The Moray Council

Report to Members and the Controller of Audit on the 2009/10 Audit

October 2010

AUDIT SCOTLAND

The Moray Council

Report to Members and the Controller of Audit on the 2009/10 Audit

Contents

Key Messages

We have given an unqualified opinion on the financial statements of The Moray Council. The accounts were certified by the target date of 30 September. They are now available for publication and are an essential means by which the council accounts for its stewardship of public money.

Overall, the council's total revenue spending was well within the budget set. Within this positive outturn, however, were a number of overspends which were offset by underspends on other general fund services. The Chief Financial Officer has identified that around £1.7 million of these costs are recurring and will impact on the budget outturn in the current and future years.

The council aims to maintain a general fund working balance of £5 million. At 31 March 2010, the council had an unallocated general fund balance of £8.5 million which is £3.5 million in excess of its target. General fund balances have remained relatively consistent over the past two years despite the increasing pressure on the council's budgets. Current reserve levels provide some scope for the council to manage its financial position in the short term, but there is limited opportunity for the council to use its balances to manage any significant reductions in income and recurring expenditure pressures.

We were satisfied with disclosures made in the annual corporate governance assurance statement and the adequacy of the process put in place by the council to obtain assurances on systems of control. We assessed key financial systems as having a satisfactory level of control for our purposes.

Outlook

The financial challenges facing the Scottish public sector are well documented. There remains uncertainty about what the financial implications for The Moray Council will be and the settlement for local government is not likely to be finally known until January 2011. The council has shown a good understanding of the financial challenges it faces and has made good early progress in addressing these. Its most recent assessment is that cumulative annual savings of up to £40 million will be required by 2016/17, which equates to 20% of the net revenue budget for 2010/11. The impact of the decision to close RAF Kinloss has yet to be fully quantified but will further increase the pressure on the council's finances. Decisions on future budgets have yet to be made, and options remain under discussion amongst elected members and senior officers.

In establishing its financial plans the council has made an allowance for a range of inflationary and other cost pressures and considered the extent to which new developments, priorities and responsibilities can be funded. Moving forward it is important that the council has a clear understanding of what its spending priorities are, developing these in partnership with other public sector organisations where appropriate. The immediate challenge is to balance the 2011/12 budget – particularly given the extent to which cuts are frontloaded - but this needs to be achieved in a manner that best supports the council's overall objectives and priorities.

Reducing spending on staff will need to be a key component of the way in which the council responds to the challenges it faces. The speed at which spending reductions are required may mean that some pragmatic solutions need to be adopted in the short term. This will need to be balanced with the outcome of the Strategic Defence Review, the need to ensure that the council has the right people in the right place to take forward its strategic objectives and priorities, and that any up-front costs represent best value for money. The council's Workforce Strategy and voluntary early retirement and severance schemes are key tools in addressing this area.

Asset management is one of the key areas being addressed as part of the council's modernisation programme. Good asset management is essential to help achieve objectives and priorities, while getting best value from reducing resources. The wider economic situation also has serious implications for the management of the council's property portfolio, making it difficult to capitalise on surplus assets or maximise rental income. The council was assessed as 'non-conforming' in the annual procurement capability assessment with an overall score of 19%, just below the national average of 22%. It acknowledges that there is scope to do more to deliver savings from this area and is currently developing a new procurement strategy and action plan to achieve this.

Effectively managing the council's performance will remain a key challenge as council budgets are reduced. It is unlikely that the council will be able to maintain or improve current performance levels across all of its existing services, and it will need to make difficult decisions about what areas are seen as priorities and in which areas service levels will need to be reduced. Crucially, the council will need to use its performance information to understand and manage the effect of spending decisions.

In June 2010, we submitted our final shared risk assessment and assurance and improvement plan (AIP) to the council. This document was produced by the local area network of scrutiny bodies and describes the work planned on corporate activities over the next three years. The local area network is led by the Social Work Inspection Agency (SWIA).

The co-operation and assistance given to us by The Moray Council members, officers and staff is gratefully acknowledged.

Introduction

1. This report summarises the findings from our 2009/10 audit of The Moray Council, focusing on the financial statements audit and any significant findings that have arisen from our review of the management of strategic risks during the year. A summary of the other reports issued during the year is provided at Appendix A.

2. The report uses the headings of the corporate assessment framework, which we and the other scrutiny bodies used as the structure for the recent shared risk assessment and assurance and improvement plan. The assurance and improvement plan can be found on our website at www.audit-scotland.gov.uk. Where relevant, we comment on issues identified in the AIP for investigation or monitoring by the local auditor.

3. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. The resulting reports have been sent to the council for their consideration and are also available on our website. Reports published in the last year of direct interest to the council include:

   - Improving public sector efficiency
   - Overview of local government in Scotland 2009
   - Protecting and improving Scotland's environment
   - Scotland's public finances – preparing for the future
   - Making an impact – overview of best value audits 2004-09
   - Roles and working relationships: are you getting it right ?

4. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action.* We do not expect all risks to be eliminated or even minimised. Instead, we expect the council to be aware of the risks it faces and have processes in place to manage them. Members should ensure that they are satisfied with the proposed management action, and that they have a process in place to enable them to monitor progress made in implementing the planned actions.

5. This report is addressed to members and the Controller of Audit and will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for the annual overview of local authority audits report later this year. The overview report is published and used by the Accounts Commission as the basis for its annual briefing to the Scottish Parliament's Public Audit Committee and Local Government and Communities Committee.

Financial statements

Introduction

6. 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 the key outcomes from our audit of the council's financial statements for 2009/10, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

7. We audit the financial statements and give an opinion on:

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

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

Audit opinion

9. We gave an **unqualified** opinion on the financial statements of The Moray Council for 2009/10.

10. 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. The council's four statutory trading organisations made aggregate surpluses in the three years to 31 March 2010.

11. We were satisfied with the disclosures made in the Annual Governance Statement and the process put in place to obtain assurances on the systems of internal financial control.

12. The council submitted its unaudited financial statements 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 2010 and are now available for presentation to the council and publication.

Accounting practice

13. 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). Overall, we were satisfied that the council prepared its financial statements in accordance with the 2009 SORP.

Issues identified during the financial statements audit

Adjustments to the unaudited financial statements

14. The council adjusted the financial statements to reflect the majority of our audit findings. The overall impact of these adjustments was to reduce the deficit on the Income and Expenditure Account by £1.096 million and increase the council's net worth by £2.852 million. There was no impact on the General Fund balance.

15. As is normal practice, the Chief Financial Officer decided not to amend the financial statements for a number of immaterial errors and these were set out in our ISA260 *'Communication of Audit Matters to Those Charged with Governance'* report which was submitted to Full Council on 15 September 2010. Had adjustment been made, then the deficit on the Income & Expenditure Account would have increased by £420,000 and the General Fund Balance by £3,000. These amounts are not material to the financial statements and we agree with the Chief Financial Officer's decision not to amend for them.

