance. However, the impact of this on services is not yet demonstrated. Limited outcome measures are available and there are weaknesses in performance management arrangements. It is not possible, therefore, to assess the effectiveness of the additional expenditure in reducing offending and improving the quality of life of the local communities.
57. The update report made a number of recommendations for youth justice services in Scotland, of which three were directed at local authorities:
- local authorities and other agencies should work to deliver on the local improvements required to successfully implement the agenda set out in the Youth Justice Improvement Programme
 - local authorities and their partners should develop coherent and integrated approaches to services for young people not in education, employment or training, in particular for those excluded or not attending school
 - local authorities should ensure that the key departments, such as education, are engaged more effectively with the youth justice strategy agenda.
58. The council should take the opportunity to review their arrangements for youth justice services in the light of the recommendations highlighted by the study.



Scotland's School Estate

59. A national review is being carried out of how effective recent investments in the Scottish school estate have been in terms of improving the quality of the learning and teaching environment. The performance of the Scottish Government and local authorities in improving the schools estate within the context of the 2003 strategy 'Building our Future' – Scotland's school estate will be considered. This work is currently in progress and due to be reported in February 2008.



Financial position

Introduction

60. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2007, providing an outlook on future financial prospects, including our views on potential financial risks. Under the strategic theme of 'sustainability and funding future improvement', our ARAP recognised the significant challenges faced by the council both in relation to delivery of its improvement agenda but also managing ongoing financial pressures such as implementing single status. Our findings and key messages are set out in this section.

Council tax and the general fund

Operating performance 2006/07

61. The presentation of the 2006/07 financial statements has changed significantly from the previous year as a result of changes to the *Code of Practice on Local Authority Accounting in the United Kingdom 2006 (the SORP)*. In place of the previous consolidated revenue account, the financial statements now include an income and expenditure account and a statement on the movement of the general fund balance which reflects items that need to be included/excluded when determining a local authority's budget requirement and the level of council tax

62. The council's net operating expenditure in 2006/07 was £411.7 million. This was met by government grants and local taxation of £425.3 million, resulting in an income and expenditure surplus of £13.6 million. The statement of movement on the general fund balance shows that a general fund surplus of £8.4 million was achieved in the year. When this surplus is added to the general fund balance brought forward from 2005/06, the council has a general fund balance of £17.6 million at 31 March 2007.

63. The budget set for 2006/07 was based on a Band D council tax level of £1,113, and included a contribution of £5.220 million to restore the unallocated general fund reserve balance to the council's minimum level of £5 million. In his Foreword to the financial statements the Director of Finance highlights that a contribution of £7.704 million was made to this balance at the year end.



64. Within this overall outturn, there were a number of under and over spends against budget. Savings of £1.884 million were made in capital financing costs and underspends reported by Education, Learning and Leisure Services (£1.435 million) and Transportation and Infrastructure Services (£1.052 million). Delays in developing the joint procurement strategy with Aberdeen City meant budgeted savings of £1 million were not achieved, contributing to the overall shortfall of £1.896 million in cross service savings at the year end.

Key risk area 6

65. Last year we highlighted concerns about the number and scale of budget variances within the Education and Recreation Service (now Education, Learning and Leisure Service) and concluded that significant work was required within the service to ensure that costs are properly controlled and budgets aligned with management responsibility and current levels of service delivery.
66. The explanation for this year's Education, Learning and Leisure Service underspend is the same as last year - a delay in implementing proposed support structures under the McCrone agreement, combined with an underspend on the permanent teachers budget due to the continued use of probationers to cover vacant posts. The service continued to experience a range of over and underspends during 2006/07. More work is required to ensure that budgets are aligned with management responsibility and current levels of service delivery.

Key risk area 3

67. The council has continued to experience pressure on certain areas of its Social Work budget, including provision of care for elderly and services for learning disability clients. Overspends in these areas have been offset by savings in other areas including care of children and young persons.

Reserves and balances

68. At 31 March 2007 the council had total cash backed reserves and funds of £45 million, including an insurance fund that underpins the council's self-insurance arrangements and repair and renewal funds to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets.



