

The Moray Council

Report to Members and the Controller of Audit
on the 2006/07 Audit



October 2007

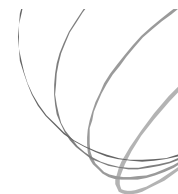


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Contents

Key Messages	1	Governance	26
Introduction	3	Financial statements	30
Performance	4	Final Remarks	34
Financial position	16	Appendix: Action Plan	35



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

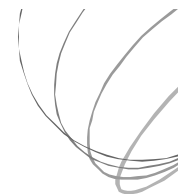
We have given an **unqualified** opinion on the financial statements of The Moray Council for 2006/07. Final accounts working papers were generally good and the council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements.

Overall the council has made steady progress against the improvement actions agreed as a result of its 2005 best value audit. There is still much to do but it has invested in developing a firmer base from which to make future improvements. It needs to build on this investment and sustain the pace of improvement to deliver better outcomes for local communities.

One of the key findings of the recent Best Value progress report was the need for consistent strategic leadership by elected members. The report concluded that members need to demonstrate a commitment to delivering Best Value and developing their corporate role in all of the council's affairs. In order to do this, the council has set six objectives within its Best Value Improvement Plan including delivery of training on strategic leadership skills and the development of a personal training plan for all members.

Historically, the council has been one of the best performers in national comparisons, with more than 40% of its SPIs in the top quartile in the last three years. The council has made significant progress in developing its performance management framework over the last 18 months. Service standards and performance measures have been developed and performance information is being used by members to scrutinise performance. More work is required, however, to fully embed performance management throughout the council. In addition, performance against the council's key priorities should be regularly monitored and reported annually.

Overall the council's expenditure for 2006/07 was contained within budget. Within this outturn, there were, however, a number of significant variances which represent on-going pressures for the council. These include out of area placements (£1.2 million), community care costs (£1.1 million), and the cost of implementing the single status agreement (£1.1 million). This recurring overspend is only partially reflected in the 2007/08 budget, the remainder (around £0.7 million) will be funded from reserves.



The council needs to improve its corporate governance arrangements. As noted above, elected members need to demonstrate consistent strategic leadership and develop their corporate role in all of the council's affairs. More work is also required to embed risk management throughout the organisation and to develop business continuity and disaster recovery plans.

Staff shortages during the year prevented internal audit from delivering their annual plan in full, which impacted on the time spent on the review of core financial systems. Annual review of the core financial systems is essential to enable the Team Leader (Internal Audit) to provide an opinion on the adequacy and effectiveness of the council's internal control system. The Chief Executive and Convener rely on this opinion when signing the Corporate Governance Statement and we seek to rely on internal audit's work as much as possible for our opinion on the financial statements. Where internal audit do not provide the coverage required for our audit, as was the case in 2006/07, we are required to undertake the work ourselves. This impacts on the external audit fee charged to the council.

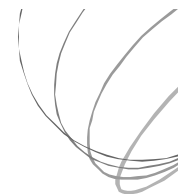
Outlook for future audits

The council will shortly announce its main priorities for 2007-2012. A new Corporate Development Plan will then be prepared setting out how the council will deliver these. Without clear strategic direction from the new council, there is a risk that its priorities will not be delivered.

The council faces a number of significant financial pressures in the medium to longer term. These include the full year costs of implementing single status, increasing demand for community care services and out of area placements, increased investment in flood alleviation schemes and the school estate, and the uncertainty surrounding the proposed PPP project. In addition, it is not yet clear what impact the new Scottish Government will have on local government finance, in particular in relation to local government settlement and council tax funding. Medium term financial plans will need to be closely monitored to take account of such pressures.

The council recognises that Efficient Government must underpin all activities to ensure that maximum output can be delivered from the finite resources available and has demonstrated a clear commitment to the efficiency agenda. Total efficiencies of £2.7 million were reported for 2006/07 with efficiency savings of £2 million included in the 2007/08 budget. It will be a challenge for the council to demonstrate achievement of the efficiencies built into the 2007/08 budget whilst continuing to deliver high quality services.

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



Introduction

1. This report summarises the findings from our 2006/07 audit of The Moray 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:
 - supporting political governance
 - adopting a strategic framework to deliver change
 - using performance management to drive service improvement
 - demonstrating good governance
 - funding sustainable services and performance improvements
 - effective community planning.
3. We also undertook a number of detailed exercises which resulted in separate audit reports. These included reviews of :
 - the internal audit service
 - the affordability and value for money of the proposed PPP scheme
 - the council's overall arrangements for the management of its Information and Communications Technology (ICT) function.
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 members 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 members during the course of our audit work.



Performance

Introduction

7. In this section we comment on the best value follow up audit, 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 Development Plan for 2004 – 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 three programmes for action, which cut across a variety of services:
 - the Social Programme
 - the Education Programme
 - the Environmental Programme.
9. The council has established a total of 17 priorities within these programmes, of which the following 8 are identified as its highest priorities:
 - delivering effective flood alleviation schemes
 - improving attainment and achievement in educational services
 - improving care for the individual, especially the disadvantaged
 - maintaining and improving roads
 - developing leisure facilities across Moray
 - reducing, re-using and recycling waste
 - providing easy access to services
 - listening, consulting and engaging with communities.
10. Following the May 2007 elections, the political make-up of the council is 12 Independent, 9 Scottish National Party, 3 Conservative and 2 Labour members. The former independent administration has been replaced with an Independent/Conservative coalition.



11. This coalition will shortly announce its main priorities for 2007-2012. A new Corporate Development Plan will then be prepared setting out how the council will deliver these. Without clear strategic direction from the new council, there is a risk that its priorities will not be delivered.