16. Details of significant accounting issues arising in the course of our audit are summarised below.

Investment in Landsbanki

17. The council had £2 million deposited with Landsbanki, one of the Icelandic banks which collapsed and went into administration in October 2008. As it is uncertain how much of this amount will be recoverable, the council followed the guidance set out in LAAP Bulletin 82 '*Guidance on the Impairment of Deposits with Icelandic Banks – update no 2*" when preparing its financial statements. As a result, a further impairment loss of £0.298 million (2008/09 £0.382 million) was recognised in the Income & Expenditure Account and the council took advantage of the statutory guidance set out in Finance Circular 4/2009 '*Local Authority Deposits Held with Icelandic Banks*' to defer the impact of the impairment on the general fund until 2010/11.

18. The guidance set out in LAAP Bulletin 82 is based on current legal advice that local authority deposits have preferential creditor status under Icelandic law. Preferential creditor status is currently being tested in the Icelandic courts. Failure to maintain preferential creditor status will result in a reduction in the amount of the deposit and accrued interest that is expected to be recoverable from 95% to 38%.

Group accounts

19. The diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to give a true and fair view of a council's income and expenditure.

Associates

20. The council consolidated the results of Grampian Joint Police Board, Grampian Joint Fire and Rescue Board, Grampian Valuation Joint Board and Moray Leisure Limited into its group accounts as associates in accordance with the 2009 SORP. Audit assurances were obtained through review of board minutes, internal audit reports and audited accounts, supplemented by the completion of a questionnaire by the auditors of Moray Leisure Limited. All the associates received unqualified audit opinions from their external auditors.

Trust funds

21. Local authorities with registered charitable bodies 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. The date of full implementation has, however, been deferred by the Scottish Charity Regulator until 2010/11. For 2009/10, reliance will again be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.

22. The Scottish Charity Regulator provided feedback to local authorities on their 2008/09 submissions. No council was assessed as fully compliant, 10 were assessed as above average, 12 were assessed as average and 8 as below average. The Moray Council's 2008/09 submission fell into the 'average' category which means that it met the regulator's basic minimum requirements in that it contained the financial information sought, a trustees' annual report and took reliance from the council's audit report on its financial statements.

23. Last year we reported that the council had identified a number of charitable trusts which have been inactive for a considerable period, or have outdated purposes, and was considering options for reorganising its existing charities, including transferring some of them to the Scottish Communities Foundation. Little progress has been made with amalgamating trusts as legal and finance staff were focused on other council priorities throughout the year. As a result, the council will be required to provide full accounts for all registered charitable bodies (41 charities) unless the Scottish Charity Regulator continues to defer full implementation beyond 2010/11.

Common good funds

24. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners, '*Accounting for the Common Good Fund'*. This guidance, which recognises the legislative distinction of the common good as a managed fund, requires disclosure of these funds within the council's financial statements and the establishment of a separate common good asset register by March 2009. In addition, the guidance requires councils to take 'reasonable steps' to maintain the asset register.

25. The Moray Council's financial statements contain an Income & Expenditure Account and Balance Sheet for its common good funds. A separate common good funds asset register is maintained as required by the guidance. The completeness of this asset register was confirmed by the Chief Financial Officer in the letter of representation provided in support of our audit of the financial statements.

26. Although the council has not undertaken a title deeds search of all its assets, because it considers such an exercise to be time consuming, expensive and possibly inconclusive regarding ownership, whenever an asset is identified for disposal the council checks the title deeds to determine whether or not it is owned by the one of the common good funds. The council believes that this is a reasonable approach to maintaining the common good fund asset register and ensuring its completeness.

27. During 2009/10, Audit Scotland received correspondence raising two points regarding the management of Forres Common Good Fund assets. The first point referred to the treatment of the proceeds from the sale of the Lodge in Grant Park, Forres. I have examined the financial statements and working papers covering the period 1 April 1998 to 31 March 2001 and can confirm that the Forres Common Good Fund has been credited with amounts equal to the valuation of the property less the costs of the replacement windows paid for by the Housing Revenue Account. This is in line with advice from the council's Chief Legal Officer and is significantly more than the sale proceeds received under the Right to Buy sale. The council's Chief Legal Officer and Chief Financial Officer have confirmed that no additional amounts are due to the Common Good Fund and I now consider my involvement in this matter closed.

28. The second point referred to transactions relating to the lease of common good land at Bogton Road, Forres, and in particular the accounting treatment of a payment made to the previous occupant. I have considered the circumstances of this case and can confirm that I agree with the Chief Financial Officer's accounting treatment of the sums involved (ie that they relate to revenue as opposed to capital). In my view, the payment was properly made from the Common Good Fund as the Common Good benefits from the improvements made by the previous occupant and the resulting increase in potential rental income.

29. If this payment had not been made, there is a risk that the previous occupant would have pursued a legal claim against the Common Good Fund which may have resulted in significantly greater costs, including legal fees defending any action, being incurred. The trustees of the Common Good Fund chose to manage this risk by making a payment to the previous occupant.

Legality

30. 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 our audit programmes. The Chief Financial Officer 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 relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

Compliance with International Financial Reporting standards (IFRS)

31. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. The council has made good initial progress in this area but more needs to be done if IFRS compliant accounts are to be prepared on time. Work is currently ongoing to prepare a full set of IFRS compliant 2009/10 shadow accounts by mid-December 2010. We will discuss our audit input to this process as part of our audit planning for 2010/11.

Key risk area 1

Carbon trading

32. In April 2010 a new and complex system for charging for carbon emissions was introduced by the EU. The council is required to purchase and account for carbon credits to cover all of its non transport related energy usage. Incentives and penalties are built into the system to encourage a reduction in carbon emissions. The council estimates that carbon allowances will cost it in the region of £0.380 million in the first two years of the scheme (2010/11 and 2011/12).

33. The council approved a Carbon Management Plan in March 2009 aimed at reducing carbon emissions by 30% over the subsequent five years. As part of this plan, the council intends to implement energy saving projects across council premises, such as increased levels of loft insulation and installation of building energy management systems in schools to help control, manage and monitor energy use in buildings. Initial estimates suggest that energy savings of around £42,000 will be generated by these projects, together with reduced carbon dioxide emissions of almost 250 tonnes and a reduced carbon footprint of 60 tonnes.

Use of resources

Introduction

34. The efficient and effective use of resources is critical to achieving Best Value. Councils have significant resources in terms of finance, people and property. It is important that these resources are used in the most effective way to help the council to achieve its objectives and to support the delivery of high quality services.

Financial results

35. In 2009/10, the council spent over £309.3 million on the provision of public services, £274.4 million on revenue services and £34.9 million on capital projects. The council's net operating expenditure in 2009/10 was £207.3 million. This was met by central government and local taxation together totalling £197.1 million, resulting in a deficit of £10.2 million, 4.9% of the net expenditure for the year.

36. As the council is required to set its council tax on a different accounting basis, this deficit is subject to further adjustments. The main adjustments are to ensure that capital investment is accounted for as it is financed rather than when fixed assets are consumed, and that retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits are earned. Adjustments are also made for transfers between the general fund and other funds and reserves held by the council. After taking all of these adjustments into account, the general fund reduced by £0.3 million during the year

37. The budget set for 2009/10 was based on a Band D council tax level of £1,135 with planned contributions of around £1.2 million from council balances. Overall, the council's total revenue spending was well within the budget set. Within this positive outturn, however, were a number of overspends which were offset by underspends on other general fund services. The Chief Financial Officer has identified that around £1.7 million of these costs are recurring and will impact on the budget outturn in the current and future years.

