

The Moray Council

Annual report on the 2010/11 audit



Prepared for members of The Moray 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 The Moray Council for 2010/11. 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.

In 2010/11, the council spent £319.9 million on the provision of public services, with £283.9 million on revenue services and the remainder on its capital programme. In delivering these services, the council generated an accounting surplus of £36.2 million, the majority of which relates 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 has increased its cash backed reserves by £9.1 million. Of this amount, £7.7 million relates to an increase in the unallocated general fund balance.

The council aims to maintain a general fund working balance of £5 million. At 31 March 2011, the council had earmarked amounts totalling £1.3 million, leaving an unallocated general fund balance of £16.2 million which is £11.2 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.

The 2010/11 financial statements show capital expenditure of £36 million. Whilst this represents an increase of £1.1 million compared with 2009/10, it equates to slippage of £20.3 million against the council's 2010/11 capital programme. Of this amount, £3.8 million was planned slippage as the council had approved more projects for 2010/11 than funding allowed in an effort to better manage its capital programme. Most of the remainder of the slippage related to the flood alleviation schemes (£15.3 million).

In 2008, the council approved an ambitious modernisation programme, 'Moray Performs', based on the 'Virginia Performs' model used by the Scottish Government. The Local Area Network of scrutiny bodies (LAN) plans to undertake some focussed Best Value work around the 'Moray Performs' project in 2012/13 to provide assurance that the council is identifying and managing improvement on an ongoing basis.

The council has been proactive in preparing financial plans and identifying savings to reflect reduced government settlements. The Designing Better Services (DBS) project is a key part of its response to the financial challenges it faces in the coming years. It aims to modernise the delivery of the council's services and generate recurring benefits of £4.4 million by 2014. In 2010/11 the council reported an underspend of £7.5 million against budget, of which around £2 million relates to recurring annual savings. These will be used to offset delays in achieving savings in 2011/12 and will also reduce the savings target for 2012/13.

One of the key elements of DBS, the procurement project, has recently been successfully completed. The financial benefits have exceeded expectations with a forecast £1.14 million of efficiencies achieved against a target of £0.682million. Non cash savings were also realised through simplifying and standardising ordering and payment processes throughout the council. Workforce planning is another key element of the council's modernisation programme. The Voluntary Early Retirement Scheme and Voluntary Severance Scheme were reviewed during 2010/11 and applications under these schemes will only be approved where the cost of releasing the employee is recoverable within 3 years. The council terminated the contracts of 88 employees during 2010/11 at a cost of £1.026 million, the majority of which relates to redundancy payments.

The council uses performance management software (Covalent) to monitor progress against key actions within the Single Outcome Agreement. Of the 411 milestones due to be completed by 31 March 2011, 343 (83%) were completed, 21 (5%) were well advanced and the remaining 47 (12%) were not progressed as originally planned. In addition, 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 aggregate results for 2010/11 show 73% of service performance indicators were performing well, 10% require close monitoring and 17% require action.

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 The Moray 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. In particular, the impact of the proposed changes to the RAF bases remains difficult to predict and uncertainty remains about the level of government funding that will be available for the council's current flood alleviation schemes. We have been advised that COSLA is in the process of changing the mechanism for flood alleviation schemes which will ring fence the funding available for larger schemes.

The assurance and improvement plan (AIP) was updated by the council's LAN in April 2011. The LAN reported scrutiny risks in the areas of political leadership, and customer focus and responsiveness, and a lack of information relating to the council's ability to demonstrate the impact of some of its services, and its ability to undertake effective self-evaluation. There are currently no plans for a Best Value review of the council over the next three years. The AIP update, however, includes two areas of focussed Best Value work (assessment of the council's approach to customer focus in year 1 and assessment of the impact of the council's 'Moray Performs' programme including its approach to self-evaluation in year 2) which will help inform the LAN's decision as to the timing of the next Best Value review.

Introduction

1. This report summarises the findings from our 2010/11 audit of The Moray 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 The Moray 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. Members should ensure that they are satisfied with the proposed management actions and that they have a mechanism in place to assess progress.
4. This report is addressed to members and the Controller of Audit and should form a key part of discussions with the Audit and Performance Review 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

Introduction

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 financial 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 the council and its income and expenditure for the year
 - whether they have been prepared properly in accordance with relevant legislation, the applicable accounting standards and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. 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 The Moray Council for 2010/11 gave 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 four 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 Corporate Director (Corporate Services) has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Annual governance statement

12. We are satisfied with the disclosures made in the annual governance statement and the adequacy of the process put in place by the council to obtain the necessary assurances. The annual governance statement 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.