Key risk area 1

Overview of performance in 2006/07

Best Value audit

12. 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 unless the Commission requests that a formal statutory report on progress be prepared for an individual council.
13. The council received a full best value review in 2005, with the report published in February 2006. The Commission requested that the council's progress in implementing its improvement programme be formally reviewed in 2007 and the findings from this work were reported in August 2007. The follow up audit concluded that:

The council is moving in the right direction and the pace of change has been steady. The council still has much to do but it has invested in developing a firmer base from which to make future improvements. It needs to build on this investment and sustain the pace of improvement to deliver better outcomes for local communities. In particular, elected members need to set a clearer strategic direction for the area and the organisation, promote a culture of continuous improvement, and ensure that there is sufficient capacity to sustain improvement.

The challenge for the new council is to sustain and build on the improvement made since the original Best Value audit. It now needs to ensure that its investment flows through to improved services for the people of Moray. In order to do this, the council needs to further develop and support elected membership leadership capacity and ensure that it has the capacity to sustain continuous improvement.



14. In response, the council approved a revised Best Value Improvement Plan in September 2007 which focuses on three of the four areas of concern identified in the follow up report:

- strategic leadership
- demonstrating competitiveness
- managing strategic priorities.

In addition, the council has arranged to visit another local authority to see what it can learn from how it operates, in response to the fourth area of concern - the need to accept the value of external support to help deliver its improvement agenda.

15. The Commission has requested a further progress report on continued improvement in The Moray Council as at June 2008.

Delivery of corporate objectives and priorities

16. The council has yet to report its performance against its corporate priorities for 2006/07. The following summary has been drawn from the findings reported later in this report, the Best Value progress report and reports by Her Majesty's Inspector of Education (HMIE):

- flood alleviation schemes continue to progress with the Lhanbryde scheme opened in May 2006, and the Forres scheme given Ministerial approval in May 2007
- achievement and attainment in schools has been mixed with HMIE inspections showing a variable picture across establishments visited
- with 30% of its municipal waste recycled and composted, The Moray Council was one of the best performing councils in Scotland, exceeding the national interim recycling target of 25%
- the council has improved its understanding of community priorities. The new Community plan was developed following consultation with partners, adults and young people.

Key risk area 2

Measuring Performance

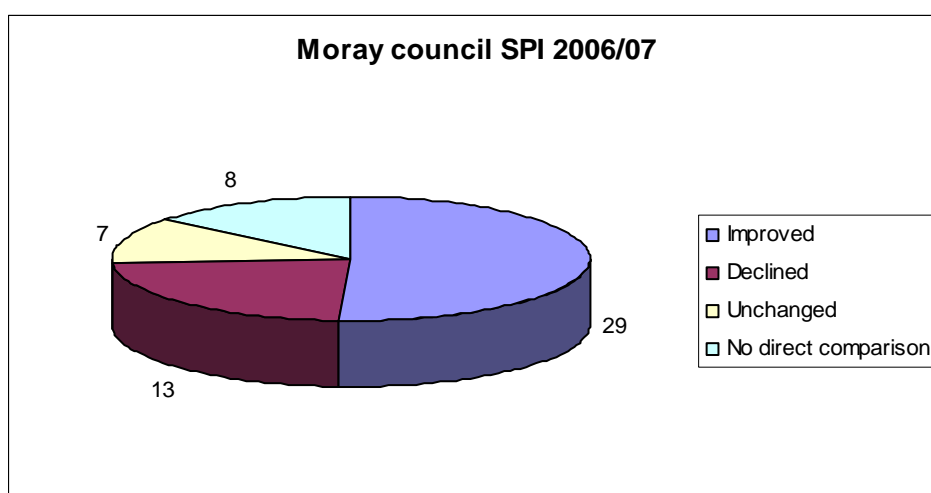
17. The council has made significant progress in developing its performance management framework over the last 18 months. Service standards and performance measures have been developed and performance information is being used by members to scrutinise performance. Quarterly performance reports are submitted to Service Committees and the chair of each Service Committee reports to the Audit and Performance Review Committee.

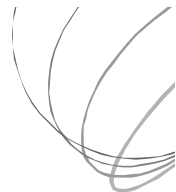


18. The council has recently invested in performance management software which allows performance information to be monitored, analysed and reported in a number of different ways. From April 2007, performance reports are presented to members with 'traffic light' indicators highlighting good and poor performance, and additional narrative providing explanations and planned actions to address poor performance.
19. The most recent reports, for the first quarter of 2007/08, include 284 indicators against which the council measures its performance. The council has performed well against half of these indicators and poorly against 6%. Just over a quarter have not been reported, the majority (15%) because they are annual performance indicators only reported at the year end. The remainder mostly relate to new indicators for Children, Families and Criminal Justice Services where targets have yet to be established. These are due to be agreed by Committee in December 2007.

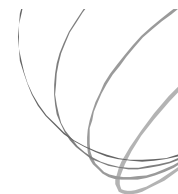
Statutory performance indicators

20. One of the ways of measuring the council's comparative performance is using statutory performance indicators (SPIs). Historically, the council has been one of the best performers in national comparisons, with more than 40% of its SPIs in the top quartile, although performance varies across the organisation.
21. In 2006/07, the council reported continued improvement in half of its SPIs:





22. The council has analysed its performance in 2006/07 against the previous year in its Performance Indicators Public Performance Report. Marked improvement (>15%) has been reported within the following Service areas:
- **Adult Social Work** – respite care and probation
 - **Benefits Administration** – administration costs, processing time, accuracy and security of processing
 - **Cultural & Community Services** – sport & leisure management, library stock turnover, learning centre & learning access point users
 - **Development Services** – development plans
 - **Protective Services** – food safety inspections.
23. The report highlights that the majority of the improvements have been achieved as a result of process changes within the relevant Services. Increased availability of services, for example new gym facilities, has also contributed to the increased performance.
24. Performance has declined significantly (>15%) within the following Service areas:
- **Adult Social Work** – community care services and community service
 - **Education & Children's Services** – liaison with the Children's Reporter and respite care
 - **Housing** – managing tenancy changes.
25. The report notes that some of these declines in performance can be directly linked to changes in the way the indicators have been recorded. Others have been impacted by the demand for a particular service. The council is taking steps to improve performance in these indicators.
26. 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 was good. The council failed to report one indicator (protective services – domestic noise complaints) as mechanisms were not in place to record the required information throughout 2006/07. Officers have confirmed that appropriate records are now being kept and that this indicator will be reported in 2007/08.