38. While the general fund movement is a key measure in managing the council's annual budget, the income and expenditure position indicates the underlying level of resources the council has consumed or built up during the year. The effect of this will ultimately impact on future revenue and capital budgets as assets are maintained and replaced and pension commitments met.

Financial position

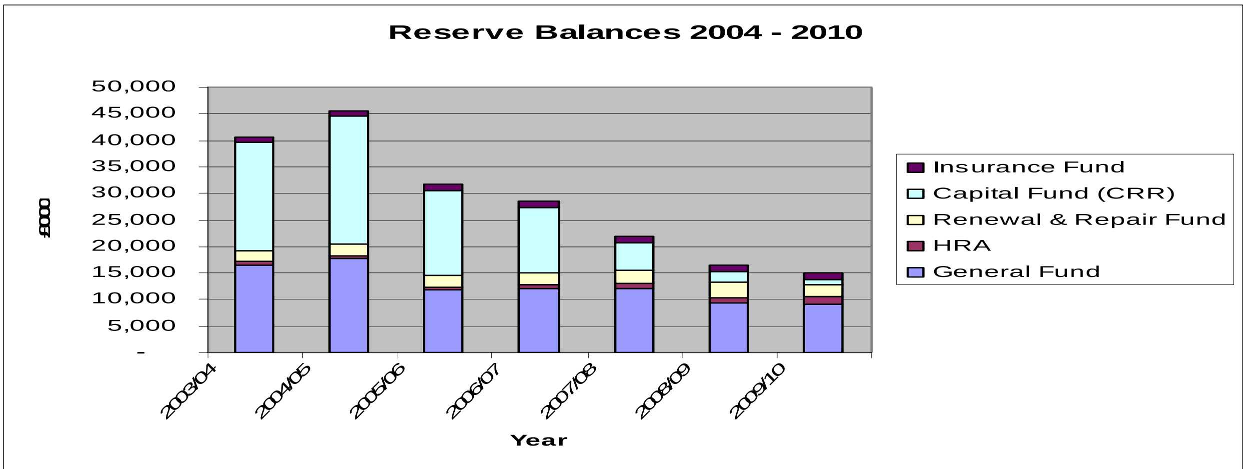
39. Exhibit 1 shows the balance in the council's cash backed funds at 31 March 2010 compared to the previous year. Funds include a repair and renewal fund for financing expenditure incurred in repairing, maintaining, replacing and renewing fixed assets, an insurance fund to be used to meet any uninsured losses in the event of fire damage to school buildings, and a capital receipts reserve to fund future capital expenditure. At 31 March 2010, the council had total funds of £15.1 million, a decrease of £1.4 million on the previous year.

Exhibit 1: Reserves and Funds

Description	***31 March 2010 £ Million***	***31 March 2009 £ Million***
General Fund	9.011	9.264
General Fund – Housing Revenue Account Balance	1.491	1.041
Repair and Renewal Fund	2.249	2.920
Insurance Fund	1.348	1.343
Capital Receipts Reserve	1.048	1.954
	15.147	**16.522**

40. The council aims to maintain a general fund working balance of £5 million. At 31 March 2010, the council had earmarked amounts totalling £0.5 million, leaving an unallocated general fund balance of £8.5 million which is £3.5 million in excess of its £5 million target. This additional flexibility is likely to be needed in the short to medium term to address the significant financial pressures facing the council in the years ahead. These are discussed in the outlook section below.

Exhibit 2: Cash Backed Reserves



41. The council's cash backed reserves have fallen steadily from a peak of £45.7 million in 2004/05 to £15.1 million as at 31 March 2010, mainly due to the use of the capital fund balance to fund the council's programme of flood alleviation schemes. General fund balances have remained relatively consistent over the past two years despite the increasing pressure on the council's budgets. Current reserve levels provide some scope for the council to manage its financial position in the short term, but there is limited opportunity for the council to use its balances to manage any significant reductions in income and recurring expenditure pressures.

42. Exhibit 3 provides some information about the councils' financial position compared to other Scottish mainland councils.

Exhibit 3: Key financial position indicators

Ratio	Description	The Moray Council		All mainland councils
		2008/09	2009/10	2009/10
Working capital (Current assets as a percentage of current liabilities)	This is an indicator of the council's ability to pay its current liabilities in the short term.	51%	42%	33% - 191%
Useable reserves as a percentage of general revenue expenditure	This shows the proportion of revenue that could be met from reserves.	8.3%	7.3%	3.7% - 19.6%
Long term borrowing compared to tax revenue	This ratio illustrates the proportion of a council's tax related income that would be needed to pay off long term debt.	198%	174%	48% - 295%
Long term assets as a percentage of long term borrowing	This gives an indication of the ability to borrow to replace or repair assets.	411%	460%	200% - 755%

43. These ratios indicate the liquidity and financing position of the council. In making comparisons between councils, there are a number of factors which affect the indicators. These include the council's group structure, asset management arrangements (e.g. housing stock transfers) and financial strategies. We have compiled this information for the first time this year and it establishes a starting point to enable the council's financial stability to be monitored in the future. The council should consider whether the ratios indicate any areas for further consideration within the context of its financial strategies.

Pension liabilities

44. 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. The council's estimated pension liabilities at 31 March 2010 exceeded its share of the assets in the Aberdeen City Council Pension Fund by £106.5 million, increasing from £75.1 million in the previous year. Based on the latest full actuarial valuation of the fund, the actuary has recommended that the council's contributions should be 19.2% and 19.3% of pensionable pay in 2010/11 and 2011/12 respectively.

Group balances and going concern

45. The widening diversity of service delivery vehicles used by local authorities means that group accounts are required to give a true and fair view of all council activities. 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 £119 million, mainly due to the inclusion of Joint Board pension liabilities. All group bodies' accounts were, however, prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.

46. 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 2010 due to the accrual of pension liabilities. In total these deficits amounted to £839.2 million (2008/09 £543.7 million), with the council's group share being £135.6 million (2008/09 £87.8 million).

