

# Aberdeenshire Council

## Annual report on the 2010/11 audit



Prepared for councillors of Aberdeenshire Council and the Controller of Audit  
October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Key messages

## 2010/11

We have given an unqualified opinion on the financial statements of Aberdeenshire Council for 2010/11. The accounts are now available for publication and are an essential means by which the council accounts for its stewardship of public money.

Our audit of the accounts identified a number of accounting issues which required to be resolved before the accounts were certified. The majority of these related to adjustments required as a result of the introduction of International Financial Reporting Standards (IFRS). In our opinion, these would have been resolved prior to the preparation of the 2010/11 accounts had the council met its original targets for the preparation of the restated opening balance sheet and 2009/10 accounts. There was also significant delay in processing the agreed adjustments and errors were identified in the way the adjustments were made. As a result, the audit and finance team was under significant pressure to ensure that the accounts were certified by the target date of 30 September.

In 2010/11, the council spent £912.9 million on the provision of public services, with £847.4 million on revenue services and the remainder on its capital programme. In delivering these services, the council generated an accounting surplus of £24.5 million, due to the change in actuarial assumptions following the UK Government's decision to link future pensions' increases to the consumer price index (CPI) rather than the retail price index (RPI). Adjustments are, however, required to this accounting surplus to reflect the statutory funding arrangements in place and, once these are taken into account, the financial statements show that the council decreased its cash backed reserves by £3.4 million during 2010/11.

The general fund increased by £12.9 million to £29.2 million as at 31 March 2011. The council aims to maintain a general fund working balance of £7 million. At 31 March 2011, the council had earmarked amounts totalling £11.8 million, leaving an unallocated general fund balance of £17.4 million which is £10.4 million in excess of its £7 million target. The full Council agreed in June 2011 that £1.7 million of this balance should be used for ring fenced funding carried forward to 2011/12, and agreed to transfer £8.7 million to earmarked balances.

The 2010/11 financial statements show capital expenditure of £64.7 million (net of PFI additions) which was £3.2 million less than budget. The majority of this slippage relates to new house building projects which will be incorporated into the 2011/12 housing capital programme.

The council has been proactive in preparing financial plans and identifying savings to reflect reduced government settlements. In 2010/11 the council reported an underspend of £10.6 million against budget, although out of area placements were overspent by £3.3 million. This continues to be an area of significant financial pressure for the council and tighter management and budgetary controls have been put in place to help address this.

Audit Scotland's specialist benefits team carried out a second stage focused audit of the council's benefits service, resulting in the submission of a S102(1) Controller of Audit Report to the Accounts Commission in July 2011. The council has prepared an action plan to address all of the issues raised. A follow up report on progress made will be prepared for the Accounts Commission within approximately 12 months.

Since 2007, the council has made positive progress and improved performance in 31 of its strategic priorities with performance in 1 strategic priority (providing quality housing) showing no change and performance declining in the remaining strategic priority (maintain roads infrastructure). The Community Planning Partnership has identified 105 indicators to measure its performance against the 15 national outcome targets set out in the Single Outcome Agreement. As at 31 March 2011, 49 (47%) of these indicators were unavailable or were new and had no comparative data available. Of the remaining 56 indicators, 64% have improved, 9% have declined and 27% have stayed the same.

## Outlook

Looking ahead it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The recently published Scottish Spending Review 2011 indicates that significant budget reductions will continue to be required over the next few years. While Aberdeenshire Council has responded well to the financial pressures of recent years, significant challenges remain if the council is to deliver its service objectives while achieving a balanced budget. Current estimates indicate that the council will require to make savings of £25.8 million in 2012/13, £9.2 million in 2013/14 and £18.4 million in 2014/15. Continuing to deliver vital public services with reducing budgets will be a significant challenge for the council.

The timing of Aberdeenshire Council's next best value audit (BV2) will be determined by a risk assessment performed by the Local Area Network (LAN). The Assurance and Improvement Plan (AIP) update 2011-14 noted that there continued to be uncertain scrutiny risks due to gaps in performance information for a number of the single outcome agreement's local outcomes, and uncertainty over the effectiveness of the council's new corporate improvement and performance management framework in delivering improved outcomes for service users. The progress made in implementing the council's best value improvement plan actions and the need for the council to demonstrate their impact on service delivery was also highlighted as an area of uncertain scrutiny risk. Given these uncertainties, the LAN scheduled a BV2 audit for 2012/13. As part of our 2010/11 audit, we reviewed the council's progress against these areas of uncertain scrutiny risk and found limited evidence that progress against the best value improvement plan and corporate improvement plan is being regularly monitored. Officers acknowledge that the council needs to further evidence its progress against these plans, including reporting to councillors. The LAN will update the shared risk assessment, and consider how this impacts on the timing of the next BV audit, at their meeting in December.

# Introduction

1. This report summarises the findings from our 2010/11 audit of Aberdeenshire Council. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements), conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. A number of reports were issued in the course of the year in which we made recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead focus on the financial statements and any significant findings from our wider review of Aberdeenshire Council.
3. 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. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Councillors should ensure that they are satisfied with the proposed management actions and have a mechanism in place to assess progress.
4. This report is addressed to councillors and the Controller of Audit and should form a key part of discussions with the Scrutiny and Audit Committee. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the council. The information in this report may be used to prepare the annual overview of local authority audits report later this year. The overview report is published and presented to the Local Government and Communities Committee of the Scottish Parliament.
6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of internal control.

# Financial statements

7. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
  - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
  - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, statement of assurance and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit of the financial statements.

## Audit opinion

10. We gave an unqualified opinion that the financial statements of Aberdeenshire Council for 2010/11 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2011 and of the income and expenditure for the year then ended. The council's two statutory trading organisations made aggregate surpluses in the three years to 31 March 2011 and thus met the statutory requirement to break even over the three year rolling period.

## Legality

11. Through our planned audit work we consider the legality of the council's financial transactions. In addition, the Head of Finance has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's Strategic 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 councillors' attention.

## Statement of assurance

12. We are satisfied with the disclosures made in the statement of assurance and the adequacy of the process put in place by the council to obtain the necessary assurances. The statement of assurance complies with the requirements of *Delivering Good Governance in Local Government*, published jointly by CIPFA and SOLACE.

## Remuneration report

13. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant council officers and elected councillors.

## Accounting issues

14. 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 2010 Code). We are satisfied that the council's 2010/11 audited financial statements are in accordance with the 2010 Code.

## Accounts submission

15. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. A comprehensive working papers package was provided to the audit team a week later. The accounts were certified by the target date of 30 September 2011 and are now available for presentation to councillors and publication.
16. Last year we reported that there was a significant delay in processing the agreed audit adjustments which impacted on the time taken to agree the revised accounts and thus complete the audit of the financial statements. This year we encountered a similar delay. Our work on the unaudited accounts was concluded on 12 September and the adjustments that required to be made to the accounts as a result of our audit were agreed at that point. Amended accounts were not received until 26 September, significantly later than the date agreed. Errors were then identified in the way adjustments had been made, requiring further corrections. While ultimately the accounts were certified by the deadline set, this caused undue pressure on the both the audit and finance teams. It also meant that the audit of the Whole of Government Accounts return was unable to be completed by the deadline of 30 September set by the Scottish Government

**Refer action plan no. 1**

## Presentational and monetary adjustments to the unaudited financial statements

17. The council adjusted the financial statements to reflect the majority of our audit findings. These adjustments primarily related to reclassifications of amounts within the balance sheet and comprehensive income and expenditure statement and did not have any impact on the general fund balance of the council. A number of presentational amendments were also processed to improve the disclosures within the accounts.