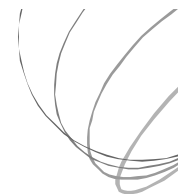
Performance outlook – opportunities and risks

Introduction

27. As stated in paragraph 2, our ARAP identifies some of the strategic risks to The Moray 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.

Supporting political governance

28. 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.
29. In common with many councils, the May 2007 elections have resulted in a considerable number of new councillors, with 16 of the 26 elected members new to the council. This represented a significant risk to the smooth running of council business and the ability to demonstrate Best Value in the delivery of services to the people of Moray.
30. In order to address this risk, the Corporate Management Team developed a comprehensive induction and training programme for members which set out the statutory requirements, particularly those relating to Best Value and Community Planning, resulting from the Local Government in Scotland Act 2003; the role of the council and councillors in delivering these; and emphasised the key priorities outlined in the new Community Plan as existing commitments for the council. These meetings were well attended by most councillors, not just those newly elected to the council and contributed to the smooth transition between the old and new administrations.
31. The need for consistent strategic leadership by elected members was one of the key findings of the recent Best Value progress report, with the report concluding that elected members need to demonstrate a commitment to delivering Best Value and developing their corporate role in all of the council's affairs. In order to do this, the council has set six objectives within its Best Value Improvement Plan including delivery of training on strategic leadership skills and the development of a personal training plan for all members.



Adopting a strategic framework to deliver change

32. The first Best Value audit concluded that improvements were needed to the Community Plan and Corporate Development Plan to enable them to offer clear strategic direction and a measurable programme of action. The importance of fully aligning these key strategic documents was also stressed. Without clear linkages between all of the council's plans, there is a risk that community planning will not be mainstreamed into Services' day to day activities and will fail to deliver improved public services for the people of Moray.
33. The recent Best Value progress report concluded that the council has made steady progress in improving its approach to strategic planning. It has identified a range of mechanisms to identify the priorities of communities and used these to inform the priorities of the community planning partnership. In September 2006, the partnership published a new Community Plan.
34. As highlighted in paragraph 11 of this report, the administration group will shortly announce its main priorities for the new council. A new Corporate Development Plan will then be prepared setting out how the council will deliver these. Without clear strategic direction from the new council, there is a risk that its priorities will not be delivered.
35. The council acknowledges that, although the 2007/08 Service plans show clearer linkages with community plan objectives, further improvements are required to strengthen the links.
36. Moray council faces particular challenges with regard to its workforce especially given its remote, rural location. The council is currently developing a workforce strategy which is due to be completed by the end of the year. In the absence of such a strategy, there is the risk that the council does not have a corporate approach to workforce planning and therefore staff resources may not be deployed effectively to deliver quality services.

Key risk area 3

37. The council has some significant projects underway, such as a major programme for flood alleviation and proposals to restructure the schools estate. Inevitably, any significant change carries with it risks that expected benefits are not delivered, or that they are only delivered at greater time and cost. The council may not have the capacity to deliver all the planned projects at the pace required. A focus on major change projects is also likely to limit the ability of individuals to manage 'business as usual'.

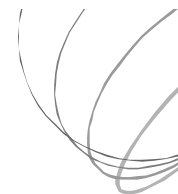


38. The Best Value progress report concluded that the council has yet to develop systematic project management arrangements to help prioritise and manage its wide-ranging improvement agenda. It has made progress in delivering key strategic projects, but difficult decisions lie ahead for the council, particularly on how to deliver the Schools Estate Strategy. A more structured approach, supported by investment in project management, would put the council in a better position to prioritise and manage its significant commitments.

Key risk area 4

Using performance management to drive service improvement

39. As mentioned earlier, the council has made significant progress in developing a performance management framework over the last 18 months. Service standards and performance measures have been developed and performance information is being used by members to scrutinise performance. More work is required, however, to fully embed performance management throughout the council.
40. In order to claim efficiencies under the Efficient Government initiative, the council needs to demonstrate that service outcomes have been maintained or improved, presenting a real challenge to evidence the link between resources and performance measurement. The council has prepared an efficiency statement and published it on its website. The statement reports efficiency savings of £2.7 million in 2006/07.
41. The council has published a range of performance information including an education performance report in April 2006; booklets setting out the standards for all services in May 2006; and the 2006/07 statutory performance indicators in September 2007. The 2006/07 public performance report is due to be published in December 2007.
42. Public performance reporting is developing within the council. A public performance reporting strategy has been implemented and guidance has been issued to all Services. The council is also looking at innovative ways to publish its performance information, including advertising on council vehicles.



Demonstrating good governance

43. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours at the upper levels of the organisation. Internal audit plays a key role in these governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. The findings from our review of the council's Internal Audit section are reported in paragraph 115 to 119 below.
44. Risk management is also an essential component of the governance framework in any well-managed organisation. Significant progress was made in this area during the year with the completion of corporate and strategic departmental risk registers. The council acknowledges that further work is required to embed risk management at all levels throughout the organisation. This is being addressed through the development of operational risk registers for use by staff involved in the delivery of services. In the absence of a fully embedded process, there is a concern that the council has not identified or managed all of its key risks.

Key risk area 5

45. The council's corporate governance arrangements are discussed in more detail in paragraphs 109 to 130 below.

Funding sustainable services and future improvement

46. 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, the proposed education PPP scheme or alternative arrangements to improve the School Estate, and the flood alleviation schemes.