Capital performance 2009/10

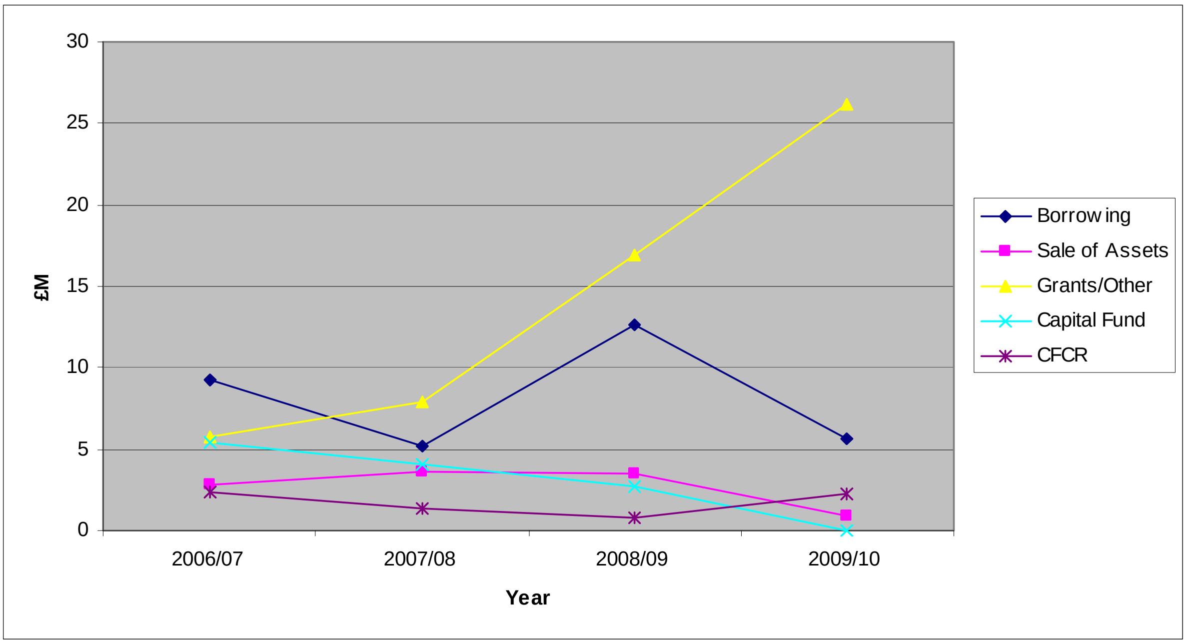
47. The council's prudential indicators for 2009/10 were set in February 2009. Capital expenditure in 2009/10 totalled £34.9 million, a decrease of £1.6 million compared with 2008/09. The main reason for the decrease is due to reduced expenditure on the council's flood alleviation schemes.

48. The revised capital programme experienced slippage of £6.4 million during 2009/10, representing 15% of the planned programme. This was mainly due to delays in the flood alleviation schemes (£4.3 million), and the roads and transport (£1.2 million), and schools (£1.1 million) programmes. All of this slippage has been added to the 2010/11 capital programme.

49. The council has experienced slippage in its capital programme for many years and, in an effort to address this, has approved more projects in 2010/11 than funding allows for to help it better manage its capital programme. The position will be carefully monitored and if spending is predicted to exceed available funds, projects will be deferred or progress delayed.

50. The trend in capital investment and sources of funds is set out in Exhibit 4 which shows a decline in the funds received through the sale of fixed assets reflecting the decline in the sale of council houses and the ongoing drop in the property market. Government finance has increased mainly due to extra funds received as part of the concordat agreements and specific funding for various capital initiatives, including the flood alleviation schemes.

Exhibit 4: Sources of finance for capital expenditure 2006/10



Treasury management

51. As at 31 March 2010, the council held cash and temporary investments of £8.678 million (£6.475 million at 31 March 2009).

52. The current economic climate means that interest rates on investments are low – the council received £0.225 million in investment income this year compared to £1.513 million last year. Although borrowing rates are also low, the council's treasury management strategy is to hold a significant proportion of its debt at fixed rates and so its average cost of borrowing is 5.75%. The council took advantage of market conditions in 2009/10 to reschedule £14.9 million of PWLB debt generating interest savings of £0.586 million.

53. The crisis in the banking sector and the collapse of Icelandic banks, including Landsbanki, prompted the council to review its treasury management practices in 2008/09. The council has reduced its investment risk by increasing the investment rating criteria for its approved list of counterparties. As a result, surplus funds are now only placed with certain UK banks and building societies, and UK Local Authorities and Supranational bodies e.g. the European Investment Bank.

Outlook

Financial planning

54. The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In June 2010 the new UK Government set out an Emergency Budget, planning for a period of significant fiscal consolidation. It immediately implemented £6 billion of UK budget reductions. The Scottish Government agreed that it would defer its share of these 2010/11 cuts (estimated as £332 million) until 2011/12, and will have to implement these alongside continuing reductions in the Scottish budget.

55. There remains uncertainty about what the financial implications for The Moray Council will be. The UK government published its comprehensive spending review on 20 October and the Scottish Government will publish the results of its own review in late November. A key issue will be the extent to which some priority services, particularly health, may be protected from budget reductions. The settlement for local government is not expected to be finally known until January 2011. Negotiations are continuing and the Scottish Government is consulting on an end to the council tax freeze.

56. While recognising this uncertainty, all Scottish councils have been working with the Centre for Public Policy and the Regions (CPPR) to estimate the potential impact on the government funding they receive. This provides a basis for financial planning and understanding the level of savings that they will require to make to balance future budgets. Current projections are that a 14% real terms reduction will be experienced over 2011/14, heavily weighted toward 2011/12 reflecting the deferral of 2010/11 cuts. In cash terms this is equivalent to annual reductions in grant of 4%, 1.7% and 1.7% respectively.

57. The council has shown a good understanding of the financial challenges it faces and has made good early progress in addressing these. In setting its 2010/11 budget the council agreed to freeze its council tax, identifying in-year efficiency and other savings totalling £5 million to meet known spending pressures and planned growth. The latest monitoring report for 2010/11 records an underspend of £2.8 million against budget as at 30 June 2010. Work is ongoing to estimate the outturn figure based on the latest budget monitoring information and this will be reported to committee in November 2010.

58. The council is currently developing its 20011/12 budget and has identified budget saving proposals of between £4.7 million and £11.2 million for public consultation between now and the beginning of December. Additional budget savings of between £2.9 million and £6.8 million have been identified for consultation with staff as these do not affect public services. The Chief Financial Officer has indicated that cumulative annual savings of up to £40 million may be required by 2016/17, equating to 20% of the net revenue budget for the current year. The impact of the decision to close RAF Kinloss has yet to be fully quantified but will further increase the pressure on the council's finances. Decisions on future budgets have yet to be made, and options remain under discussion amongst elected members and senior officers.

59. As well as addressing the anticipated reduction in funding, councils also have to manage a range of cost pressures and consider the extent to which they can fund new developments, priorities and responsibilities. In establishing its financial plans, the council has made an allowance for these factors. This means that savings targets need to be greater than would be required to simply offset the anticipated reduction of grant.

60. Moving forward, it is important that the council has a clear understanding of what its spending priorities are, developing these in partnership with other public sector organisations where appropriate. The immediate challenge is to balance the 2011/12 budget – particularly given the extent to which cuts are frontloaded - but this needs to be achieved in a manner that best supports the council's overall objectives and priorities. Real terms grant reductions are expected to continue until at least 2015/16, and the council will continue to face tough decisions about spending and priorities.

Managing people

61. The significant reduction in funding in the years ahead will clearly have implications for the council’s workforce. Reducing spending on staff will need to be a key component of the way in which the council responds to the challenges it faces. The speed at which spending reductions are required may mean that some pragmatic solutions need to be adopted in the short term. This will need to be balanced with the need to ensure that the council has the right people in the right place to take forward its strategic objectives and priorities, and that any up-front costs represent best value for money. In particular, the outcome of the current Strategic Defence Review will impact on the council’s workforce strategy as many RAF personnel have family members employed by the council.

62. Workforce planning is one of the six themes making up the council’s ambitious modernisation programme, ‘Moray Performs’ (refer to paragraphs 119 to 121 for more details). The council has developed a Workforce Strategy to support the council’s modernisation programme. Considerable resources have already been invested in developing policies and employment practices to support new ways of working, preparing new organisational and job designs, consulting with trade unions and employees, and delivering training to support the changes. Work is ongoing to ‘right size’ the workforce and this will be reflected in the 2010 Workforce Plan.