18. As is normal practice, the Head of Finance decided not to amend the financial statements for a number of immaterial misstatements and these were set out in our ISA260 'Communication of Audit Matters to Those Charged with Governance' report which was submitted to the Scrutiny and Audit Committee on 21 September 2011. Had adjustment been made, then the Net Surplus on the Comprehensive Income & Expenditure Statement would have decreased by £0.387 million and the net assets in the balance sheet would have reduced by £1.272 million. There would have been no impact on the general fund balance. These amounts are not material to the financial statements and we agree with the Head of Finance's decision not to amend for them.

## Preparations for International Financial Reporting Standards (IFRS)

19. 2010/11 was the first year that the local authority accounting code was based on International Financial Reporting Standards (IFRS). The move to an IFRS based Code from a UK Generally Accepted Accounting Principles (UK GAAP) based Statement of Recommended Practice (SORP) required a series of complex and resource intensive changes in accounting policy as part of the preparations for, and audit of, the 2010/11 financial statements. Although there were no formal deadlines in advance of 30 June 2011 when the 2010/11 accounts were due, the early production of a restated opening balance sheet and shadow accounts was accepted good practice. Most local authorities aimed to produce the opening IFRS balance sheet in advance of the 2009/10 closedown to enable their auditors to review the adjustments in advance of the 2009/10 audit, and to produce the restated 2009/10 financial statements (the shadow accounts) as soon as possible after completion of the 2009/10 audit.
20. Aberdeenshire Council experienced significant slippage in its timetable for the production of both the restated opening balance sheet and the shadow accounts. At our planning meeting with the Head of Finance in January 2011, we expressed our concerns about the lack of progress the council had made and in March 2011, we wrote to advise the Head of Finance that *'Given the continuing delays and lack of firm deadlines, there is now a significant risk that the council will be unable to complete the shadow accounts in sufficient time to enable the results of our audit to influence the preparation of the 2010/11 financial statements. As a result, there is an increased risk that the 2010/11 financial statements will not comply with the requirements of IFRS and that this may result in a qualification to the independent auditor's opinion provided on these statements. In addition, we will now struggle to complete the outstanding work within our existing staff resources and this is likely to lead to an increase in the fee charged for the 2010/11 audit.'*
21. We received the majority of the 2009/10 restated financial statements in late April and early May 2011 but we did not receive the associated notes until the 2010/11 financial statements were submitted for audit in June 2011. As a result, we had to audit the restated 2009/10 disclosures and 2010/11 financial statements simultaneously.
22. The key issues arising from our audit of the council's IFRS adjustments are set out in the following paragraphs.

### Employee benefits accrual

23. Under IFRS, organisations are required to provide for liabilities arising from employee benefits payable at the balance sheet date. This includes items such as untaken annual leave and flexitime. Where organisations do not have the information required to accurately and fully assess the level of the liability, it is acceptable to sample test a proportion of employees and extrapolate the results across the remaining employees. In order for this approach to be accepted, however, the sample used must be of sufficient size and should be representative of all significant employee groups.
24. In March 2011, we raised questions on how the holiday pay accrual had been calculated including requesting evidence that the sample chosen was representative of all significant employee groups. The finance team reviewed their methodology for the calculation of the holiday pay accrual and as a result increased the 2010/11 figure by £2.8 million (21%). The council has agreed to apply the methodology used to calculate the potential liability in relation to employee benefits as at 31 March 2011 to future years' financial statements.

### Leases

25. There is a requirement under IFRS for organisations to review all lease agreements to ensure that they are classified properly as either an operating or finance lease and that they are accounted for accordingly. In response, the council reviewed a sample of lease agreements to ensure that they were classified appropriately. This identified that a significant proportion had to be reclassified, resulting in the asset being removed from the council's balance sheet.
26. The council did not extend its sample based on these results. We are of the view that had a larger sample been chosen, more leases would have required to have been reclassified. For the purpose of forming our opinion on the financial statements, we calculated that the maximum overstatement of assets on the council's balance sheet due to the misclassification of leases was £0.9 million. This amount was not material to the financial statements and so did not impact on our opinion. The council has agreed to review its approach to reviewing lease agreements in 2011/12 to ensure that they are correctly classified within the 2011/12 financial statements.

### Delays in responding to queries and agreeing audit adjustments

27. We also encountered delays in obtaining responses to queries and receiving revised accounts disclosures due to the council's over-reliance on a key member of staff. In particular, questions on how the 2009/10 restated notes tied up to the asset register had to wait until the key member of staff returned from annual leave.

#### Refer action plan no. 1

28. We are of the view that had the shadow accounts been prepared by the original target date, these issues would have been resolved early in 2011 and that there would have been less impact on the audit of the 2010/11 financial statements, and less pressure on both the finance and audit teams. The audited financial statements are IFRS compliant.

## Revaluation reserve

29. For the third year in succession the write down of the revaluation reserve included in the unaudited accounts was based on an incorrect calculation by the asset register system. This required a correction of £5.5 million to be made between the revaluation reserve and the capital adjustment account within the audited accounts. This issue was highlighted in both 2008/09 and 2009/10 and the council assured us that corrective action would be taken. It is, therefore, very disappointing that no checks were undertaken prior to submission of the financial statements for audit to ensure that correct figures were calculated for 2010/11.

**Refer action plan no. 1**

## Pension costs

30. Aberdeenshire Council is a member of the North East of Scotland Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities of the pension fund in the balance sheet. The valuation at 31 March 2011 provided by the scheme's actuaries reduced the council's share of the deficit from £266.7 million last year to £222.5 million this year. This large decrease is primarily due to a change in one of the financial assumptions, with future pensions' increases now linked to the consumer price index (CPI) and not the retail price index (RPI). The actuary has recommended that the council's contributions should be 19.3% of pensionable pay in 2011/12.

## Group financial statements

31. The diversity of service delivery vehicles used by local authorities means that consolidated group financial statements are required to give a true and fair view of the activities of the council. To enable the preparation of group financial statements, councils are required to consider their interests in all entities, including companies, joint ventures and statutory bodies, such as police, fire and valuation boards.
32. The council consolidated the results of two subsidiaries (Archaeolink and Scotland's Lighthouse Museum) and four associates (Grampian Joint Police Board, Grampian Joint Fire and Rescue Board, Grampian Valuation Joint Board and NESTRANS) into the group financial statements. The overall effect of inclusion of these group entities together with the common good and trust funds is to reduce net assets by £260.4 million, mainly due to the inclusion of Joint Board pension liabilities.
33. Following the decision by the Trustees to close Archaeolink in its current form, the 2010/11 financial statements were revised to include the necessary post balance sheet event disclosures. Work is currently ongoing to prepare all of the notifications required to formally wind up the Trust. Archaeolink's closure is not expected to have any material financial impact on the council.

### Trust funds

34. Aberdeenshire Council has 40 registered charitable trusts. Charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006 meaning a full set of financial statements is required for each trust fund. However the Office of the Scottish Charities Regulator (OSCR) has deferred full implementation until 2013/14 allowing the council to rely on its existing disclosures for trust funds in the council's financial statements supplemented with additional working papers.
35. OSCR's feedback on last year's submissions from each local authority allocates councils to one of four categories, fully compliant (0 councils), above average (2 councils), average (20 councils) and below average (8 councils). Aberdeenshire Council's submission fell into the 'average' category and the council is currently reviewing arrangements to enable full compliance by 2013/14.
36. Last year we reported that the council was considering options for reorganising its existing charities. To date, little progress has been made with amalgamating these trusts due to lack of finance and legal and governance staff resources. The council still intends to progress this once resources allow.