Key risk area 6

47. Work is currently underway to develop the financial plan for 2008 to 2012. Initial indications are that the council may have to find savings of nearly £11 million (6.5%) in order to balance its budget over the next four years.
48. Ensuring sustainability of services in the future requires a comprehensive policy-led approach to budgeting. The council continues to work towards policy-led budgeting. A framework has been developed and the council will shortly announce its priorities for 2007-2012. Services are currently in the process of identifying a range of savings from their budgets. Members will select from these and other potential savings in order to balance the 2008-2012 budget.



49. 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 £2.7 million of efficiency savings in 2006/07 and have included an additional £2 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.
50. The council's financial position is discussed in more detail in paragraphs 65 to 108 below.

Effective community planning

51. Increasingly the council is dependent on partnership working to deliver service improvements and promote sustainable development. There is a key 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.
52. 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.
53. The Community Plan sets out measurable targets for improving public services in Moray. The council will shortly announce its main priorities for 2007-2012 and will then consider how best to align these with those outlined in the Community Plan and those published by the Scottish Government.

National studies

54. 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

55. 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.



56. 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.
57. 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.
58. 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.
59. 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. The Moray Council is among the highest with 30% being recycled and composted in 2005/06. This increased to 38% 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

60. 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.



61. 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.
62. 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.
63. 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

64. 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 by February 2008.



Financial position

Introduction

65. 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 'funding sustainable services and performance improvements', our ARAP recognised the significant challenges being faced by the council both in relation to delivery of its improvement agenda and also managing ongoing financial pressures such as implementing single status. Our findings and key messages are set out in this section.

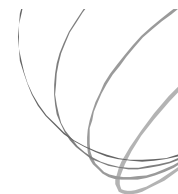
Council tax and the general fund

Operating performance 2006/07

66. 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.

67. The council's net operating expenditure in 2006/07 was £162.4 million. This was met by government grants and local taxation of £161.5 million, resulting in an income and expenditure deficit of £0.9 million. The statement of movement on the general fund balance shows that, after allowing for the items referred to above, a general fund deficit of £0.180 million was achieved in the year. When this deficit is added to the general fund balance brought forward from 2005/06, the council has a general fund balance of £12 million at 31 March 2007.

68. Within this overall outturn, there were a number of significant variances against budget. The Chief Financial Officer has grouped these into those that represent a net ongoing pressure for the council (net overspend of £1.2 million) and those that were of a one-off nature (net underspend of £1.6 million).



69. The net overspend is made up of out of area placements (£1.2 million), community care costs (£1.1 million) and the cost of implementing the single status agreement (£1.1 million). These have been offset by a reduction in operating costs, additional income and other savings. This recurring overspend is only partially reflected in the 2007/08 budget, the remainder (around £0.7 million) will be funded out of the general fund balance.

Key risk area 6

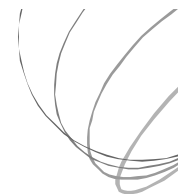
70. The net underspend includes additional one-off income, higher than budgeted vacancy levels and trading surpluses, and the impact of the delayed implementation of additional services for vulnerable adults.

Reserves and balances

71. At 31 March 2007 the council had total cash backed reserves and funds of £28.5 million, including an insurance fund, a capital fund 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 £ Million	2005/06 £ Million
General Fund	11.984	12.164
General Fund – Housing revenue account balance	0.843	0.548
Capital Fund	7.133	11.997
Repair and Renewal Funds	2.201	1.861
Insurance Fund	1.227	1.170
Useable Capital Receipts Reserve	5.120	4.100
	28.508	31.840



72. The council aims to maintain a minimum general fund working balance of £5 million. At 31 March 2007, the council had earmarked amounts totalling £1.150 million, and committed a further £2.2 million to specific projects in 2007/08, leaving an unallocated general fund balance of £8.6 million which is £3.6 million in excess of its £5 million target. In his Foreword to the financial statements, the Chief Financial Officer highlights that this additional flexibility is likely to be required in the medium term as the council strives to further reduce the cost of service provision to a sustainable level. A range of financial issues which could further impact on the reserves position are discussed in our Financial Outlook section below.

Group balances and going concern

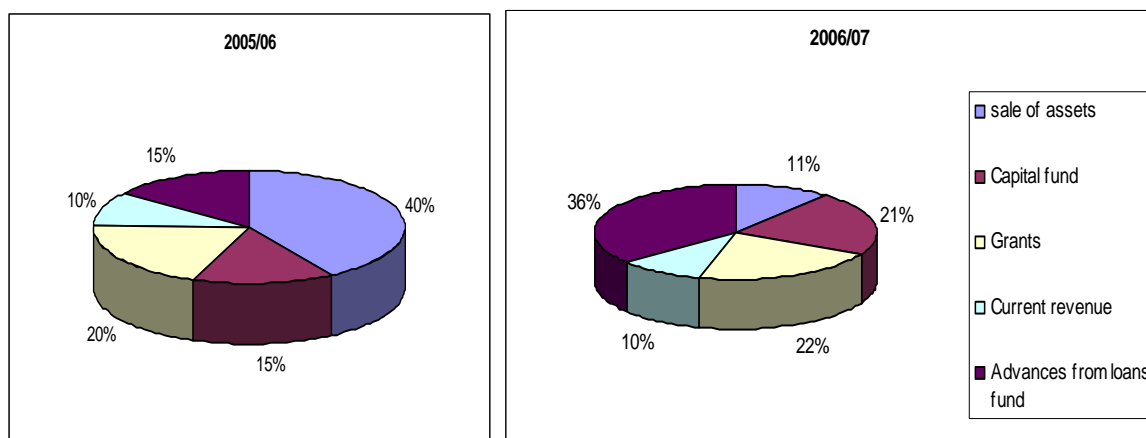
73. The widening diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to present fairly the activities of an authority. In 2006/07, the council has included five subsidiaries and four associates in its group accounts disclosures, which comply with the SORP.
74. 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 £99.8 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.
75. 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 £87.7 million, substantially as a result of these liabilities. All the group bodies' accounts have been prepared on a going concern basis.