63. In November 2009, the council agreed a revised voluntary early retirement, and voluntary severance scheme for its employees in an effort to reduce the requirement for compulsory redundancies. In June 2010 the council granted voluntary early retirement to four senior officers to facilitate the creation of an integrated Housing and Property Service. It is envisaged that savings of up to £383k per annum will be achieved through this integrated service, and that the pension enhancements granted will be recovered in less than 3 years.

Asset management

64. The pressure to get the best out of the council’s asset base and the money that is invested in it is greater than ever in the current financial circumstances. Effective management of council assets is essential to help the council achieve its objectives and priorities, while getting best value from its reducing resources. The wider economic situation also has serious implications for the management of the council’s property portfolio, making it difficult to capitalise on surplus assets or maximise rental income.

65. Asset management is one of the key areas being addressed under the 'Designing Better Services' theme of 'Moray Performs'. As part of this project, work has begun to refurbish a former supermarket and reconfigure the existing headquarters building to create a new HQ campus in order to rationalise the office accommodation required to provide all Elgin based services. In addition to improving the suitability of the office accommodation available for its staff, the council estimates that relocation will reduce the present value of its operating costs over the next twenty-five years from £24.7 million to £21.0 million.

66. The Corporate Asset Management Plan 2010/11 sets out the asset management planning actions to be undertaken in the current year. These include completion of the review of the schools estate management plan, commencement of a review of office accommodation requirements outwith Elgin, preparation of a roads/infrastructure asset management plan and development of a fleet asset management plan for inclusion in the capital plan review.

67. In June 2010, the council signed a public private partnership agreement for the provision of two new schools as part of its investment to improve the condition and suitability of the schools estate. Work has begun on site and the first school is expected to be operational in October 2011.

Procurement

68. Improved procurement practices are an important source of savings. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement and to deliver value for money and increased efficiency through improved structures, capability and processes. In 2009, the Scottish Government promoted the use of an annual procurement capability assessment (PCA) to assess procurement performance in all public sector bodies and as a basis for the sharing of best practice and continuous improvement. Results are summarised as non-conformance, conformance, improved performance and superior performance.

69. The Moray Council was assessed as a non-conforming council with an overall score of 19%, which places it within the lower quartile and slightly below the national average of 22%. The council scored best in the people category (33%) with weaker areas of performance within specification of goods & services (7%), sourcing strategies & collaborative procurement (13%) and performance measurement (17%). The council aims to significantly improve its assessment score next year and is currently developing a new procurement strategy and action plan to achieve this. It is also participating in the national procurement improvement programme led by the Scottish Government through the Public Performance Reform Board.

70. Procurement is one of the key areas being addressed under the 'Designing Better Services' theme of 'Moray Performs'. The council continued to improve its procurement practices during 2009/10, including the creation of a centralised procurement operation and a new procurement team, development of a new contract administration function to ensure successful adoption of contacts, and system developments to complete the electronic processing cycle. Improved procurement practices generated annual cash savings of £0.576 million of which £0.238 million were attributable to the council's membership of Scotland Excel. In addition, non cash savings have been generated through electronic ordering, consolidated invoicing and electronic payment as well as reduced administration costs.

Key risk area 2

ICT

71. On 27 April 2010, the council approved its corporate ICT strategy covering the period 2010 to 2013. The Strategy is closely aligned to the Designing Better Services (DBS) programme which has been a focal point of the council's efforts to improve services and realise efficiency savings. The technology solutions sought offer best practice models that take into account increased information security awareness as well as environmental concerns.

72. The Strategy is ambitious and forward looking and is aimed at providing users with a flexible and up-to-date technology environment. Plans are also in place for the ICT section to move to a new data centre and implement new technologies to improve the management and cost effectiveness of the council's network services.

Shared services

73. Shared services are one of the ways open to local authorities for reducing spending and sustaining essential public services. The Moray Council is committed to developing shared services with its neighbouring authorities and already has in place a number of joint working and shared service arrangements with other councils and public sector partners including Pathfinder (delivering broadband services to remote areas) and the development of a joint child protection unit to be staffed by council and Grampian Police employees. Elected members and officers are currently exploring options for other shared services with neighbouring authorities in order to reduce the council's cost base.

Governance and accountability

Introduction

74. We believe that an effective council is committed to high standards of probity and can demonstrate high standards of governance and accountability. It has effective political and managerial structures and processes to govern decision-making and the exercise of authority within the organisation, supported by mature and effective relationships between members and officers.

Overall arrangements

75. Corporate governance is about direction and control of organisations. Councils are large complex organisations and so good governance is critically important. The council has acknowledged that it needs to improve the corporate governance arrangements in place both within the council and within the community planning partnership. As part of the ‘Moray Performs’ project, work is ongoing to develop joint governance and scrutiny arrangements for the council and its community planning partners. This is an ambitious programme of work and will take some time to complete.

76. Each year the council assesses its own arrangements against the CIPFA/SOLACE framework ‘Delivering Good Governance in Local Government’ and reports the results in the Annual Governance Statement included within the 2009/10 financial statements. The assessment has identified a number of areas for improvement in 2010/11, particularly in the context of reduced financial settlements, but overall, the results suggest that the council has a sound governance framework. The assurance and improvement plan assessed the council as having no significant risks in this area.

Scrutiny

77. Effective scrutiny is central to good governance, with a significant role for members in scrutinising performance, holding management to account on service delivery and supporting the reform and modernisation agenda.

78. The Audit and Performance Review Committee meets regularly to receive reports from internal and external audit and scrutinise performance. In October 2009, the committee approved a revised reporting framework to improve its scrutiny function with a particular focus on the single outcome agreement, and other key outcomes including 'Moray Performs' and corporate and policy initiatives. A detailed programme of 50 areas for scrutiny has been identified from the council's key outcomes, strategies and policies. It is too early to tell what impact this revised scrutiny framework will have on delivery of the council's key priorities and outcomes.

79. The committee is well attended and overall, complies with the expectations set out in CIPFA's guidance note *'Audit Committee Principles in Local Authorities in Scotland'.* Compliance was further enhanced during the year with the introduction of mechanisms to ensure that internal and external audit recommendations are implemented, and that reports from Audit Scotland's national study programme are considered and reviewed against the council's existing arrangements.

80. In early 2010 CIPFA published a series of briefing papers for Audit Committee members of public sector bodies. The content of these papers is currently being considered with a view to specifically addressing the issues raised at a future meeting of the Audit and Performance Review Committee.

Internal audit

81. 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. Each year we review the council's internal audit arrangements against CIPFA's revised Code of Practice for Internal Audit in Local Government 2006. Our review concluded that Internal Audit complied with the majority of the code during 2009/10.

82. Auditing standards encourage internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible. As part of our 2009/10 fee negotiations we agreed that internal audit would undertake the testing required to enable us to express an opinion on the financial statements for the following systems: payroll, accounts payable, cash income and banking, non domestic rates, council tax and housing and council tax benefits systems.