### Common good fund

37. In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued guidance covering the common good fund. The council complies with this guidance as it prepares a separate disclosure in the council's financial statements and the assets are separately identified in the council's asset register.

## Outlook

### Carbon Trading

38. 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 has a Sustainability Sub-Committee where energy issues are discussed and this sub-committee monitors the council's Climate Change Action Plan 2011-2015, which was approved by the Policy and Resources Committee in April 2011. The council's 2011/12 revenue budget includes an amount of £0.6 million to cover the purchase of carbon allowances during 2011/12.

### Audit appointment for 2011/12

39. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and councillors for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) Deloitte will be the appointed auditor for Aberdeenshire Council.

# Financial position

40. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
41. Auditors consider whether audited bodies have established adequate arrangements and examine:
  - financial performance in the period under audit
  - compliance with any statutory financial requirements and financial targets
  - ability to meet known or contingent, statutory and other financial obligations
  - responses to developments which may have an impact on the financial position
  - financial plans for future periods.
42. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

43. In 2010/11, the council spent £912.9 million on the provision of public services, with £847.4 million on revenue services and the remainder on its capital programme. In delivering these services, the council generated an accounting surplus of £24.5 million, due to the change in actuarial assumptions following the UK Government's decision to link future pensions' increases to the consumer price index (CPI) rather than the retail price index (RPI). Adjustments are, however, required to this accounting surplus to reflect the statutory funding arrangements in place and once these are taken into account the financial statements show that the council decreased its usable (cash backed) reserves by £3.4 million during 2010/11.

## Budgetary control

44. The budget for 2010/11 was based on Band D council tax of £1,141, with a planned contribution of £2.7 million from the general fund working balance. Overall, actual expenditure was £10.6 million less than budget, with significant underspends reported by all services except for out of area placements which were overspent by £3.3 million. This continues to be an area of significant financial pressure for the council and tighter management and budgetary controls have been put in place to help address these. The reasons for the net underspend are set out in the Revenue Budget Outturn report presented to councillors in September. These include proactive management of budgets across all services, early achievement of some savings and management of staff vacancies and other costs.

## Financial position

45. Exhibit 1 shows the balance in the council's funds at 31 March 2011 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewals fund to finance expenditure incurred in repairing, maintaining, replacing and renewing assets.

### Exhibit 1: Reserves and Funds

Description	31 March 2011	31 March 2010
	£ million	£ million
General Fund	29.163	16.291
General Fund - Housing Revenue Account balance	5.033	19.772
Capital Receipts Reserve	0.696	0.699
Repair and Renewals Fund	0.980	3.173
Capital Fund	5.956	5.919
Insurance Fund	1.119	1.219
Capital Grants Unapplied Account	1.235	0.490
<b>Total</b>	<b>44.182</b>	<b>47.563</b>

Source: Aberdeenshire Council 2010/11 financial statements

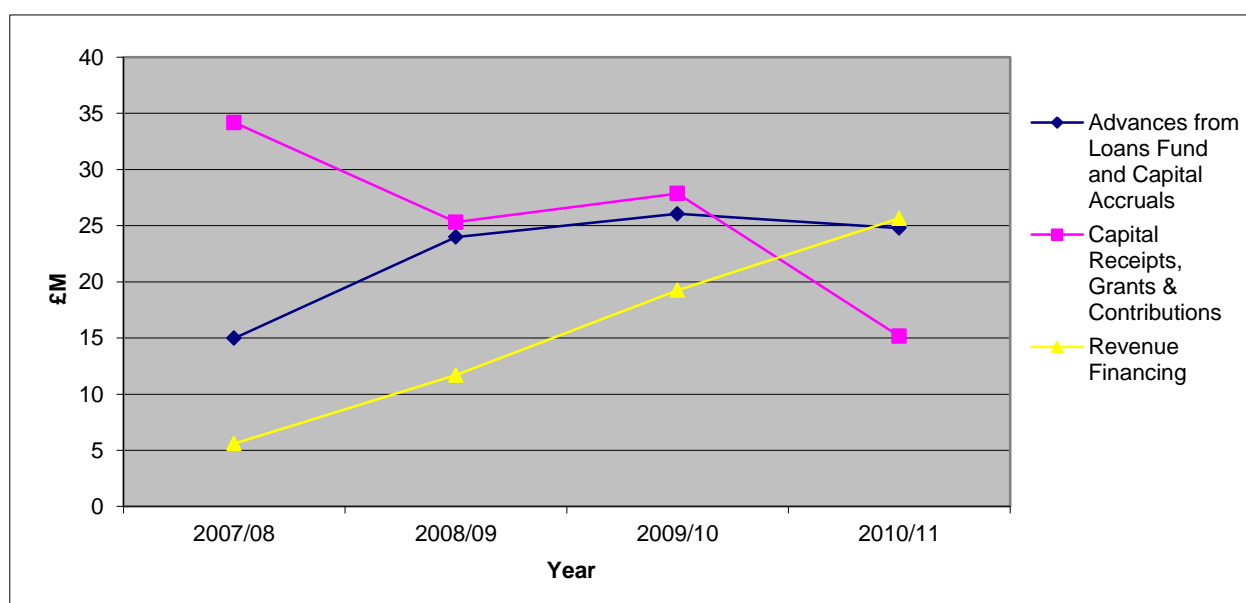
46. The general fund increased by £12.9 million to £29.2 million as at 31 March 2011. The council aims to maintain a general fund working balance of £7 million. At 31 March 2011, the council had earmarked amounts totalling £11.8 million, leaving an unallocated general fund balance of £17.4 million which is £10.4 million in excess of its £7 million target. The full Council agreed, in June 2011, that £1.7 million of this balance should be used for ring fenced funding carried forward to 2011/12, and that, of the remainder, £3 million should be transferred to the Winter Maintenance and Other Emergencies Fund and £5.7 million to the Invest to Save Fund.
47. In contrast, the HRA balance reduced by £14.7 million during the year due to the decision to use HRA earmarked reserves to fund capital expenditure as an alternative to borrowing. This strategy, which has been used for two years, has generated substantial savings for the council by reducing capital financing costs.

48. A suite of financial indicators has been developed for councils. The indicators assist in evaluating the council's financial stability and the affordability of financial plans. They also demonstrate the effectiveness of the financial management arrangements. Audit Scotland is compiling the financial indicators for possible inclusion in the Local Government Overview Report for 2010/11. Once compiled, the indicators will be issued to each individual council for their consideration.

## Capital investment and performance

49. The 2010/11 financial statements detail capital expenditure of £64.7 million (net of PFI additions) split between the housing programme and the general services programme. The housing capital outturn for 2010/11 was £25.8 million against a budget of £30.6 million, an underspend of £4.7 million. This mainly relates to project slippage in new house building projects due to the severe winter weather and external delays in the processing of payments. This slippage will be incorporated into the 2011/12 housing capital programme.
50. The general service capital outturn for 2010/11 was £38.9 million against a revised budget of £37.4 million, representing an overspend of £1.5 million. Within this overspend, there were, however, underspends due to major delays on a number of projects which were more than offset by accelerated spend and overspends on other projects. The reasons for the variances against budget are set out in the Non-HRA Capital Budget Final Monitoring report presented to councillors in September 2011.
51. The trend in sources of funds for capital investment over the last four years is set out in Exhibit 2. This shows a decline in capital receipts, government grants and other contributions received in the year due to the significant reduction in government finance received in 2010/11. The increase in revenue financing reflects the decision to continue to use earmarked HRA reserves to fund capital expenditure in 2010/11.