Reserves and Funds 2006/07

Description	2006/07	2005/06
	£ Million	£ Million
General Fund	17.625	9.257
General Fund – Housing revenue account balance	22.406	22.367
Repair and Renewal Funds	3.769	1.968
Insurance Fund	1.558	2.445
	45.358	36.037

69. The 2006/07 budget was set to restore the council's general fund working balance from a debit figure of £0.220 million at 31 March 2006 to the council's minimum level of £5 million. After deduction of £9.921 million for balances earmarked for specific purposes, including £7.529 million of devolved education management balances held by individual schools, the council's working balance exceeds the minimum level by £2.704 million at 31 March 2007.
70. The council has agreed to use this balance to fund future commitments totalling £1.548 million in respect of End Year Flexibility and ring fenced funding carried forward to 2007/08, leaving £1.156 million which will be used to offset overspends carried forward from 2006/07.

Group balances and going concern

71. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All of these boards (Grampian Joint Police Board, Grampian Joint Fire and Rescue Board and Grampian Valuation Joint Board) had an excess of liabilities over assets at 31 March 2007 due to the accrual of pension liabilities. In total these deficits amounted to £617.5 million, with the council's group share being £220.3 million. These are significant amounts as the pension schemes for police officers and fire fighters are unfunded and met entirely from current and future council tax payers as payments fall due.
72. The overall effect of inclusion of all of the council's subsidiaries and associates on the group balance sheet is to reduce net assets by £210 million, substantially as a result of these liabilities. All group bodies' accounts have been prepared on a going concern basis.



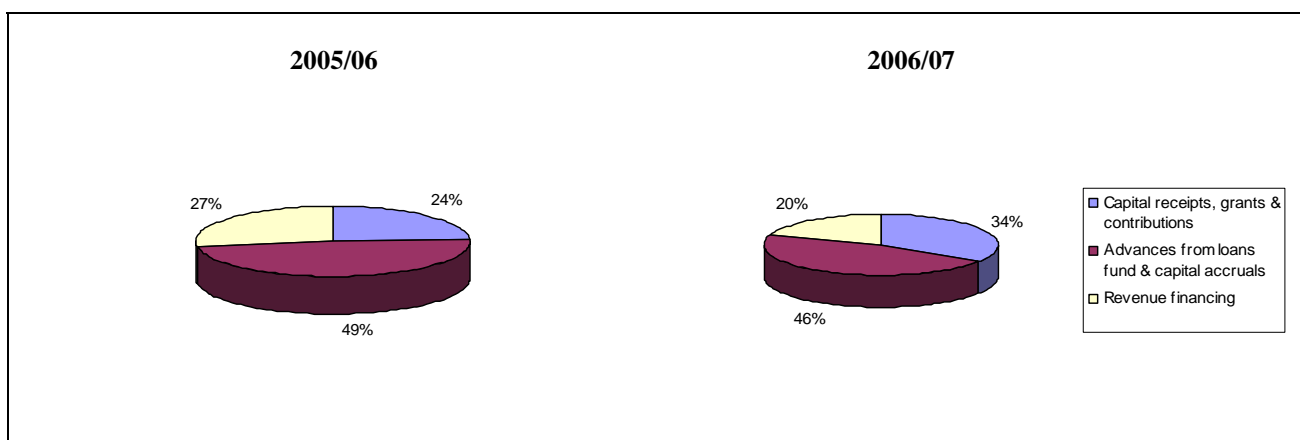
Archaeolink

73. The councils' group accounts include Archaeolink Trust as a subsidiary of the council. The body is a charitable trust which was established to enhance recreational and educational provision in Aberdeenshire. Since its inception in 1996 there has been public interest in the project as visitor numbers to the attraction have been below expectation, resulting in increasing council contributions to costs.
74. Last year, we highlighted the risk that the project's significant European funding would require to be repaid by the council were the Trust to be disbanded before June 2007. The deadline for repayment of the European funding has now passed and the Trust continues to operate with a reduced contribution from the council.
75. Following a critical internal audit report on the financial management of the Trust, significant change was made to its management arrangements. Since July 2005, the Board, which consists of two council nominated trustees, has undertaken a monitoring role having appointed the council to manage the facility. In November 2006, the Office of the Scottish Charities Regulator (OSCR) confirmed that they were satisfied that the Trustees had been appointed correctly.

Spending on assets and long-term borrowing

76. Following the introduction of the prudential code in April 2004 the council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. Capital expenditure in 2006/07 totalled £56.8 million, rising from £46.5 million in 2005/06. Capital investment in the last two years was funded as shown below.