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.
77. Capital expenditure in 2006/07 totalled £25.5 million, rising from £20.1 million in 2005/06. Capital investment in 2006/07 increased the Band D council tax by £5.60. Capital investment in the last two years was funded as shown below.



Sources of finance for capital expenditure 2006/07



78. There was no movement in the amount of long term debt owed by the council during 2006/07. Although all of the council's 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 less than 23% of its debt exposed to variable rate risk.
79. The capital programme experienced slippage of £3.7 million during 2006/07, representing 13% of the planned programme. This was mainly due to delays in the Flood Alleviation Schemes (£2.5 million), office accommodation (£0.5 million) and the housing programme (£0.6 million). All of this slippage has been added to the 2007/08 capital programme. The council has experienced slippage against its capital plan for a number of years, and acknowledges that this may impact on contractors' ability to deliver the existing programme.

Key risk area 7

Significant trading operations

80. 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. The first three year period ended in 2005/06.
81. The council has four STOs: building services, roads, vehicle maintenance and grounds maintenance. In the three years to 31 March 2007, all four met the statutory target.



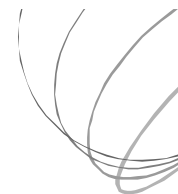
82. The identification of significant trading accounts is the responsibility of the council. LASAAC guidance suggests three tests should be applied to determine whether a trading operation falls within the ambit of the Act. These are:
- whether the service is provided in a competitive environment
 - whether the service is provided on a basis other than recharge of cost and
 - a test of significance.
83. If all three conditions are met then the service should be accounted for as a significant trading account.
84. The council reviewed its trading activities during the year and concluded that a significant trading account which was reported in 2005/06 was no longer required in respect of catering services. Sufficient evidence is available to support the conclusion reached that catering services no longer meet the three conditions outlined above.

Financial outlook

85. The council faces a number of significant financial pressures in the medium to longer term. These include the full year costs of implementing single status, increasing demand for community care services and out of area placements, the need to realise efficiency savings and the uncertainty over future levels of central government grant, including a potential freeze on the level of council tax.

Current budget

86. 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 £1,135, equivalent to an increase of 3.6% on the previous year.
87. General allowances for pay and cost inflation were built into the budget, together with the additional costs associated with single status (£3 million), increased demand for out of area placements (£0.5 million), and the new scheme for members' allowances (£0.2 million). A number of efficiency and other savings totalling £4 million were also built in.



88. The latest monitoring report for 2007/08 shows an overspend against budget of £2 million as at 31 July 2007. This overspend is reported as being primarily due to timing differences in income due. The council estimates that the majority of Services' expenditure will be contained within budget at the year end, except for Educational Services where an overspend of £0.670 million is forecast. The main reasons for this overspend are the Service's failure to achieve its vacancy management target, increased demand for out of area placements, and an overspend on the examination fee budget.

Key risk area 6

Equal pay and single status

89. 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.
90. Estimated costs of £5.145 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 £5.621 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 £0.487 million. This amount has been included within the 2006/07 financial statements.
91. 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). In December 2006, the council was the first in Scotland to implement its single status agreement. The council estimates that the additional revenue cost of this agreement will be £3 million in 2007/08.

Forward capital programme

92. Capital plans for 2007/08 and 2008/09 anticipate annual capital expenditure of £31.21 million and £58.622 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 £24.259 million over the two years.



93. The council faces a number of pressures on its capital programme over the next five years. The most significant of these are:
- **Flood Alleviation Schemes.** The council plans to meet a large part of its contribution towards the funding of these schemes from reserves. It is currently estimated that the council's share will be £30.8 million, of which £7 million has been set aside in the Capital Fund. The remainder will be funded through increased borrowing or from other reserves (if available).
 - **Management of the School Estate.** Officers have calculated that in order to provide sufficient capacity to meet the Scottish Government's commitment to reduce maximum class sizes for primaries 1, 2 and 3, and achieve an acceptable standard for condition and suitability for all schools, the council will need to invest between £24.3 million (BB standard) and £66.3 million (AA standard). Members have yet to decide which option to progress.

Public Private Partnership (PPP)

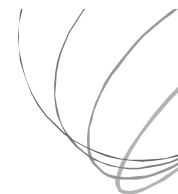
94. In July 2006, the council decided to proceed, against officers' advice, with a PPP project based on two secondary schools in Elgin and a new primary school in Keith. Securing value for money and affordability are key requirements for public bodies to progress PFI projects.
95. During 2006/07, we provided initial comments on the comparative quantitative value for money, and the affordability of the Moray Schools PPP Project. In December 2006, we concluded that
- 'The analysis prepared by the council's financial adviser demonstrates comparative quantitative value for money, in accordance with current guidance. This analysis is based on a comparison of the quantitative value for money of a PFI project to build two secondary schools in Elgin, compared to a public sector comparator to also build two schools. An estimated premium of £21.8 million may be being paid to build two secondary schools in Elgin, rather than one. The council needs to ensure that the decision to proceed is soundly based on the qualitative benefit of building two schools and that cost premium for this solution is commensurate with the qualitative improvement in service delivery obtained.'*
96. Our review of the affordability of the project concluded, in May 2007, that 'both of the council's methods are 95% certain of funding the lifetime costs of the PPP, based on the council's estimates of uncertainty in each of the inputs'. Both of these funding methods were based on significant increases in council tax, either staged over five years or a one-off increase of 7.72 %.
97. Following the elections in May, the Scottish Government wrote to the council inviting it to review its position in respect of the affordability, scope and delivery model used to deliver the PPP project, in light of Scottish Ministers' intention to deliver a council tax freeze across Scotland and their strong preference for a non-profit distributing (NPD) delivery model.