**Exhibit 2: Sources of finance for capital expenditure 2007/11**



## Treasury management

52. As at 31 March 2011, Aberdeenshire Council held cash and temporary investments totalling £25.4 million (£14.8 million at 31 March 2010). The council's external borrowing has increased by £26.8 million to £383.9 million as at 31 March 2011.
53. The council has been pro-active in its approach to treasury management and has not suffered any adverse effects from the economic situation during 2010/11. However, as a result of the economic downturn, the credit ratings of many of the financial institutions used previously by the council to invest its cash balances, now fall outwith the criteria of the council's investment policy. This, combined with the continuing low level of bank interest rates, has led to the adoption of a strategy of holding reduced cash balances rather than taking out additional borrowing.

## Financial planning

54. The council has been proactive in preparing financial plans and identifying savings to reflect reduced local government settlements. As part of the 2011/12 budget preparations, the council hosted a series of community 'Budget Briefing' events across Aberdeenshire with local community representatives to provide communities with more information about the budget and to discuss ways in which the local community can work in partnership with the council to more effectively deliver services.

## Asset management

55. Effective management of council assets is essential to help the council achieve its objectives and priorities, and get best value from its reducing resources. The council has a strategic approach to capital planning, including a corporate asset management plan which incorporates the council's capital plan for the fifteen year period (2010-2025). Both plans include clear links to the council's strategic priorities. The council's capital plan is updated annually to cover the next fifteen years. The capital plan for 2011-2026 highlights that the council intends to invest £796.8 million in its assets over the period.
56. The council has recently approved an office accommodation strategy to ensure the effective and efficient delivery of front line services. This strategy requires rationalisation of the existing office portfolio from 98 facilities to 72 facilities over the next two years, followed by a further rationalisation from 72 facilities to 53 facilities thereafter; the phased refurbishment of Gordon House commencing 2012/13; and the continued phased refurbishment of Woodhill House. The council anticipates that annual savings of £0.55 million will be realised when the office portfolio has been reduced to 72 facilities, and that these will increase to £0.92 million once the portfolio is reduced to 53 facilities.



## Procurement

57. The Accounts Commission and Auditor General for Scotland published a joint report, 'Improving public sector purchasing', in July 2009 which examined the progress and impact of the Public Procurement Reform Programme. The report established that there was potential for the public sector to buy goods and services more efficiently and deliver more significant savings through increased collaboration and better management. It also highlighted the need for greater assurance on the quality of purchasing practice in public bodies.
58. In 2009, the Scottish Government introduced a new assessment tool - the procurement capability assessment (PCA) - to monitor public bodies' progress in adopting good purchasing practice and as a basis for sharing best practice and promoting continuous improvement across the public sector. To date, there have been two rounds of PCA completed.
59. The council operates a Central Procurement Unit with Aberdeen City Council and in 2010 both councils scored 51% which is classed as 'improved performance' and demonstrates improvement on the 2009 score of 42%. Areas of noticeably stronger performance included collaboration (61%), procurement strategy and objectives (67%), people (62%) and defining the supply need (60%). The weakest area of performance was in contract and supplier management (22%).
60. During 2010/11, we undertook a high-level review of the council's response to the recommendations included in the 2009 Audit Scotland report in order to assess how well it is doing in ensuring it can demonstrate value for money when purchasing goods and services. We concluded that councillors and officers are committed to improving procurement practices but noted that reports on procurement performance are submitted as Information Bulletins and so councillors are not scrutinising performance in this area as these are not discussed in Committee meetings. The council achieved £2.8 million of procurement savings in 2010/11.

## Workforce reduction

61. Reduced local government settlements have implications for the council's workforce with reduced spending on staff a key component of the way in which the council is responding to the challenges it faces. The council has estimated that it needs around 900 fewer staff (full-time equivalent) over the next two financial years in order to deliver its package of sustainable budget reductions. This equates to approximately 10% of its workforce. Action has already been taken by the council to manage vacancies, and reduce levels of overtime and the use of agency staff.
62. As at 31 March 2011 53 staff had had their contracts terminated by the council at a total cost of £0.9 million. In addition, a provision of £1.6 million was made in the 2010/11 financial statements for voluntary severance scheme payments to be incurred in 2011/12. The council has advised that steps will be taken to minimise the number of compulsory redundancies, including the cessation of temporary contracts, voluntary severance in areas where services are being reduced and voluntary reduction in contracted hours as well as redeployment and re-skilling. It is estimated that the council will save around £1 million per annum from this workforce reduction.

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## Outlook

### 2011/12 budget

63. The council, like all public sector organisations, faces a very challenging financial climate. Budget savings required in 2011/12 are far in excess of those required in previous years and this requires strategic planning and the implementation of sustainable measures to balance the budget, supported by rigorous monitoring.
64. In November 2010 the council estimated that £27 million savings would be required to balance the 2011/12 budget. The council's 2011/12 budget, approved on 10 February 2011, included additional savings of £1.8 million brought forward from 2012/13 to balance the budget. The budget reduction measures set out within the budget were extremely detailed and included removal of pay inflation (£4.7 million), rescheduling of existing debt (£1 million) and improved procurement practices (£3 million).

### 2011/12 budget reporting

65. The 2011/12 revenue budget monitoring report (to 30 June 2011) predicts a forecast underspend of £1.5 million as at 31 March 2012 with large underspends projected in relation to permanent teachers' costs (£1.3 million) and capital financing charges (£0.7 million). Significant overspends are forecast in relation to building repairs and maintenance (£0.9 million) and supply teachers' costs (£1.0 million). Both of these areas are being actively managed within each service department to mitigate the risk of overspends. The report also highlights the impact that increased energy costs may have on forecast expenditure.

### Financial forecasts beyond 2011/12

66. Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The recently published Scottish Spending Review 2011 indicates that significant budget reductions will be required in these years. The council has shown a good understanding of the financial pressures it faces with current estimates requiring an additional £25.8 million of savings in 2012/13, £9.2 million in 2013/14 and £18.4 million in 2014/15. Continuing to deliver vital public services with these reducing budgets will be a significant challenge for the council.

**Refer action plan no. 2**

# Governance and accountability

67. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
68. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
69. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
  - corporate governance and systems of internal control
  - the prevention and detection of fraud and irregularity
  - standards of conduct and arrangements for the prevention and detection of corruption.
70. In this part of the report we comment on key areas of governance.

## Corporate governance

### Scrutiny and audit committee

71. Effective scrutiny is central to good governance, with a significant role for councillors to scrutinise performance, hold management to account and support the modernisation agenda. The Scrutiny and Audit Committee meets regularly to receive reports from internal and external audit. The committee complies with the majority of the expectations set out in CIPFA's guidance note '*Audit Committee Principles in Local Authorities in Scotland*'.
72. The committee also undertakes investigations into areas of concern. Involvement in these investigations helps councillors to increase their understanding of the concepts of scrutiny and audit as well as the functions and operation of the council. Since 2003, the Scrutiny and Audit Committee has produced 19 reports on a wide range of topics and has recommended changes to improve council services. The Committee receives six-monthly updates of progress made in implementing the recommendations made.