Sources of finance for capital expenditure 2006/07



77. Although over 85% of long-term borrowing at the year-end matures after more than 10 years, the council has actively managed its exposure to variable interest rate movements with minimum debt exposed to variable rate risk.



78. The capital programme experienced slippage of £9.4 million during 2006/07, representing 16% of the planned programme. The majority of this was due to the timing of contracts rolling into 2007/08, of which £5.2 million related to improvements to the housing stock. All of this slippage has been added to the 2007/08 capital programme. The council does not envisage that this will impact on contractors' ability to deliver the existing programme.

Significant trading operations

79. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period.
80. The council has three STOs: catering, housing repairs and roads operations. In the three years to 31 March 2007, the housing repairs and roads operations STOs met the statutory target. Catering, however, continued to return a cumulative deficit of £2.9 million mainly as a result of the impact of equal pay costs. If this element had been excluded, catering would still have reported a loss of £0.161 million over the three year period. The council reviewed its trading activities during 2007/08 and concluded that a statutory trading account is no longer required in respect of catering services. We will consider the evidence available to support this conclusion as part of our 2007/08 audit.

Financial outlook

Current budget

81. The council's revenue budget for 2007/08 was approved in February 2007. The budget is based on a Band D council tax level of £1,141, equivalent to an increase of 2.5% on the previous year.
82. General allowances for pay and cost inflation were built into the budget, together with the additional costs associated with single status, increased demand for home care and care management services, and increased energy costs. A number of efficiency and other savings totalling £10.9 million were also built in.
83. At the time of writing, the latest monitoring report for 2007/08 shows a projected overspend against budget of £1.5 million based on the position as at 30 June 2007, with major overspends forecast in Planning and Environmental Services and Integrated Benefits. The main reasons for these overspends are increased waste disposal costs due to less than anticipated recycling of waste, together with the potential penalty resulting from the council exceeding its biodegradable municipal waste targets, and increased benefit applications from people in homelessness accommodation which do not attract 100% subsidy from the Department of Work and Pensions.



Equal pay and single status

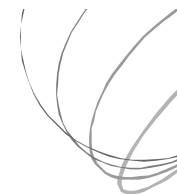
84. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an Employment Tribunal.
85. Estimated costs of £20.6 million were recognised in the 2005/06 financial statements for the total one-off cost of dealing with the equal pay legislation. During 2006/07, the council paid out £21.2 million to settle claims and the associated tax and national insurance costs. As at 31 March 2007, the council estimates that the costs of settling outstanding equal pay claims will be £0.800 million. This amount has been included within the 2006/07 financial statements.
86. In 1999 a single status agreement was reached between Scottish local authorities and trades unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). The council implemented the agreement on 1 July 2007, and backdated revised salaries for relevant employees to 1 January 2007. A provision of £2.752 million has been included within the 2006/07 financial statements for these backdated salary payments. The council's current budget estimates that the additional revenue cost of this agreement will be £14.7 million in 2007/08.

Forward capital programme

87. At the time of writing, the most recent capital plans for 2007/08 and 2008/09 anticipate annual capital expenditure of £66.5 million and £41.1 million respectively. This is expected to be funded by a number of sources including capital receipts, grants and other contributions and further increases in borrowing totalling £50.1 million over the two years.

Efficient government

88. As part of the continuing drive to improve the efficient use of resources committed to delivering public services, the Scottish Government expect public sector organisations to apply the principles of the efficient government initiative in their day-to-day operations with an aspiration to achieve recurring efficiency gains of £1.5 billion by 2007/08. In the case of councils, efficiency savings have been incorporated into the annual financial settlement provided to councils by the Executive. The principles of the efficient government initiative encourage the delivery of services for lower unit cost without compromising the quality of the service provided.

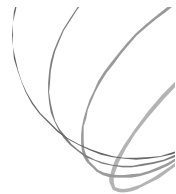


89. During 2006, councils across Scotland recognised that as part of their partnership arrangement with the Scottish Government, they had a responsibility to report efficiencies on the five key operational themes as set out in “Building a Better Scotland” (procurement, absence management, asset management, shared services and streamlining bureaucracy) on a consistent basis. As a result, the Improvement Service was commissioned to devise a set of standard measures which would allow councils to publish unaudited efficiency statements on a common basis. Guidance was issued to all councils in May 2007.
90. Aberdeenshire council has recognised the importance of delivering efficiency savings as an integral part of service delivery. The 2006/07 efficiency statement reports that the council achieved total efficiencies of £2.6 million in 2006/07.