83. Our review of internal audit's work in these areas concluded that we could take reliance from the work undertaken. We will continue to work with internal audit to ensure that we make the most effective use of our limited audit resources in 2010/11.

Systems of internal control

84. In his 2009/10 Annual Report the Team Leader (Internal Audit) provided his opinion that, based on the internal audit work undertaken during the year, reasonable assurance can be given on the adequacy and effectiveness of the council's control environment during the year to 31 March 2010.

85. 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:

- budgetary control
- payroll
- accounts receivable
- non domestic rates
- cash income & banking
- housing and council tax benefits
- main accounting system
- accounts payable
- housing rents
- council tax
- treasury management

Prevention and detection of fraud and irregularities

86. At the corporate level, the council has appropriate arrangements in place to help 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. One member had their conduct referred to the Standards Commission in the last year and was found not to have contravened the councillor's code of conduct.

NFI in Scotland

87. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, 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. The NFI has generated significant outcomes for Scottish public bodies (£21 million during the 2008/09 NFI cycle and £58 million cumulatively up to end March 2010). If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

88. The most recent data matching exercise collected data from participants in October 2008 and the national findings were published by Audit Scotland in May 2010. The national report concluded that, 'The Moray Council made good progress with housing benefit matches and achieved significant outcomes from their 2008/09 benefits investigations. But other areas, including payroll matches, were not considered for a long time. The NFI is being treated mainly as a housing benefit fraud exercise, but it now has a much wider scope.'

89. Instructions for the 2010/11 NFI exercise were issued by Audit Scotland in June 2010 and participants should be preparing to provide the requested data by early October. The national report published in May 2010 included a self-appraisal checklist that all participants were recommended to use prior to NFI 2010/11. The council should use this checklist to identify areas where they can further improve the planning and follow-up processes for dealing with NFI matches.

Key risk area 3

Housing Benefit

90. From April 2008, Audit Scotland took over inspecting the housing and council tax benefit functions from the Benefit Fraud Inspectorate in Scotland. In July 2009, the findings from the risk assessment of the council's benefits service were reported to the Chief Executive and management team. The report concluded that the council is committed to delivering a quality benefits service and paying accurate benefit to its customers. The council developed an action plan in response to the risks identified in the report. Progress against this action plan will be reviewed as part of the current round of inspections.

Partnership working

91. Many council services are planned and delivered in partnership with other public, private and voluntary organisations, community groups and forums. These partnerships are of particular importance in tackling complex or cross-cutting issues. In addition, the council has a formal duty to initiate, facilitate and maintain a community planning process and ensure effective leadership within the Community Planning Partnership.

92. The council has well developed community planning structures and has worked closely with its community planning partners in developing its single outcome agreement. More needs to be done, however, to develop outcomes which have measurable targets. Progress is apparent in some areas but due to the lack of comprehensive publicly reported data and information on trends, the delivery of outcomes was assessed as an area of uncertain scrutiny risk in the assurance and improvement plan. As a result, we plan to undertake some focussed best value work in the coming year to examine the progress made by the council and its partners to measure outcomes and impact.

93. In February 2009 the council received a critical inspection report setting out the findings from a joint inspection of services to protect children and young people in the Moray Council area. The inspection highlighted the need to improve the effectiveness of the North East of Scotland Child Protection Committee. A follow-through inspection was undertaken by HMIe in June 2010 to evaluate progress made against the six main points for action resulting from the original inspection. This inspection found that, overall, good progress has been made in responding to the original report resulting in improvements in important areas such as information sharing, risk assessment and planning. Inspectors plan to revisit the council area during 2011/12 to conduct a joint inspection of services to protect children as part of the second cycle of child protection visits across Scotland.

94. The council received a report from the Scottish Housing Regulator during 2008/09, which graded its homelessness service as ‘fair’. Key areas identified as requiring attention were a heavy reliance on bed and breakfast accommodation, the length of time taken to secure permanent accommodation for homeless people, and the need to manage temporary accommodation better. The council has agreed a Homelessness Improvement Plan with the Regulator to address these areas and reports progress against this plan twice yearly to the Audit & Performance Review Committee. The Scottish Housing Regulator has requested that a report on progress made against the Homelessness Improvement Plan be submitted by the end of April 2011. In the meantime there remains a risk that the council and its partners will be unable to provide the level of service necessary to meet demand and comply with legislation on homelessness.

Community engagement

95. The council is committed to community engagement and has had a Consultation and Engagement Strategy in place since 2007. Whilst the council has some individual examples of good practice in customer focus and responsiveness, it has yet to develop a strategic or corporate approach to customer feedback. In addition, it has no information on customer satisfaction with council services. As a result, we assessed this as an area of high scrutiny risk in the assessment and improvement plan, and plan to ask the council to provide a self-evaluation of its progress in developing a more customer focused approach during 2010/11 for consideration by the Local Area Network as part of the shared risk assessment in year 3 (2012/13).

Outlook

96. Governance and accountability issues are likely to be prominent as the council's operating environment and economic position becomes more difficult and the development of working in partnership with others increases.

97. We recognise the challenges posed by the single outcome agreements. The Accounts Commission acknowledges that single outcome agreements are still at an early stage of development. At this stage in the evolution of this new approach to planning, we are interested in the processes rather than just the outcomes. Partnership working is critical to the council's success and this has been recognised by the council who have included its partners from the beginning of the single outcome agreement process. We are developing our approach to the audit of partnerships and will increasingly be looking at the contribution of partners as well as the council's own contribution to the delivery of outcomes.

Performance management and improvement

Introduction

98. We believe that an effective council has a clear and ambitious vision for what it wants to achieve for its communities. The vision is effectively promoted by the member and officer leadership of the council and supported by staff and partners. It is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council has a performance management culture which is embedded throughout the organisation, and a comprehensive performance management framework which is integrated with service planning and delivery.

Best value 2

99. Best value 2 (BV2) is the next phase of Best Value audit. Its approach has moved on significantly from the first phase, which provided a baseline for how Scottish councils are performing. BV2 audits are more proportionate and risk based being founded on a shared risk assessment process involving other inspectorates. They are more focused on impact and outcomes and designed to provide a more rounded view of partnership working in a local area, and the difference it is making. BV2 forms an important part of the wider scrutiny arrangements for councils in Scotland.

100. The Assurance and Improvement Plan (AIP) published in June 2010 set out the planned scrutiny activity for The Moray Council in the period April 2010 to March 2013. This includes a number of focused pieces of best value work covering leadership and direction (year 1), measuring outcomes and impact (year 2), and an assessment of 'Moray Performs' (year 3).

Vision

101. The council has a clear overall vision for the Moray area which is shared with its partners through the community plan and the single outcome agreement. Its aims and objectives are set out in these plans and cascaded down into individual service improvement plans. The single outcome agreement is at the centre of the council's planning framework.

Leadership and direction

102. In Summer 2010 Audit Scotland and HMIE undertook the year 1 scrutiny activity on leadership and direction set out in the Assurance and Improvement Plan. The objectives of the scrutiny work were to:

- evaluate the quality and effectiveness of local political leadership in Moray Council
- evaluate member commitment to their own development
- assess the extent to which members lead the equalities agenda
- in conjunction with HMIE, assess the council's progress in improving the strategic direction of the authority's work to ensure greater impact on all learners.