73. Last year we reported that membership of the Scrutiny and Audit Committee had changed significantly since the May 2007 elections and noted that this had impacted on the committee's progress with its investigations. The membership of the committee has been relatively stable over the last 12 months and this has enabled the committee to conclude two of its outstanding investigations. Plans are in place to complete the remaining three investigations by March 2012.
74. In June 2011, the full council considered a report by the Scrutiny and Audit Committee on the effectiveness of its investigations and agreed to implement its recommendations together with additional recommendations proposed by management team regarding the selection of topics for investigation, the support provided to Scrutiny and Audit Committee members, and the manner of undertaking investigations. Plans are in place for the Director of Corporate Services to meet with the committee to discuss these issues together with its operating processes and procedures next month. In the meantime, the committee has deferred selection of future investigation topics.

### Internal control

75. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.
76. 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 2010/11.
77. In his 2010/11 Annual Report the Chief Internal Auditor provided his opinion that, based on the internal audit work undertaken during the year, reasonable assurance could be given on the adequacy and effectiveness of the council's internal control system in the year to 31 March 2011. Based on this and our own work on the council's main financial systems, we concluded that a satisfactory level of control was in place within these systems to enable us to obtain the assurances we required for our opinion on the financial statements.

### Information and communication technology (ICT) services

78. As part of our audit work we carried out a high level review of Aberdeenshire Council's ICT services. Our review found that the council's ICT service is meeting the needs of service users. There are, however, a few areas in which improvements can be made, in particular by adopting a structured approach for documenting operating procedures, routine audits for existence and completeness of information assets (hardware, software, licences) and implementing a risk management framework for information assets to ensure controls in place are commensurate with the sensitivity of the asset and the information it holds. The Interim Head of ICT Services is currently undertaking a comprehensive review of the council's ICT services. This is likely to result in changes to the way ICT services are delivered.

## Prevention and detection of fraud and irregularities

79. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements. Aberdeenshire 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 whistleblowing policy; codes of conduct for elected councillors and staff; and defined remits for committees.

### National Fraud Initiative in Scotland

80. 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. The council received the latest NFI matches in January 2011 and has made good progress in reviewing the NFI reports and taking appropriate action.

### Housing and council tax benefit inspections

81. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Aberdeenshire Council has had two benefits performance risk assessments. The first was reported in September 2008 and the second in October 2010.
82. The 2010 risk assessment identified that the council had a number of areas of good performance relating to customer services and had improved its accuracy and benefit fraud sanction performance. However, the council had not:
- fully implemented 75% (9/12) of the agreed actions planned to address the risks from the 2008 report
  - improved its speed of processing new claims, which remained one of the poorest in Great Britain
  - held service performance to account through open scrutiny and challenge at councillor level
  - demonstrated good service management and understanding, in particular business planning and interventions.
83. In addition, the second self-assessment did not demonstrate strong self-awareness. In providing assurances, it gave the same general response to the questions on assurance for all aspects of the service rather than providing responses that were specific to each business area. The findings of this review were reported to the Chief Executive in October 2010. The council was asked to prepare an improvement plan to address the 21 risks identified in the report to enable the specialist benefits team to determine whether any further engagement was appropriate. An improvement plan was not, however, prepared in accordance with the normal timeframe.

84. Audit Scotland's specialist benefits team carried out a second stage focused audit, resulting in a S102(1) Controller of Audit Report which was submitted to the Accounts Commission in July 2011. The report concluded that all outstanding risks need to be addressed by the council going forward, particularly in light of the fundamental changes and risks highlighted in the coming years for benefits services. In response, the council has prepared an action plan to address all of the issues raised. Progress against the action plan will be monitored by the Scrutiny and Audit Committee with key indicators reported to the Policy and Resources Committee.
85. The Accounts Commission has arranged to meet with the Council Leader, the Leader of the Opposition and the Chief Executive to discuss the report's findings on 1 November. Council officers intend to raise their concerns about the process for communicating and discussing the risk assessment findings at that meeting. The Commission has requested that the Controller of Audit provides it with a further report in approximately 12 months time to enable the Commission to review the council's progress in implementing actions and in improving its arrangements for scrutinising the performance of its benefits service.

## Standards of conduct

86. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and that they have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place.

## Roles and relationships

87. The Accounts Commission recommends that councils give priority to the continuous professional development of their councillors. Without appropriate training and development, councillors may not fully understand their responsibilities, and will be unable to fulfil their complex roles.
88. The council's 'A Guide to the Role and Duties of an Aberdeenshire Councillor' requires Aberdeenshire Councillors to undertake at least 36.25 hours Continuous Professional Development (CPD) each year. In the year to 31 March 2011, 40 (59%) of councillors could demonstrate that they had met this expectation. In addition, only 39 (57%) have completed and returned their training needs assessment, and only 39 (57%) councillors have a personal development plan in place (see exhibit 3).

**Exhibit 3: councillor training**

	2007/08	2008/09	2009/10	2010/11
Completed 36.25 hours CPD	15 (22%)	40 (59%)	24 (35%)	40 (59%)
Completed a Training Needs Analysis	41 (60%)	41 (60%)	39 (57%)	39 (57%)
Completed a Personnel Development Plan	43 (63%)	43 (63%)	39 (57%)	39 (57%)

Source: Aberdeenshire Council's councillor training records

89. The Scottish Government issued a revised Councillors' Code of Conduct in December 2010. The main changes included clarification of the rules on registering and declaring interests, and the new decision-making procedures for planning applications. Councillors were offered additional training to assist them in complying with the revised procedures for registering and declaring interests. The training event which was hosted by the Standards Commission was, however, poorly attended by councillors.

**Refer action plan no. 3**

90. Complaints alleging breaches of the Councillors' Code of Conduct are referred to the Public Standards Commissioner (previously the Chief Investigating Officer) who determines if the complaint is relevant, admissible and warrants further enquiries. If further enquiries determine there is sufficient factual basis to the complaint, a report will be submitted to the Standards Commission for Scotland which then decides whether or not to hold a hearing. No complaints were referred to the Public Standards Commissioner or Chief Investigating Officer about Aberdeenshire councillors' conduct during 2010/11.

**Management changes**

91. In June 2009, the council approved a revised organisational structure for the leadership and management of the council's services which reduced the number of directors from 7 to 5 and created a new post of Assistant Chief Executive. In January 2011 the council further revised its organisational structure and reduced the number of directors to 4.
92. In February 2011, the Assistant Chief Executive left the council and has yet to be replaced. Two new directors (Education, Learning and Leisure, and Infrastructure Services) were appointed during 2010/11 and the Head of Finance (and the council's section 95 officer) has recently announced he will be leaving the council at the end of October. This represents a change in nearly half of the council's senior management team/ statutory officers within the last 12 months, and a loss of experience to the council at a time when it is facing unprecedented financial pressure. We have been advised that the Head of Finance post has been filled internally as an interim measure and that the recruitment process for a permanent successor will begin early in the new year.

93. As part of our normal audit process we reviewed the circumstances surrounding the departure of the former Director of Education, Learning and Leisure in August 2010. Our review concluded that the council's HR policies and procedures were followed and that the Chief Executive acted within his delegated authority when making decisions surrounding the departure of the Director, and that, given the circumstances, the decisions taken represented best value for the council. Elected councillors were not kept fully informed throughout the process. Whilst this does not meet with the spirit of openness and transparency expected of decision making within the public sector, it is in line with the legal advice provided by the Head of Legal & Governance and the desire of all parties to maintain confidentiality throughout the process.
94. We recommend that the council review its HR policies, scheme of delegation and financial regulations to ensure that they are appropriate for the council's requirements going forward and that they are clear and transparent, for both officers and elected councillors, as to how similar situations will be treated in the future.