Claimed efficiencies in 2006/07

Efficient Government Theme	Cashable efficiency £'000	Non cashable efficiency £'000	Total efficiency £'000
Procurement	0	0	0
Absence Management	1,700	0	1,700
Asset Management	624	0	624
Shared Services	0	0	0
Streamlining Bureaucracy	89	186	275
Total efficiencies	2,413	186	2,599

91. There was no requirement for the efficiency statement to be audited in 2006/07. The efficiencies for the year have been achieved as a result of management of staff vacancies and absence (£1.7 million), improved energy efficiency (£0.236 million) and debt restructuring (£0.330 million).
92. The council has identified four key areas for it to progress in 2007/08:
- procurement – delivery of the joint procurement initiative with Aberdeen City Council, implementation of an agreed procurement strategy and the establishment of a central procurement unit are expected to result in considerable savings for the council. The 2007/08 budget includes £1 million of savings from improved procurement practices
 - asset management – the council commenced a wide-ranging review of its assets during 2006/07. It is anticipated that this will be completed in 2007/08 and will inform the development of an asset management strategy and plan



- Kaizen reviews – the outcomes of the seventeen Kaizen reviews undertaken in 2006/07 will lead to process improvements and time released savings in 2007/08
- measurement – further work is required to ensure that all efficiency improvements are identified and that appropriate measures are established

Key risk areas 4 & 6

Pension liabilities

93. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. A recent Audit Scotland report on public sector pension schemes highlighted that the combined funding shortfall and unfunded liabilities of the six local government pension schemes in Scotland may be as high as £53 billion. There are proposals to amend the Local Government Pension Scheme which are designed to reduce the ongoing cost, although these have not yet been implemented.
94. In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts but has no impact on the underlying basis for meeting current and ongoing pension liabilities which will be met from employer's contributions and investment returns.
95. The council's estimated pension liabilities at 31 March 2007 exceeded its share of the assets in the Aberdeen City Council Fund by £90.435 million, reducing from £124.418 million in the previous year. A full actuarial valuation of the Aberdeen City Council Pension Fund was reported in early 2006. Factors such as the volatile stock markets and increasing life expectancy have resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling from 94% at 31 March 2002 to 84% at 31 March 2005.
96. In order to maintain the solvency of the fund, the actuary is required to make a three-year assessment of the contributions that should be paid by employing authorities. The contribution levels are based on percentages of employee contributions, normally 5% - 6% of salary. The most recent actuary's assessment shows that budgeted contributions are expected to rise from 275% of employee contributions in 2006/07 to 285% in 2007/08 and 300% by 2008/09.



Governance

Introduction

97. In this section we comment on key aspects of the council's governance arrangements during 2006/07. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2006/07

98. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on the work undertaken, we concluded that the council had systems in place that operated well within a sound control environment.
99. A Statement of Assurance on Corporate Governance is included within the annual financial statements which provides a commentary by the Leader of the council and the Chief Executive on progress made during the year in taking forward issues to be addressed to comply with the Code of Corporate Governance. The Statement highlights that progress with risk management was slower than anticipated during the year.

Scrutiny and Audit Committee

100. Effective scrutiny is central to good governance, with a significant role for councillors to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda.
101. Prior to the elections, our assessment of the Scrutiny and Audit Committee was that it complied with the majority of the good practice principles set out in CIPFA's guidance note *Audit Committee Principles in Local Authorities in Scotland* and provided a sound contribution to the council's overall control environment.
102. The committee meets regularly and receives reports from both internal and external audit. It also undertakes investigations into areas of concern. Involvement in these investigations has helped previous members of the committee to increase their understanding of the concepts of scrutiny and audit as well as the functions and operation of the council.
103. The success of an audit committee as part of the council's scrutiny arrangements is dependent on its members. The new Scrutiny and Audit Committee was established following the May 2007 elections. The membership has changed considerably and a new chair has been appointed.



104. The council has recognised the importance of the Scrutiny and Audit Committee and has already run a two day training course for all members of this key committee with more training planned. A handbook has also been produced which outlines the role of the committee and how it operates, including how formal investigations are undertaken. A review of the new committee's compliance with CIPFA's guidance note will be completed during 2007/08.