103. The findings from this work are currently being discussed with officers and a separate report will be issued in November 2010.

Performance management

104. The council has made significant progress in developing its performance management framework in recent years. A revised performance management framework, developed as part of the 'Moray Performs' modernisation programme, was approved in July 2009. The framework aims to reflect the council's service reporting and scrutiny needs in response to the single outcome agreement, Best Value 2 audit requirements and statutory performance indicators.

105. Service committees receive high level information focusing on the work of the service. Management information is still collected but not routinely reported to committee. In addition, the Audit & Performance Review Committee focuses on the scrutiny of the single outcome agreement and the key service outcomes which link to actions in the community plan, corporate plan and service improvement plans.

106. The council has adopted the Public Service Improvement Framework self-assessment tool, as part of the 'Moray Performs' project. The assurance and improvement plan concluded that the council's approach to self-evaluation is at a relatively early stage of development and as a consequence there were a number of areas where we identified additional scrutiny risk due to the lack of evidence of impact. We plan to undertake additional scrutiny activity throughout the duration of the plan to provide assurance that the council is developing its management information and making progress in delivering its outcomes and improved services.

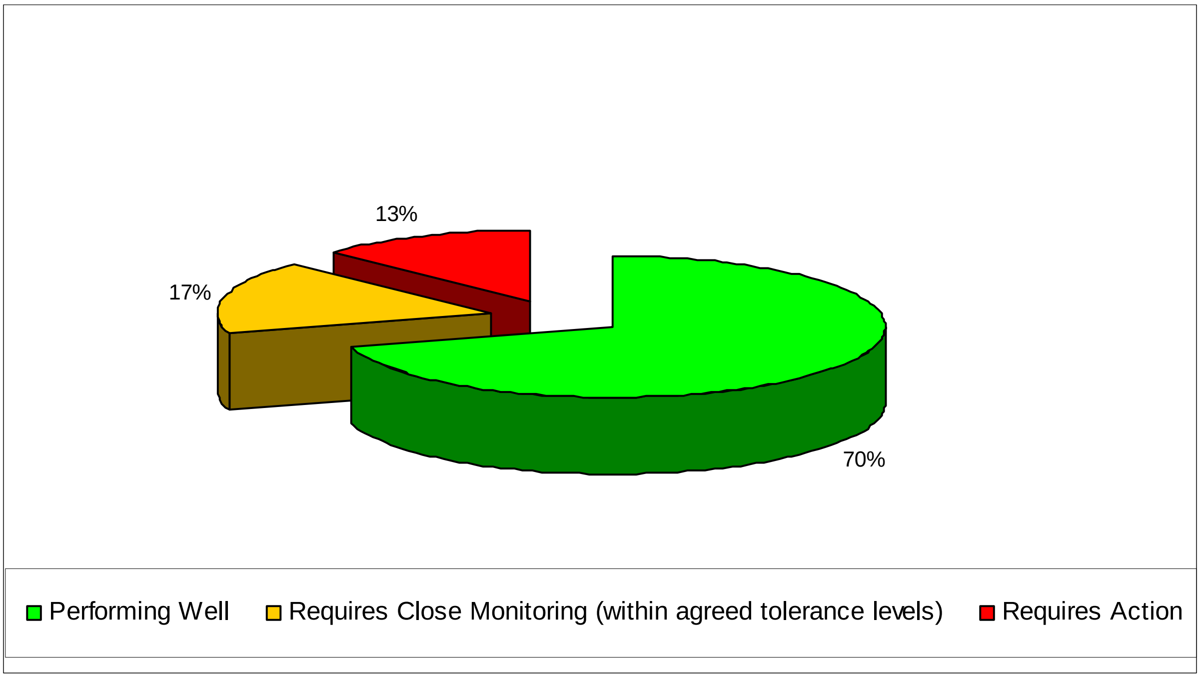
Overview of performance in 2009/10

107. The council's performance management software (covalent) is used to monitor progress against key actions within the Single Outcome Agreement. Reports on progress against the underlying milestones due for completion by 31 March 2010 are collated under five strategic themes. These are: Safer and Stronger, Wealthier and Fairer, Smarter, Greener, and Healthier. Of the 494 milestones due to be completed by 31 March 2010, 399 (81%) were completed, 30 (6%) were well advanced and the remaining 65 (13%) were not progressed as originally planned.

108. In addition, the council has identified 124 indicators to measure its performance against the 15 national outcome targets set out in the Single Outcome Agreement. As at 31 March 2010, 23 (18.5%) of these indicators could not be calculated as there is not data available for two out of the last three years. Of the remaining 101 indicators, 54% have improved, 31% have declined and 15% have stayed the same.

109. Service Committees receive quarterly reports on progress against the Service Improvement Plan, Services Outcomes and Service Standards. Using a 'traffic light' system, these reports set out, for each service, the number of performance indicators that were performing well (green), require close monitoring (amber), and require action (red). The following chart summarises the council's performance against its 2009/10 performance indicators.

Exhibit 5: Summary of the council's performance indicators 2009/10



110. Although the number of indicators varies between quarters, the overall performance is broadly static, with between 70% and 77% of indicators performing well, between 15% and 17% requiring close monitoring, and between 6% and 13% requiring action.

Statutory performance indicators

111. Another way of measuring council performance is through the statutory performance indicators (SPIs). These provide a consistent form of measurement for councils to review their performance over time and to make comparisons with other councils. Historically, The Moray Council has been one of the better performers in national comparisons with around 40% of its SPIs in the upper quartile, although performance varies across the organisation. The most recent national comparison (2008/09 data) shows that the council has 37% of its SPIs in the upper quartile.

112. The Accounts Commission has significantly reduced the range of statutory performance information that all councils must report. This reflects the developing scrutiny arrangements, single outcome agreements and the development of the Best Value audit regime. The council's SPI information is published on its website.

113. Arrangements for the collection and reporting of the 25 SPI's specified for 2009/10 were improved with the introduction of guidance for services detailing responsibilities and timetables; a SPI reporting template which required to be signed by the collator, checker and Head of Service to confirm that the indicator was calculated in accordance with the definition and guidance; and the requirement that supporting documents be submitted along with the PI proforma. In addition, Internal Audit provided an independent review of the completeness, accuracy and reliability of the specified SPIs. We did note, however, that the quality of explanations provided by services for significant variances in year on year performance were weak, particularly where performance had improved.

114. In addition to the 25 specified SPIs for 2009/10 the council is also required to publish local indicators which:

- demonstrate the council is securing best value
- assist stakeholders and other interested parties to compare performance both over time and between councils as appropriate.

115. The council has produced a matrix to demonstrate that it has local indicators in place to meet the above requirements, but has yet to identify which indicators it considers key to demonstrating best value and comparing performance over time. Instead, stakeholders and other interested parties have been directed to the 'Moray Performs' website which contains more than 800 local indicators. We do not believe that this complies with the expectations of the 2008 Direction. The council has agreed to select a range of information from its existing indicators to report alongside the specified SPIs for 2010/11.

Key risk area 4

Public performance reporting

116. The council is currently preparing its annual public performance report for publication by the end of October. The report will provide information on performance against the Scottish Government's five strategic objectives which form the basis of Moray Community Planning Partnership's single outcome agreement. Quarterly monitoring reports are also prepared against each of the actions and indicators set out in the single outcome agreement.