**Refer action plan no. 4**



# Best Value, use of resources and performance

95. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
96. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
97. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
  - a performance audit which may result in the publication of a national report
  - an examination of the implications of a particular topic or performance audit for an audited body at local level
  - a review of a body's response to national recommendations.
98. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
99. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
100. This section includes a commentary on the Best Value / performance management arrangements within the council. We also note any headline performance outcomes and measures used by the council and comment on any relevant national reports.

## Management arrangements

### Best Value

101. The council received a full Best Value review in 2008, with the report published in June 2008. The report concluded that *'the council had many of the building blocks necessary to deliver Best Value but better co-ordination was needed. The council's leadership needs to take a more strategic approach, making clearer choices about improvements and targeting resources to maximise the impact on delivery and efficiency. The council needs to follow through more rigorously to ensure that its intended outcomes and impact are achieved.'* In response, the council prepared an improvement plan to address the issues raised in the report.

- 102.** Until March 2010, councillors received six-monthly monitoring reports setting out progress against the improvement plan. The last report, covering the period to December 2009, showed 70% of the actions were complete with the remaining 30% on schedule. As part of our 2009/10 audit, we were advised that the outstanding actions had been subsumed within the council's Corporate Improvement Plan and that progress against this plan would be monitored quarterly by the Corporate Improvement Board.
- 103.** The timing of Aberdeenshire Council's next best value audit (BV2) will be determined by a risk assessment performed by the Local Area Network (LAN). The Assurance and Improvement Plan (AIP) update 2011-14 noted that there continued to be uncertain scrutiny risks due to gaps in performance information for a number of the single outcome agreement's local outcomes, and uncertainty over the effectiveness of the council's new corporate improvement and performance management framework in delivering improved outcomes for service users. The progress made in implementing the council's best value improvement plan actions and the need for the council to demonstrate their impact on service delivery was also highlighted as an area of uncertain scrutiny risk. Given these uncertainties, the LAN scheduled a BV2 audit for 2012/13 but noted that this timescale would be kept under review and would be influenced by the extent to which the council could clearly demonstrate that its BV improvement plan and Corporate Improvement Plan has had an impact on how it delivers best value.
- 104.** As part of our 2010/11 audit, we reviewed the council's progress against these areas of uncertain scrutiny risk. Progress against the single outcome agreement's local outcomes is set out in paragraphs 117 to 118 below. This shows that 49 (47%) of these indicators were unavailable or were new and had no comparative data available as at 31 March 2011, an increase from 24 (15%) in 2009/10.
- 105.** Although progress against the Corporate Improvement Plan was reported to the Corporate Improvement Board in February 2011, further monitoring reports have not been submitted to this officer Board. We have been advised that the Corporate Improvement Plan is currently being revised and the action plan is under evaluation to ensure that the identified projects and the required governance is fit for purpose due to the budgetary environment facing the council over the next three years. As a result, there is limited evidence that progress against the Corporate Improvement Plan (which includes the outstanding best value improvement plan actions) is being regularly monitored. Officers acknowledge that the council needs to further evidence its progress against these plans, including reporting to councillors. The LAN will update the shared risk assessment, and consider how this impacts on the timing of the next BV audit, at their meeting in December.

## Self-evaluation arrangements

- 106.** The council has a strong commitment to improvement activity based on self-evaluation and has used a range of processes over the years including Kaizen and EFQM. The council undertook a corporate self-assessment in December 2009 using the Full EFQM Excellence One model. The results of this assessment were used to develop the Corporate Improvement Plan which was approved by Committee in April 2010.

- 107.** In July 2011, the council adopted the ‘How good is my council?’ model for self-evaluation and plans are in place for a council wide self-assessment, starting in November 2011. The self-assessment, which will be undertaken by the Chief Executive, Directors, Area Managers, Heads of Service and Head Teachers, is expected to take two months during which information will be obtained and validated, and improvement opportunities agreed. A report setting out the results of this self-evaluation activity is due to go full Council in January 2012.
- 108.** In addition, as part of the ongoing development of Aberdeenshire Performs, Corporate Services plan to support all directorates with service level assessments during 2011/12. A three year cycle is proposed to enable two service and one corporate assessment to be undertaken during each three year service plan term.

### Community/user engagement

- 109.** The council is committed to community engagement and has been active in seeking the views of the local community, making widespread use of surveys. The Community Planning Partnership has a Community Engagement Strategy in place and the citizens’ panel, Viewpoint, which was awarded a Bronze at the 2010 COSLA Excellence Awards, continues to be used across the Community Planning Partnership.
- 110.** The 2010 Citizens’ Panel survey highlighted that more work was required to improve opportunities for residents to influence decision-making. In response, the Community Planning Partnership undertook a Community Engagement Survey in February 2011. This showed a significant improvement in the proportion of respondents who feel they have sufficient opportunities to influence what happens in their communities, rising from 38% in 2010 to 46% in 2011. This improvement is also reflected in the single outcome agreement indicator which details the percentage of residents who feel they can influence decisions.

### Risk management

- 111.** 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.
- 112.** The council has made good progress in developing its risk management framework. Services have developed risk registers for operational risks and risk registers have been developed for the council’s academies and highest risk primary schools. In August 2011, Internal Audit issued a report on the council’s Risk Management and Business Continuity Strategy. This concluded that there has been significant progress made with regard to the identification and documentation of risks, and that appropriate procedures are in place to manage, monitor and report on progress. The report made a number of recommendations to improve the council’s overall approach to risk management.

113. The council delivers many of its services in partnership with other organisations. Last year we commented that although a high level community planning risk register was in place, it did not cover the operational risks associated with delivering services through partnership working. We note that this issue was also highlighted in the Internal Audit report and that little progress has been made to address this in the past 12 months.

**Refer action plan no. 5**

114. Business continuity planning is a key element of any organisation's risk management arrangements. The council has in place business continuity and emergency response plans for all services, academies and high risk primary schools. These plans cover each critical activity in order to minimise disruption due to major system failure or disaster. Procedures for testing and reviewing the effectiveness of these plans have been developed and these are regularly followed up by the risk management team throughout the year.