98. Current estimates of the existing project costs exceed the funding limit available from the Scottish Government by £20 million. The council has agreed that future options for the PPP project need to be considered in the context of other local and national political priorities and the forthcoming spending review. Once all competing demands have been prioritised, the council will decide how the project should proceed. Any change to the number of schools included in the PPP project will impact on the amount of investment required to manage and maintain the schools estate.

Efficient government

99. 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. The principles of the efficient government initiative encourage the delivery of services for lower unit cost without compromising the quality of the service provided.
100. 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.
101. The Moray Council has established an efficient government working group to co-ordinate arrangements for developing and monitoring progress against the efficient government agenda and has developed a policy statement that recognises the importance of delivering efficiency savings as an integral part of service delivery.
102. The council's 2006/07 efficiency statement reports that the council achieved total efficiencies of £2.7 million in 2006/07.



Claimed efficiencies in 2006/07

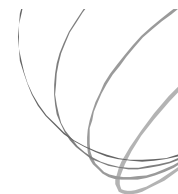
Efficient Government Theme	Cashable efficiency £'000	Non cashable efficiency £'000	Total efficiency £'000
Procurement	617	0	617
Absence Management	121	0	121
Asset Management	193	0	193
Shared Services	0	0	0
Streamlining Bureaucracy	1,490	85	1,575
Other	131	30	161
Total efficiencies	2,552	115	2,667

103. There was no requirement for the efficiency statement to be audited in 2006/07. The efficiencies reported for the year have been achieved as a result of the management of staff vacancies (£1.071 million), the extension of the contract for the provision of information technology to schools at a reduced annual cost (£0.418 million) and detailed reviews of services such as pre 5 education and the educational development support service (£0.131 million). It will be a challenge for the council to demonstrate achievement of these efficiencies whilst continuing to deliver high quality services.

104. Procurement arrangements were reviewed during 2006/07 and a procurement policy developed setting out the council's approach to this key area. The target date (July 2007) for developing a detailed procurement strategy to support this policy and provide a framework for future service delivery has been missed although the strategy is now available in draft. Once this is finalised, the council will commence work on identifying the priority areas for collaboration and the generation of efficiencies (both internal and external). Given the progress to date, it is unlikely that the council will generate any significant efficiency savings from improved procurement practices during 2007/08.

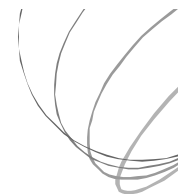
Key risk area 8

105. Asset management is a key issue for the council. As reported elsewhere within this report, the council is committed to significant investment in a number of projects, including the flood alleviation schemes and school estate, over the next few years. In order to balance competing priorities, the council has adopted an asset management framework that aims to integrate asset management with financial planning. Progress has been made in developing asset management plans and these have been used to inform the current capital plan. The council aims to have an integrated capital strategy and corporate asset management plan in place for the five year period commencing April 2009.



Pension liabilities

106. 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.
107. 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.
108. The council's estimated pension liabilities at 31 March 2007 exceeded its share of the assets in the Aberdeen City Council Pension Fund by £33.7 million, reducing from £48.5 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. The actuary is required to make a three-year assessment of the contributions that should be paid by the employing authorities from 1 April 2006 to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions, normally 5% - 6% of salary. The 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% in 2008/09.



Governance

Introduction

109. 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

110. 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 needs to improve its corporate governance arrangements. In particular, elected members need to demonstrate consistent strategic leadership and develop their corporate role in all of the council's affairs.

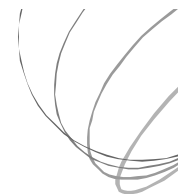
111. The annual financial statements include a Corporate Governance Statement which outlines the council's arrangements under the five principles of good governance (community focus, service delivery arrangements, structures and processes, risk management and internal control, and standards of conduct) contained in its Local Code of Corporate Governance. The Statement highlights that during the year there was significant work done on incorporating risk management into the council's systems and procedures.

Audit and Performance Review Committee

112. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda.

113. The council's Audit and Performance Review Committee meets regularly and receives reports from both internal and external audit. Its remit also includes scrutinising the council's policies, monitoring performance and the promotion of high standards of conduct by members.

114. The success of an audit committee as part of the council's scrutiny arrangements is dependent on its members. Following the May 2007 elections, the membership of the Audit and Performance Review Committee has changed considerably and a new Chair has been appointed. We plan to review the new committee's compliance with CIPFA's guidance note *Audit Committee Principles in Local Authorities in Scotland* as part of our 2007/08 audit.



Internal Audit

115. Internal audit plays a key role in the council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system.

116. During 2006/07, we reviewed the council's internal audit arrangements and concluded that we were able to place reliance on the following specific pieces of work in 2006/07:

- debtors and income
- creditors payments (substantive testing)
- statutory performance indicators (partial reliance)

117. Internal audit experienced significant staff shortages during the year which resulted in slippage against the annual audit plan. This impacted mainly on the time spent on the review of core financial systems, with audits of capital expenditure, non domestic rates and council tax delayed until 2007/08.

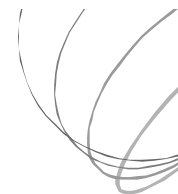
118. Annual review of the core financial systems is essential to enable the Team Leader (Internal Audit) to provide an opinion on the adequacy and effectiveness of the council's internal control system. The Chief Executive and Convener rely on this opinion when signing the Corporate Governance Statement and we seek to rely on internal audit's work as much as possible for our opinion on the financial statements. Where internal audit do not provide the coverage required for our audit, as was the case in 2006/07, we are required to undertake the work ourselves which impacts on the external audit fee charged to the council.

Key risk area 9

119. The detailed findings from our review of the council's internal audit service will be provided in a separate report to management.