Risk Management

105. Risk management is an essential component of the corporate governance framework in any well managed organisation. Last year we reported that positive steps had been taken during 2006/07 to establish a risk management framework within the council. A corporate risk group had been established and risk registers were being developed at service level.

106. We stressed the importance of the management team demonstrating its commitment to the council's risk management strategy through the development and review of a corporate risk register, and the need for registers to be in place and reviewed for the council's largest services.

107. The Statement of Assurance on Corporate Governance highlights that progress with risk management was slower than anticipated during the year. The target date of May 2006 for risk registers to be in place within all Services was missed as was the revised date of September 2006.

108. Although the corporate and service risk registers are now in place, the council acknowledges that more needs to be done to embed risk management throughout the organisation. A Risk Management Adviser is currently being recruited to develop risk management, emergency planning and business continuity planning within the council.

Key risk area 2

109. Going forward, processes need to be put in place for the review and update of risk registers. In order that this becomes part of the normal business of services, the task should be a regular agenda item for service management teams, and similarly for the management team with regard to the corporate risk register.

Internal Audit

110. In December 2006, CIPFA published a revised *Code of Practice for Internal Audit in Local Government*, which updated the previous 2003 code. We carry out an annual review of the council's internal audit arrangements and found that during 2006/07, the internal audit service continued to operate in accordance with the code.



111. All reports prepared by internal audit are reviewed and considered as part of our audit. We concluded that we were able to place reliance on the following specific pieces of work in 2006/07:

- main accounting system
- payroll (substantive testing)
- housing and council tax benefits
- housing rents (partial reliance)

Systems of internal control

112. In his annual report for 2006/07 the Chief Internal Auditor provided his opinion that, based on the internal audit work undertaken during the year, the council's corporate governance arrangements were adequate and operating effectively, with two exceptions. He drew attention to the ongoing absence of contingency and business continuity planning and reported that progress on the implementation of risk management had been slow.

113. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:

- payroll
- business rates
- creditors payments
- main accounting system
- housing rents
- debtors and income
- council tax
- budgetary control
- housing and council tax benefits

Prevention and detection of fraud and irregularities

114. At the corporate level, the council has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption. These arrangements include an anti-fraud and corruption policy and response plan, a whistle blowing policy, codes of conduct for elected members and staff, and defined remits for relevant regulatory committees.

NFI in Scotland

115. In 2006/07 the council again took part in the National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.



116. For 2006/07 the exercise was extended to include information about tenants and councils were asked to submit further specified datasets where the risks merited their inclusion. The NFI has generated significant savings for Scottish public bodies (£27 million to 2005) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.
117. The NFI 2006/07 results (data matches) were made available to councils on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the council's involvement in NFI 2006/07 during the course of our audit.
118. The council has adopted a structured approach to the 1,256 matches arising from the 2006/07 exercise. The majority (958) of the matches related to Benefits Claimants. Matches involving income support or job seekers allowance have been referred to the Department of Work and Pensions (DWP) for investigation, the remainder have been investigated by the Principal Benefits Officer (Fraud and Verification Framework).
119. Two frauds have been identified amounting to £3,914. The council are currently recovering £10,265 in connection with these fraud cases and nineteen other identified overpayments.
120. The council has made little progress in investigating the remaining matches due to a lack of resources allocated to this exercise. An officer has recently been tasked with investigating the 170 housing matches although no investigations have been completed to date. Responsibility for investigating the 128 payroll has yet to be allocated.
121. In order to use the opportunities presented by the NFI to assist in the detection of fraud, the council needs to allocate sufficient resources to the exercise to enable it to be completed by the end of the year.

Key risk area 7

Governance outlook

122. CIPFA/SOLACE have recently produced *Delivering Good Governance in Local Government – Framework* which sets out principles and standards to help local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of business. Aberdeenshire Council are aware of this new guidance and are awaiting the publication of the Scottish guidance notes before reviewing their corporate governance structures against the framework.



Financial statements

Introduction

123. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources. In this section we summarise key outcomes from our audit of the council's financial statements for 2006/07. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues. We audit the financial statements and give an opinion on:

- whether they present fairly the financial position of the council and its expenditure and income for the year and
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

124. We also review the Statement of Assurance on Corporate Governance by considering the adequacy of the process put in place by the council to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the council.