## Overview of performance in 2010/11

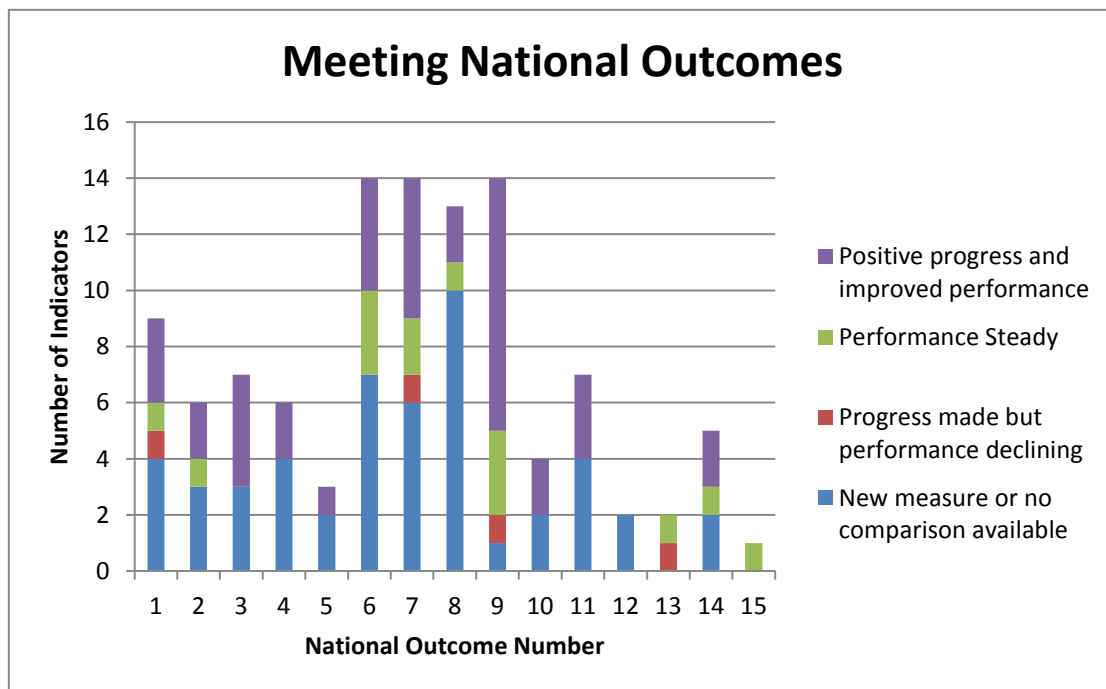
### Performance management

115. The council's corporate planning and improvement framework aims to bring together the council's strategic planning, performance management, performance monitoring and continuous improvement activities under one umbrella (Aberdeenshire Performs). Last year we reported that work was underway to map the service plans' objectives and performance measures against the council's strategic priorities, key actions and the single outcome agreement outcomes. This work has now been completed resulting in improved linkages between key objectives, strategic priorities and the Single Outcome Agreement within the 2011-14 Service Plans. The complexities of the mapping exercise confirmed the need to further review and rationalise priorities and objectives, and in response, the council has refined its approach to service planning for 2012-15.
116. The council's 33 Strategic Priorities set out how the council plans to achieve its goal of making Aberdeenshire the best area and the best council in Scotland. Reflecting the community planning themes with an additional council specific corporate improvement theme, the strategic priorities are supported by 86 key actions. In June 2011, the Policy & Resources Committee received a report summarising overall performance against the council's strategic priorities in the period April 2007 to March 2011. This highlighted that the council had made positive progress and improved performance in 31 of its strategic priorities with performance in 1 strategic priority (providing quality housing) showing no change and progress made but performance declining in the remaining strategic priority (maintain roads infrastructure). The strategic priorities have been retained for a further year to allow councillors to consider their future focus beyond the local government elections in 2012.

## Performance measurement

117. The Community Planning Partnership has identified 105 indicators to measure its performance against the 15 national outcome targets set out in the Single Outcome Agreement. As at 31 March 2011, 49 (47%) of these indicators were unavailable or were new and had no comparative data available. Of the remaining 56 indicators, 64% have improved, 9% have declined and 27% have stayed the same. Action plans have been developed to address declining performance and progress against these is monitored regularly by the Community Planning Partnership Board.

### Exhibit 4: performance against national outcomes



Source: Single outcome agreement annual report 2010/11

118. Exhibit 4 summarises progress in 2010/11 against each of the 15 national outcomes. During the year, there were some notable areas of improvement including the number of young people attaining accreditation through a variety of award schemes and the number of clients transferred from benefits/low pay to improved employment prospects (NO2). The areas where performance is declining present the greatest challenge for the council and its partners. These include the percentage of major planning applications determined within 4 months (NO1), which continues to fall, and the percentage of households in fuel poverty (NO7).

## Statutory performance indicators

119. 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. The council was required to report a total of 25 SPIs for 2010/11.

120. These show that performance continued to improve with 17 indicators improving, 3 remaining the same and 5 declining from the values reported for the previous year. Indicators showing improvement include asset management, rent management, housing quality, payment of invoices and sport and leisure management. Sickness absence levels have also improved with council workers taking 6,111 fewer sick days than in the previous 12 months. SPIs where performance has declined include carriageway condition, domestic noise complaints, use of libraries and homelessness. SPI performance is to be discussed by councillors and officers in November and action plans developed to improve performance in future years.

## Public performance reporting

121. The council has recently published *'Aberdeenshire Performs - Audit Scotland Statutory and Local Indicators Performance 2010/11'* to assist readers form a view as to how the council performed in 2010/11 and in previous years. The data reported includes the 25 prescribed SPIs and 45 locally defined indicators that the council believes evidence its ability to recognise and meet responsibilities under the 2003 Best Value legislation, demonstrating publicly that the council is securing Best Value, including a proper balance between quality and cost. The data is set out under five of the council's six main themes (community wellbeing, jobs & the economy, lifelong learning, sustainable development, and corporate improvement).
122. The council's annual public performance report *'Aberdeenshire Performs – A Guide to Council Performance 2010/11'* provides information, under each of the council's six main themes, on what the council has delivered in 2010/11 and identifies key actions for the coming year. A financial overview section is also included setting out how the council was funded, what it cost to deliver services during the year, and the financial challenges facing the council. The report provides a balanced view of the council's performance highlighting both favourable and unfavourable results using a traffic light system, and provides links to more detailed performance information, such as the Strategic Priorities performance review, on the council's website.

## National performance reports

123. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 5.

**Exhibit 5: A selection of national performance reports 2010/11**

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• The cost of public sector pensions in Scotland</li> <li>• How councils work: an improvement series for councillors and officers - Arms-length external organisations</li> <li>• Scotland's public finances: responding to the challenges</li> <li>• Maintaining Scotland's roads: a follow-up report</li> </ul> | <ul style="list-style-type: none"> <li>• Physical recreation services in local government</li> <li>• An overview of local government in Scotland 2010</li> <li>• Community Health Partnerships</li> <li>• Improving energy efficiency: a follow-up report</li> <li>• Transport for health and social care</li> </ul> |
|--|--|

Source: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

**124.** Although we noted instances of Audit Scotland national reports being considered by officers and presented to, for example the Scrutiny and Audit, and Social Work and Housing Committees, the council does not have a mechanism in place to ensure that officers and councillors review the findings and recommendations included in all of these reports in order to identify any that will assist the council in its drive for continuous improvement.

**Refer action plan no. 6**

### Sustainable waste management

**125.** In September 2007, Audit Scotland published a report on Sustainable Waste Management. As part of our 2010/11 audit we reviewed the steps the council has taken to ensure it is ready to meet future European Union and Scottish Government targets to improve waste management and, in particular, the next key date of 2013 by which time 50% of municipal waste must be recycled or composted.

**126.** In 2009/10 Aberdeenshire Council achieved a recycling rate of 33% against a target of 40%. Since then, the council has implemented a number of new initiatives to improve the level of recycling, but these are not directly linked to the achievement of future Scottish Government and EU waste management targets. One of these initiatives involves contracting with a private company to pre-treat all residual waste. This is expected to reduce the amount of waste sent to landfill from 100,000 tonnes to 30,000 tonnes per year. The council acknowledges that it may not meet the 2013 target as the contract negotiations for residual waste treatment have yet to be concluded. Current expectations are that the contract will be agreed in November 2011. The council has also agreed to re-instate a home composting initiative as it does not collect green waste.

**Refer action plan no. 7**

## Progress against the scrutiny risks identified in the Shared Risk Assessment

127. Although no significant scrutiny risks were identified by the Local Area Network (LAN), the AIP update included some areas of uncertain scrutiny risk and the associated audit and scrutiny activity required to address these. The following paragraphs note the position against the areas of uncertainty not referred to elsewhere within this report.