Risk Management

120. Risk management is an essential component of the corporate governance framework in any well managed organisation. The Corporate Governance Statement highlights that significant progress was made during the year, with corporate and strategic departmental risk registers being developed to evidence how the council determines and manages the risks that it faces. Progress is now being made on the development of operational risk registers for use by staff involved in the delivery of services. The council acknowledges that further work is required to embed risk management at all levels throughout the organisation and to develop business continuity and disaster recovery plans.



Systems of internal control

121. In his annual report for 2006/07 the Team Leader (Internal Audit) provided his opinion that, based on the internal audit work undertaken during the year, no weaknesses in the council's control arrangements were disclosed during the year.

122. 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
- housing rents
- council tax
- cash Income
- budgetary control
- creditors payments
- non domestic rates
- main accounting system
- housing and council tax benefits

Prevention and detection of fraud and irregularities

123. 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

124. 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. 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.

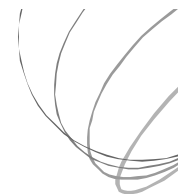
125. The NFI 2006/07 results (data matches) were made available to councils on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the council's involvement in NFI 2006/07 during the course of our audit.



126. The council has responded positively to NFI and adopted a structured approach to the analysis of the 624 matches arising from the 2006/07 exercise. Progress is regularly monitored by the Revenues Manager and the council is on track to complete all investigations by the year end.
127. Over half of the matches (373) related to Benefits Claimants and these have been progressed by the council's specialist fraud department. Matches involving income support or job seekers allowance have been referred to the Department of Work and Pensions (DWP) for investigation.
128. Five frauds have been identified amounting to more than £12,000. The council are currently recovering £21,500 in connection with these fraud cases and other identified overpayments.
129. The work to review and investigate NFI referrals is ongoing and further savings may be identified. The council needs to ensure that it maintains the current momentum on addressing NFI and uses the opportunities presented to assist in the detection of fraud.

Future outlook

130. 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. The Moray Council are aware of this new guidance and have started to review their corporate governance structures against the framework.



Financial statements

Introduction

131. 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
- have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

132. We also review the Corporate Governance Statement 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

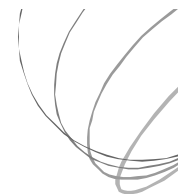
133. We have given an **unqualified** opinion on the financial statements of The Moray Council for 2006/07.

134. The council's un-audited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. 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

135. 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 and
- 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.

136. Overall, we were satisfied that the council had prepared the accounts in accordance with the revised SORP.

137. 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 Chief Financial Officer in our ISA 260 *Communication of audit matters to those charged with governance* report. Three adjustments were made to the figures included in the un-audited accounts provided for public inspection. The net effect of these was to increase the deficit for the year by £0.588 million and increase the net worth of the council by £0.368 million. Details of this adjustment and other significant accounting issues arising in the course of our audit are summarised below.

Interdepartmental balances

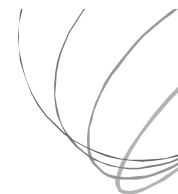
138. During preparation of the financial statements, it is essential that amounts due to or from other departments within the council are identified and eliminated so that only amounts due to or from external parties are included in the published accounts. Audit testing identified that this process had not been applied to income accrued by the building services significant trading operation for work done on council houses. Correction of this error increased the deficit for the year, and decreased debtors, by £0.588 million.

Key risk area 10

Loans omitted from the balance sheet

139. The audit identified five loans made by the council to third parties that had been omitted from the Balance Sheet. The 2006/07 financial statements have been amended for the largest of these. Correction of this error has increased long term debtors disclosed on the council's balance sheet by £0.956 million. The council has agreed to include the remaining loans in the 2007/08 Balance Sheet and to review procedures for identifying and accounting for loans prior to the preparation of the 2007/08 financial statements.

Key risk area 11



Equal pay

140. The audited financial statements include a provision of £0.487 million in respect of the council's best estimate of the expenditure required to settle outstanding claims in relation to equal pay legislation. This amount was shown as a creditor in the un-audited financial statements. This adjustment to the un-audited accounts had no impact on the deficit or on the net worth of the council.

Legality

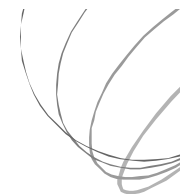
141. Each year we request written confirmation from the Chief Financial Officer that the council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Chief Financial Officer has confirmed that, to the best 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.

142. 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.

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

Financial reporting outlook

144. The council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It responds positively to audit issues and to changing accounting rules. Challenges ahead include a number of changes that have been made to the 2007 SORP.



145. 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 in line with the FRSs. 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 variable interest loans and LOBOs from 1 April 2007 to a maximum of 20 years. These changes do not impact on council tax levels.

146. 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.

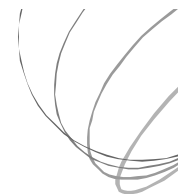
147. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2008/09. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2008/09. The Treasury 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

148. We have summarised our conclusions 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 members. Only high level risks are included in the plan. 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.
149. A mechanism should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2007/08 audit.
150. The co-operation and assistance given to us throughout our audit by members and staff is gratefully acknowledged.