Overall conclusion

125. We have given an **unqualified** opinion on the financial statements of Aberdeenshire Council for 2006/07. We have, however, drawn attention to failure to comply with a statutory requirement. This does not impact on the fairness of the financial statements and, therefore, does not affect the opinion on the accounts.

126. The Local Government in Scotland Act 2003 requires councils to maintain and disclose trading accounts for significant trading operations, which are required to break-even over a three year rolling period. As highlighted in paragraph 80 of this report, the catering significant trading operation made an aggregate loss of £2.9 million in the three years to 31 March 2007, with the result that the council has failed to meet this statutory requirement. As explained in the authority's financial statements, this is mostly due to the additional liability arising from equal pay compensation payments. If this element had been excluded, however, catering would still have reported a loss of £0.161 million over the three year period. The council reviewed its trading activities during 2007/08 and concluded that a statutory trading account is no longer required in respect of catering services. We will consider the evidence available to support this conclusion as part of our 2007/08 audit.



127. The council's un-audited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. With the exception of capital accounting (see paragraph 134 below), final accounts preparation processes and working papers were generally good and this enabled the audit to progress smoothly. Audited accounts were finalised prior to the target date of 30 September 2007 and are now available for presentation to the council and publication.

Accounting practice

128. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). The 2006 SORP required a number of significant changes to be made to the 2006/07 financial statements to make them more consistent with the accounts of other public and private sector entities. These included:

- replacement of the consolidated revenue account with a traditional income and expenditure account
- a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit
- replacement of the statement of total movement in reserves with a statement of total recognised gains and losses
- similar changes to the housing revenue account
- parallel changes to the group accounts that would result in them being easier to understand and have a common format to single entity statement of accounts.

129. Overall, we were satisfied that the council had prepared the accounts in accordance with the revised SORP (but see comments on capital accounting at paragraph 135 below).

130. The council adjusted the financial statements to reflect the majority of our audit findings. As is normal practice, a number of minor errors remain unadjusted and these have been reported to the Director of Finance in our ISA 260 *Communication of audit matters to those charged with governance* report. A number of presentational adjustments were made to the figures included in the un-audited accounts provided for public inspection. These did not impact on the surplus for the year or the net worth of the council. Details of material adjustments and other significant accounting issues arising in the course of our audit are summarised below.

Income and expenditure account

131. A number of adjustments were made to the figures included in the un-audited income and expenditure account to correct for errors made on consolidation. None of these adjustments impacted on the surplus for the year.



Cut-off

132. The un-audited accounts were amended to correct two cut-off errors where income (VAT reclaimed) and expenditure (payroll) had been incorrectly treated as received and paid during 2006/07. The impact of these amendments was to increase debtors and creditors by £2.195 million and £1.119 million respectively and reduce the bank balance by £1.076 million within the audited financial statements. There was no impact on the surplus for the year.

Categorisation of liabilities

133. Two adjustments were also made to the figures included in the un-audited accounts to correct errors in categorisation between short and long term liabilities. The impact of these adjustments was to increase short term borrowing and creditors by £0.711 million and £0.481 million respectively and reduce long term borrowing and deferred liabilities by £0.711 million and £0.481 million respectively.

Capital accounting

134. The audit identified a number of capital accounting issues that remained unresolved at the year end. In particular, the council had not properly accounted for the gain or loss on the sale of fixed assets and this impacted on the 'other gains/losses' figure included in the Statement of Total Recognised Gains and Losses. Although these were not material to our audit opinion, they require to be investigated and resolved prior to the preparation of the 2007/08 financial statements.

Key risk area 8

Group accounts

135. The group accounts include the 2006/07 results of Archaeolink and Scotland's Lighthouse Museum based on un-audited accounts. The auditors of these bodies have confirmed that there are no planned changes to the un-audited accounts. We have also been assured by the Director of Finance that the council is not aware of any matters which would significantly affect the council's group accounts.

Legality

136. Each year we request written confirmation from the Director of Finance that the council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Director of Finance has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with the relevant legislation and regulations governing its activities.



137. Local authorities with registered charitable bodies (i.e. registered trust funds) are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. It has now been agreed with the Office of the Scottish Charities Regulator (OSCR) that as an interim measure in 2006/07, reliance can be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers. Further discussions between OSCR and CIPFA will take place in respect of the requirements for 2007/08 onwards.

138. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

139. The council has a record of responding positively to audit issues and to changing accounting rules. Challenges ahead include a number of changes that have been made to the 2007 SORP.

140. The main change is that the 2007 SORP requires authorities to comply, from 2007/08, with financial reporting standards (FRS) 25 and 26 in respect of loans. This will result in large expenditure entries to the Income and Expenditure Account as the SORP requires premiums on loans which have been rescheduled to be written off. At present, councils are able to write off premiums over the period of the replacement loan, which can be up to 40 to 50 years. Regulations restrict the write off periods for new premiums incurred on LOBOs from 1 April 2007 to a maximum of 20 years. These changes do not impact on council tax levels.

141. Other changes include:

- changes to capital accounting requirements to introduce a revaluation reserve and capital adjustment account
- a requirement for further information to be disclosed in respect of charitable funds.

142. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2008/09. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2008/09. The Treasury are currently considering the most appropriate accounting treatment for PFI public sector transactions. If IFRS principles, or similar, were applied in the public sector then many PFI assets are likely to be brought onto public sector balance sheets.



Final Remarks

143. We have summarised our conclusion in the key messages section of this report. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of councillors. In response, officers have considered the issue and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks.
144. During the year, the Scrutiny and Audit Committee began to monitor the effectiveness of planned action by officers through the introduction of a formal progress report. We will review the operation of this mechanism as part of the 2007/08 audit.
145. The co-operation and assistance given to us throughout our audit by councillors and staff is gratefully acknowledged.