### Assuring public money is being used properly

128. The AIP update stated that the council had acknowledged, in its best value improvement plan, that it needed to do more to demonstrate that services are competitive and in response completed a review of its trading services in May 2009. This identified a number of recommendations for improvement and proposed that the situation be reviewed once all of the recommendations had been implemented. As a result, the LAN assessed this as an area of uncertainty and agreed to review the progress made by the council in demonstrating that its services are competitive as part of the 2010/11 annual audit.

129. A report proposing that Housing Repairs should no longer be a statutory trading account will be submitted to the Policy and Resources Committee in November. The recommendations resulting from the May 2009 review have yet to be fully implemented and so the council has yet to review and report on the overall competitiveness of its services.

## Outlook

130. As reported above, the LAN has scheduled a BV2 audit during 2012/13 in response to uncertainties about the impact of the council's improvement activity following the last Best Value audit. This timescale will be kept under review by the LAN and will be influenced by the extent to which the council can clearly demonstrate that its BV improvement plan and Corporate Improvement Plan has had an impact on how it delivers best value.

131. Activity by other scrutiny bodies over the next three years includes SCSWIS supported self-evaluation and audit of cases files in 2011/12, and an Initial Scrutiny Level Assessment (ISLA) in 2013/14 as part of their three year programme.



# Appendix A: Audit reports

## External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Scrutiny & Audit Committee
Annual Audit Plan	3 February 2011	25 May 2011
Preparations for the adoption of International Financial Reporting Standards (IFRS)	31 March 2011	Not presented
Shared Risk Assessment / Assurance and Improvement Plan	10 May 2011	9 June 2011
Report to those charged with governance on the 2010/11 audit	14 September 2011	21 September 2011
Audit opinion on the 2010/11 financial statements	30 September 2011	24 November 2011 Full Council 14 December 2011 Scrutiny & Audit
Departure of the former Director of Education, Learning and Leisure	31 October 2011	24 November 2011 Full Council

# 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	16, 27 & 29	<p><b>Financial statements</b></p> <p>We encountered delays in obtaining responses to queries and receiving revised accounts disclosures. This was partly due to the council's over-reliance on a key member of staff.</p> <p>For the third year in succession the write down of the revaluation reserve included in the unaudited accounts was based on an incorrect calculation by the asset register system.</p> <p>There was significant delay in processing the agreed audit adjustments which impacted on the time taken to agree the revised accounts and thus complete the audit of the financial statements. Errors were then identified in the way adjustments had been made, requiring further corrections.</p> <p><b><i>Risk: potential misstatement of the financial position of the council. If material amounts are involved, the accounts may be qualified.</i></b></p>	<p>The Council is currently reviewing its annual accounts process, and will consider the need to increase resources in this important area, as well as further staff training.</p> <p>The difficulties with the asset register software are the subject of ongoing discussions with the supplier, and a resolution is expected shortly.</p>	Head of Finance	31 March 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
2	66	<p><b>Financial challenges</b></p> <p>Future finance settlements are predicted to be lower than current levels. The council has shown a good understanding of the financial pressures it faces with current estimates requiring an additional £25.8 million of savings in 2012/13, £9.2 million in 2013/14 and £18.4 million in 2014/15.</p> <p><b><i>Risk: the council may not be able to generate the required savings and so will be unable to deliver the council's key priorities.</i></b></p>	<p>The Council will continue to monitor and assess the financial implications surrounding future finance settlements. Officers will continue to participate in national working groups to provide early insight into pressures. The Corporate Finance Team is experienced in this area and has been successful to date in analysing settlement projections, allowing the Council to make early budget decisions.</p>	Head of Finance	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	88 & 89	<p><b>Councillor training</b></p> <p>In the year to 31 March 2011, only 40 (59%) of councillors could demonstrate that they had met the CPD requirement set out in 'A Guide to the Role and Duties of an Aberdeenshire Councillor'. In addition, only 39 (57%) have completed and returned their training needs assessment, and only 39 (57%) councillors have a personal development plan in place. The training event on the revised Councillors' Code of Conduct, hosted by the Standards Commission, was poorly attended by councillors.</p> <p><b><i>Risk: without appropriate training and development, councillors may not fully understand their responsibilities, and will be unable to fulfil their complex roles.</i></b></p>	<p>Management Team will shortly consider a proposal to introduce a method of inducting new councillors (using the skills/experience of established councillors) next year. This event will reinforce the need for Councillors to undertake and record CPD.</p> <p>Invite Members Services to collaborate with HR &amp; OD to regularly prompt/support Councillors to update CPD and to collect their developmental needs.</p>	Head of Human Resources & Organisational Development	31 May 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	94	<p><b>HR policies</b></p> <p>The council needs to review its HR policies, scheme of delegation and financial regulations to ensure that they are appropriate for the council's requirements and that they are clear and transparent so that both officers and elected councillors know what procedures will be followed in the future.</p> <p><b>Risk: policies and procedures are not clear and transparent and so councillors lack confidence in the process followed.</b></p>	<p>All HR policies are reviewed under a rolling programme to ensure that they are clear and transparent, complying with legislation and following best practice.</p> <p>In particular this will include a review of elements of the grievance and disciplinary policies in relation to senior officers.</p> <p>Elected Members and Officers are advised when policies are reviewed.</p>	Head of Human Resources & Organisational Development	30 June 2012
5	113	<p><b>Risk management</b></p> <p>Although a high level community planning risk register is in place, it does not cover the operational risks associated with delivering services through partnership working. Risk registers have yet to be developed for the council's other significant partnerships</p> <p><b>Risk: the council may not have identified and managed all of its operational risks, particularly those associated with partnership working.</b></p>	<p>The Council's Management Team have agreed that this issue will be addressed during 2012. At this time work is being undertaken to identify which partnerships are in existence. A process for identifying "Significant Partnerships" has been agreed and work will begin during 2012 on developing Risk Registers for those "significant" partnerships.</p>	Head of Human Resources & Organisational Development	31 Dec 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
6	124	<p><b>National reports</b></p> <p>The council does not have a mechanism in place to ensure that officers and councillors review the findings and recommendations included in all of Audit Scotland's national reports.</p> <p><b><i>Risk: the council may miss opportunities to achieve best value and improve service delivery.</i></b></p>	<p>All National Reports are considered by the appropriate Service Director and information submitted to the relevant Policy Committee as appropriate, and in particular where information has not already been provided to councillors.</p> <p>There is also a role for Scrutiny &amp; Audit Committee to oversee reports that are not specific to a particular Committee.</p> <p>The Council, as a matter of policy, does not place reports “for noting” on Committee agendas, but will ensure that all reports are available on Councillor web pages.</p>	Chief Executive	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
7	126	<p><b>Waste Management</b></p> <p>The council has a number of new initiatives to improve its recycling rate but these are not directly linked to the achievement of future Scottish Government and EU waste management targets.</p> <p><b><i>Risk: the council fails to meet future targets for recycling of municipal waste and significant additional costs will be incurred as a result of increases in landfill taxes.</i></b></p>	<p>The waste disposal and treatment contract due to be concluded focuses on targets for diversion of biodegradable waste from landfill.</p> <p>The Integrated Sustainable Waste Management Strategy is being reviewed to ensure it aligns with and meets relevant and appropriate requirements contained within Scotland's Zero Waste Plan.</p>	Head of Protective Services & Waste Management	28 Feb 2012