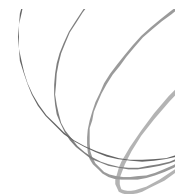
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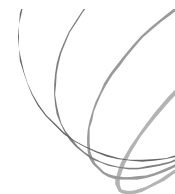
Appendix: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	11	<p>Corporate objectives and priorities</p> <p>The council administration will shortly announce its main priorities for 2007-2012. The new Corporate Development Plan will then be developed setting out how the council will deliver its priorities.</p> <p>Risk: without clear strategic direction from members, there is a risk that the new council's priorities will not be delivered.</p>	Prepare a Corporate Development Plan for the new Council.	Chief Executive	31 July 2008
2	16	<p>Delivery of corporate objectives and priorities</p> <p>The council has yet to report performance against its corporate objectives and priorities for 2006/07.</p> <p>Risk: the council cannot demonstrate that it has delivered its objectives and priorities.</p>	Produce a corporate Public Performance Report for 2006/07.	Corporate Policy Unit Manager	31 December 2007
3	36	<p>Workforce strategy</p> <p>The council is currently developing a workforce strategy that is due to be completed by the end of the year.</p> <p>Risk: in the absence of such a strategy, there is a risk that staff are not deployed effectively to deliver quality services.</p>	The strategy will be completed.	Head of Personnel Services	31 December 2007



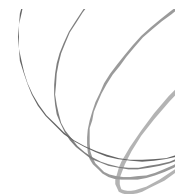
Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	38	<p>Project management</p> <p>The council has yet to develop systematic project management arrangements to help prioritise and manage its wide-ranging improvement agenda.</p> <p>Risk: the council may not have the capacity to deliver all the planned projects at the pace required.</p>	<p>In preparing the new Corporate Development Plan, appropriate attention will be given to prioritising major commitments.</p> <p>A project manager will be recruited to improve the Council's capacity for managing large projects.</p>	<p>Corporate Management Team</p> <p>Chief Executive</p>	<p>31 July 2008</p> <p>31 December 2007</p>
5	44	<p>Risk management</p> <p>Further work is required to embed risk management at all levels throughout the organisation.</p> <p>Risk: in the absence of a fully embedded process, the council may not have identified or managed all of its key risks.</p>	<p>The embedding of risk management practices is an evolutionary process. The Council is able to demonstrate that risk management is recognised as a key management tool. It will continue to do so through ongoing monitoring and assessment of known and emerging risk issues and by utilising data collected to inform service planning processes.</p> <p>An exercise is currently underway to review the relationship between operational, departmental and the corporate risk registers.</p>	<p>Corporate Management Team/ Departmental Management Teams/ Risk Management Working Group/Team Leader (Audit)</p>	<p>31 March 2008</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
6	46, 69, & 88	<p>Financial pressures</p> <p>The council continues to face significant challenges both in relation to its improvement agenda and in managing ongoing financial pressures.</p> <p>Initial indications are that the council may need to find savings of nearly £11 million (6.5%) in order to balance its budget over the next four years, and invest heavily in flood alleviation schemes and improvements to the school estate. There is uncertainty surrounding the future of the proposed PPP project and this will impact on the level of investment required to manage and maintain the schools estate.</p> <p>Risk: the council may not be able to sustain the current level of services in the future.</p>	<p>The Council's financial planning process identifies the risks referred to and provides Members with a framework to review income and expenditure to establish a balanced financial plan.</p> <p>Annual Budget 2008/09</p> <p>Financial Plan 2008 to 2011</p>	<p>Chief Financial Officer</p> <p>Chief Financial Officer</p>	<p>14 February 2008</p> <p>31 July 2008</p>
7	79	<p>Capital plans</p> <p>The council has experienced slippage against its capital plan for a number of years.</p> <p>Risk: contractors may not have the capacity to deliver all of the current year programme once previous year slippage is added.</p>	<p>Continue to monitor progress against the capital plan.</p>	<p>Corporate Management Team</p>	<p>Ongoing</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
8	104	<p>Procurement strategy</p> <p>The council has yet to finalise its procurement strategy and work has yet to commence on identifying areas for collaboration and generation of efficiency savings.</p> <p><i>Risk: efficiency savings included in the 2007/08 budget may not be realised resulting in increased financial pressures for the council to manage.</i></p>	<p>The procurement strategy will be finalised.</p> <p>The Council has a good track record of collaborating with other councils for procurement. Further work is underway to ensure that collaboration is applied effectively between Council departments and that further opportunities can be assessed for collaboration with other Councils. This work includes the development of eprocurement and liaison with Scotland Excel.</p> <p>The Council has recognised the difficulties of measuring procurement efficiencies and will actively pursue and review any measures developed nationally.</p>	Chief Financial Officer	30 November 2007



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
9	118	<p>Internal audit</p> <p>Only limited time was spent on the review of the controls in operation within the council's core financial systems during 2006/07.</p> <p>Risks:</p> <ul style="list-style-type: none"> • <i>insufficient evidence is available to support the independent assurance provided annually by the Team Leader (Internal Audit)</i> • <i>the council's system of internal control may not be operating effectively.</i> 	<p>The report acknowledges that the Council's main financial systems, reviewed as part of the external audit process, were assessed as 'having a satisfactory level of control'.</p> <p>Subsequent work by Internal Audit on core systems for 2007/08 has re-affirmed this position but at some cost in terms of staff time utilised. Taking a risk-based approach, there is a concern that audit input becomes disproportionate to the benefits derived, there being a general consensus by both external audit and internal audit that these systems are generally operating as intended.</p> <p>A review of the input required by internal audit needs to be undertaken, including further discussion with Audit Scotland.</p>	Chief Financial Officer/Team Leader (Audit)	30 November 2007



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
10	138	<p>Interdepartmental balances</p> <p>Final accounts preparation procedures did not ensure that all interdepartmental balances were eliminated from the un-audited financial statements.</p> <p><i>Risk: the financial statements will not present fairly the council's financial position. If material amounts are involved, the accounts may be qualified.</i></p>	<p>Year-end closedown procedures will be reviewed to ensure that additional checks are in place to remove the potential for interdepartmental balances not being removed in the future.</p>	<p>Head of Financial Services</p>	<p>31 March 2008</p>
11	139	<p>Loans omitted from the financial statements</p> <p>The audit process identified five loans which had been omitted from the financial statements.</p> <p><i>Risk: other loans have been omitted resulting in a mis-statement of the council's financial position.</i></p>	<p>This disclosure issue relates to the disaggregation of the former Grampian Regional Council Balance Sheet. A further review will be undertaken prior to completing the Balance Sheet for the next year end.</p>	<p>Head of Financial Services</p>	<p>31 March 2008</p>