Audit Scotland
October 2007



Appendix: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	11, 19 & 44	<p>Overview of performance</p> <p>At the time of writing, the council has yet to prepare an annual report of its 2006/07 performance against the corporate plan.</p> <p>It draws on the statutory performance indicators to measure and report its performance in its Public Performance.</p> <p>The quality of working papers provided in support of the SPIs was poor this year. Eleven indicators were changed from those submitted for audit and one was published against the advice of Audit Scotland.</p> <p>The council is working to improve the quality and presentation of performance information to support scrutiny by councillors.</p> <p><i>Risk: councillors and the public are not provided with accurate performance information.</i></p>	<p>The report has been produced and is due for publication by mid-November 2007.</p> <p>The Management Team will review the position and ensure that all Services provide working papers to an acceptable standard. Accuracy will be improved.</p> <p>New reporting arrangements using a more meaningful format have been introduced in response to councillors' instructions.</p>	<p>Head of Communications</p> <p>Management Team/Directors</p> <p>Head of Policy</p>	<p>15 November 2007</p> <p>31 March 2008</p> <p>October/November 2007 committee cycle</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
2	29 & 108	<p>Demonstrating good governance</p> <p>More work is required to embed risk management throughout the organisation and develop business continuity plans to minimise disruption to important systems caused by major failures or disasters.</p> <p><i>Risk: in the absence of a fully embedded process, the council may not have identified or managed all of its key risks. Without business continuity plans, it may be unable to maintain delivery of high quality services following a major business failure.</i></p>	<p>Corporate and Service Risk Registers have been developed and are due to be reviewed by Service Management Teams. The Management Team is monitoring progress (last reported on 12 September 2007).</p> <p>The process for appointing a Risk Management Adviser has started.</p> <p>A draft emergency plan and business continuity document has been prepared by the Emergency Planning Unit. Services are developing Emergency Plans (completed plans have been passed on to the Emergency Planning Unit and are being monitored by the Emergency Planning and Business Continuity Sub Group of the Corporate Risk Management Steering Group). Services still require to develop business continuity plans identifying their critical processes and systems (including business impact analysis).</p> <p>The Scrutiny and Audit Committee were last updated on progress on 6 September 2007.</p>	Director of Personnel and ICT	<p>31 March 2008</p> <p>7 January 2008</p> <p>31 December 2008</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	33 & 66	<p>Demonstrating good governance</p> <p>The Education, Learning and Leisure Service continued to experience a range of over and underspends during 2006/07. A key challenge for the new Director is to ensure that future budgets are aligned with management responsibility and current levels of service delivery</p> <p>Risk: councillors and senior management cannot hold officers fully to account.</p>	<p>Work has been done to more tightly align budgets with actual spending needs. The policy-led budgeting exercise currently underway will result in all services' budgets being more closely aligned with the Council's policy priorities. In a service of this size, however, a degree of under and overspending of individual budget heads is inevitable as the changing needs and demands are addressed throughout the year.</p>	<p>Director of Education, Learning & Leisure/Director of Finance</p>	<p>30 June 2008</p>
4	37 & 92	<p>Strategic framework</p> <p>The council is currently developing its new strategic plan and has yet to complete its workforce strategy and asset management plan.</p> <p>Risk: in the absence of such strategies, the council may be unclear about its long term objectives and how they are to be delivered.</p>	<p>A new strategic plan for 2007-2010 will be reported to full Council on 22 November 2007.</p> <p>A workforce strategy has been agreed in principle by the Management Team and awaits the identification of funding to allow it to be implemented.</p> <p>The Asset Management Plan is in preparation with an expected completion date of January 2008.</p>	<p>Chief Executive</p> <p>Head of Personnel</p> <p>Director of Transportation and Infrastructure</p>	<p>22 November 2007</p> <p>30 November 2007</p> <p>31 Januar 2008</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5.	39 & 40	<p>Funding future improvement</p> <p>The council continues to face significant challenges both in relation to its improvement agenda and in managing ongoing financial pressures.</p> <p>A framework for policy-led budgeting has been developed, but more needs to be done to complete the linkages between policies and budgets.</p> <p><i>Risk: allocation of resources may not be targeted at corporate objectives, with the funding of services not matching agreed priorities.</i></p>	<p>This is a strategic priority for the Council. The Council has recognised the need to optimise the resources and income available to it.</p> <p>The framework has identified the core activities of the Council and work is in hand to link these to strategic objectives that flow down from the Strategic Plan and to actual budgets at the service delivery level.</p>	<p>Director of Finance</p> <p>Management Team/Director of Finance</p>	<p>31 March 2008</p> <p>30 June 2008</p>
6	41, 64 & 92	<p>Efficient government</p> <p>Delays in developing the joint procurement strategy with Aberdeen City Council meant budgeted savings of £1 million were not achieved in 2006/07.</p> <p>The council has built a further £1 million of efficiency savings into its 2007/08 budget for savings from improved procurement practices.</p> <p><i>Risk: failure to achieve the level of savings anticipated will increase financial pressures and may impact adversely on the quality of services provided.</i></p>	<p>The reduction is specifically due to the delay in recruiting staff into the procurement team and this is directly leading to a delay in implementing joint contracts. From 1 November 2007, half of the anticipated number of people will be in post.</p> <p>Work to develop joint procurement will continue into 2008/09, building on the success of the joint contracts and joint savings secured in 2007/08.</p>	<p>Director of Finance/Corporate Finance Manager</p>	<p>Ongoing</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
7	121	<p>NFI in Scotland</p> <p>The council has investigated the majority of the matches arising from the 2006/07 exercise but has made little progress in investigating those relating to housing and payroll due to a lack of resources allocated to this exercise.</p> <p>Risk: the council will miss this opportunity to detect frauds and other overpayments.</p>	<p>The work on Benefits is now complete. The outstanding work in Housing relates to 'Right to Buy' queries and is now being actioned.</p> <p>Most of the related payroll queries were resolved some time ago or have been passed to other Councils and replies are awaited. Most of the payroll differences related to minor discrepancies in NI.</p>	<p>Director of Housing and Social Work/Director of Finance/Director of Law & Admin</p>	<p>31 Decembe 2007</p>
8	134	<p>Capital accounting</p> <p>The audit identified a number of capital accounting issues that remained unresolved at the year end.</p> <p>In particular, the council had not properly accounted for the gain or loss on the sale of fixed assets and this had impacted on the 'other gains/losses' figure included in the Statement of Total Recognised Gains and Losses.</p> <p>Although these were not material to our audit opinion, they require to be investigated and resolved prior to the preparation of the 2007/08 financial statements.</p> <p>Risk: the 2007/08 financial statements will not present fairly the council's financial position. If material amounts are involved, the accounts may be qualified</p>	<p>The Council will hold a mini Kaizen (or 'Team Kaizen') to resolve the outstanding issues on capital accounting. Audit Scotland has agreed to be involved in the process.</p>	<p>Director of Finance/Chief Accountant</p>	<p>31 Januar 2008</p>