117. The council continues to use other approaches to report performance information to stakeholders. These include webcasting all committee meetings, displaying community care performance information on television screens at the local hospital and a direct web link to the local newspaper, the Northern Scot. A 'Moray Performs' website has also been developed to inform the public how the Community Planning Partners are performing against their priorities, including those set out in the single outcome agreement.

Change management and efficiency

118. In 2008, the council approved an ambitious modernisation programme, 'Moray Performs', based on the 'Virginia Performs' model used by the Scottish Government. The programme is being developed under the following six key themes:

- community planning and the single outcome agreement
- performance management framework
- public service improvement framework
- workforce planning
- designing better services
- corporate governance arrangements.

119. A member of the Corporate Management Team has taken responsibility for each of the themes and an officer/member project board has been set up to monitor progress. More information on the individual themes is included within the use of resources, governance and accountability and performance management and improvement sections of this report. We plan to undertake some focused Best Value work around the 'Moray Performs' project in year 3 to provide assurance that the council is identifying and managing improvement on an ongoing basis.

120. The Designing Better Services project is a key part of the council's response to the financial challenges it faces in the coming years. It aims to modernise the delivery of the council's services and release annual efficiency savings of £4.2 million. The project involves four large, complex and challenging projects covering property, procurement, vehicle utilisation and customer services. This latter project will transfer all customer services to a dedicated functional unit, and develop standardised and managed operational support functions within all service areas.

121. The council has a number of other significant projects underway, such as the major programme for flood alleviation and investment in two new schools through a public private partnership scheme. 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. Although the council has previously increased its capacity to deliver change, these projects together with the 'Moray Performs' programme will continue to stretch the council's capacity to deliver all of its 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'.

Key risk area 5

Risk Management

122. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.

123. The council continued to develop its risk management arrangements during 2009/10. In January 2010, the Corporate Risk Register was updated to align it with council priorities, and the 'Moray Performs' Action Plan to establish a clear link between the Council's strategic plans and the controls put in place to mitigate the risks that could impact on the delivery of these plans. Work is ongoing to update strategic and operational risk registers within services. This work is scheduled for completion by December 2010 to enable any risks identified to be addressed in the 2011/12 service improvement plans.

124. The Corporate Management Team has acknowledged the need to further improve the council's risk management arrangements and has agreed to align these with work on emergency planning and business continuity. It is hoped that this approach will ensure progress is maintained towards fully embedding these functions into day to day departmental management arrangements. More work is also required to develop business continuity plans at a service level, and to test and review their effectiveness.

Key risk area 6

Outlook

125. Effectively managing the council's performance will remain a key challenge as council budgets are reduced. It is unlikely that the council will be able to maintain or improve current performance levels across all of its existing services, and it will need to make difficult decisions about what areas are seen as priorities and in which areas service levels will need to be reduced. Crucially, the council will need to use its performance information to understand and manage the effect of spending decisions.

126. The long term and complex nature of many of the outcome targets established through the single outcome agreement process also poses many challenges for performance management. In responding to short term and more structural funding difficulties, the council and its partners will need to be clear how they will continue to contribute to shared objectives and priorities – maximising impact from the available funds.

Appendix A

External audit reports and audit opinions issued for 2009/10

Title of report or opinion	Date of issue	Date submitted to Audit & Performance Review Committee
Annual Audit Plan	31 March 2010	28 April 2010
Shared Risk Assessment: Assurance & Improvement Plan 2010-13	30 June 2010	Presentation to full council 7 July 2010
Report on financial statements to those charged with governance	7 September 2010	Submitted to full council 15 September 2010
Audit opinion on the 2009/10 financial statements	17 September 2010	To be submitted to full council 10 November 2010
Assurance on Internal Controls 2009/10	30 September 2010	27 October 2010

Appendix B: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	31	**Adoption of International Financial Reporting Standards (IFRS)** The full introduction of IFRS for the 2010/11 accounts is a significant change to local government accounting. While the council has been making good initial progress in this area, much still needs to be done if IFRS compliant accounts are to be prepared in time. ***Risk: the council will be unable to produce IFRS compliant financial statements within the required timescales.***	The council's 2009/10 accounts will be restated under IFRS accounting requirements and submitted to external audit with supporting working papers. A timetable is in place for the production of IFRS compliant accounts for 2010/11.	Chief Financial Officer Chief Financial Officer	17 December 2010 30 June 2011
2.	69 & 70	**Procurement** The council was assessed as non-conforming in the Scottish Government's procurement capability assessment. The council recognises the need to significantly improve its procurement processes. ***Risk: procurement approaches do not deliver best value for money.***	The procurement capability assessment was reported to Policy and Resources Committee on 3 August 2010. The target for improvement is to move into the next quartile at the next review.	Chief Financial Officer	31 March 2011

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3.	86 & 87	**National Fraud Initiative (NFI)** The council made good progress with housing benefit matches and achieved significant outcomes from their 2008/09 benefits investigations. But other areas, including payroll matches, were not considered for a long time. The NFI is being treated mainly as a housing benefit fraud exercise, but it now has a much wider scope ***Risk: fraud and other irregularities go undetected.***	This matter was reported to Audit & Performance Review Committee on 23 June 2010 and it was noted that the council will continue to work with Audit Scotland to identify further opportunities for fraud detection. The most recent return was submitted to Audit Scotland in October 2010.	Chief Financial Officer	Ongoing
4.	115	**Statutory Performance Reporting** The current approach to public performance reporting does not provide an accessible account of the council's overall performance. ***Risk: stakeholders are overwhelmed by the performance information provided and are unable to tell whether the council is securing Best Value or not.***	A reduced range of key performance measures for the council will be identified for publication.	Corporate Management Team	31 March 2011

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5.	121	**Delivering savings and improvement** The Designing Better Services Project is a key part of the council's response to the financial challenges it faces – aiming to modernise the delivery of services and release significant savings. The council has a number of other significant projects under way including 'Moray Performs', flood alleviation and schools PPP. Although the council has previously increased its capacity to deliver change, this ambitious programme is likely to stretch the council's capacity to deliver all of its planned projects at the pace required. ***Risks: planned projects do not deliver the expected improvements or savings.*** ***The council is unable to meet its expenditure commitments from available income.*** ***Available funding is not directed effectively to priorities or used to provide best value.***	The Designing Better Services Programme is due to be reviewed and updated. A report will be submitted to the programme board and Policy and Resources Committee. Project management arrangements are in place for the PPP schools and the flood alleviation schemes. The budget situation and the outcome of the Defence Review will impact on workloads within the council and priorities will need to be amended accordingly. A cross party working group has been established to review management structures.	Chief Financial Officer Corporate Management Team	28 February 2011 Ongoing
6.	124	**Risk Management** The corporate management team has acknowledged the need to further improve the council's risk management arrangements and has agreed to align these with work on emergency planning and business continuity. ***Risk: risk management arrangements are not fully effective.***	Strategic and operational risk registers to be updated. Risk and resilience forum to continue to monitor and support key developments.	Corporate Management Team Corporate Management Team	31 March 2011 Ongoing (progress review in March 2011)