Accounting issues

14. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010 Code). Overall, we are satisfied that the council prepared its 2010/11 financial statements 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. 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 2011 and are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited financial statements

16. The council adjusted the financial statements to reflect the majority of our audit findings. These adjustments primarily relate to reclassifications within the balance sheet and have not had any impact on the general fund balance of the council. A number of presentational amendments have also been processed to improve the disclosures within the accounts.
17. As is normal practice, the Corporate Director (Corporate Services) 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 28 September 2011. Had adjustment been made, then the Total Comprehensive Net Surplus on the Comprehensive Income & Expenditure Statement would have decreased by £88,000 and the General Fund Balance would have increased by £2,000. These amounts are not material to the financial statements and we agree with the Corporate Director's (Corporate Services) decision not to amend for them.

Investment in Landsbanki

18. 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 4' when preparing its financial statements, and took advantage of guidance set out in Finance Circular 5/2011 'Accounting for Investments – Icelandic Banks' to restrict the impact on the General Fund to the anticipated cash loss (£0.106 million). The remainder of the net impairment (£0.326 million) has been charged to the Icelandic Banks Statutory Adjustment Account.

19. The guidance assumes that local authority deposits have preferential status under Icelandic law. Priority creditor status was granted by the Icelandic District Court on 1 April 2011 but this decision is currently being appealed by non-priority creditors and a decision is expected in October 2011. Failure to maintain preferential creditor status will significantly reduce the amount of the deposit and accrued interest that is expected to be recoverable.

Prior year adjustments

20. The 2010/11 financial statements have been prepared in accordance with the 2010 Code which is based on International Financial Reporting Standards (IFRS) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (UK GAAP). This transition required a prior period adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position.
21. The main areas that required restatement included the treatment of capital grants, the inclusion of an accrual for employee benefits such as untaken annual leave, and the classification of leases. These changes resulted in the net asset position of the council as at 31 March 2010 reducing from £267.1 million to £239.6 million and the council's usable reserves increasing by £0.183 million.

Pension costs

22. The Moray 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 its balance sheet. The valuation at 31 March 2011 provided by the scheme's actuaries reduced the council's share of the deficit from £106.5 million last year to £89.1 million this year. This large decrease is mostly due to a change in one of the financial assumptions, i.e. as future pensions' increases are now linked to the consumer price index (CPI) rather than the retail price index (RPI). The actuary has recommended that the council's contributions should be 19.3% of pensionable pay in 2011/12.

Whole of government accounts

23. The whole of government accounts (WGA) are the consolidated financial statements for the UK government. The council submitted the consolidation pack to the Scottish Government by the deadline of 29 July. The audited WGA return was submitted on 12 October, nearly two weeks after the deadline of 30 September. This was due to delays in updating the WGA for changes reflected in the audited financial statements and the need for additional analysis to confirm the accuracy of the council's counter party data disclosures.

Group financial statements

24. 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 subsidiary companies, joint ventures and statutory bodies, such as police, fire and valuation boards.
25. 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 2010 Code. The overall effect of inclusion of these group entities together with the common good and trust funds was to reduce net assets by £109.3 million, mainly due to the inclusion of Joint Board pension liabilities.

Trust funds

26. The Moray Council has 41 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 by appropriate working papers.
27. 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). The Moray Council's submission fell into the 'average' category and the council is currently reviewing arrangements to enable full compliance by 2013/14. As a first step to achieving this, the council engaged Callander Colgan Limited to independently examine the 2010/11 accounts of its charitable trusts.
28. Last year we reported that the council was considering options for reorganising its existing charitable trusts, including transferring some of them to the Scottish Communities Foundation. To date, little progress has been made with amalgamating trusts as legal and finance staff were focussed on other council priorities throughout the year. We have been advised that the council is to discuss the possibility of amalgamating trusts with OSCR and anticipates that this will be completed by 31 March 2012.

Common good funds

29. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners, 'Accounting for the Common Good Fund'. The council complies with this guidance as it includes a separate statement within the council's financial statements and a separate common good asset register is maintained.

Outlook

Carbon trading

30. 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. Current estimates are that the council will be required to pay in the region of £154,000 for carbon credits for the period 1 April 2011 to 31 March 2012.
31. The council has had an Energy Policy and Strategy for its non domestic properties since 2005 which is reviewed annually and includes the commitment to reduce the council's energy consumption by 2% per annum on a year to year basis. The council exceeded this target in 2009/10 (latest information available) by reducing energy consumption by 2.9% despite one of the coldest winters on record, and generated savings of £58,000 as a result.
32. Additional resources will be required to assist in the implementation of further projects to reduce the council's energy consumption and carbon emission. Failure to comply with the Carbon Reduction Energy Efficiency Scheme could result in significant financial penalties falling on the council with fines of up to £722,000.

Audit appointment for 2011/12

33. 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 members for their assistance during the past five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) PricewaterhouseCoopers will be the appointed auditor for The Moray Council.

Financial position

34. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
35. 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.
36. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

37. In 2010/11, the council spent £319.9 million on the provision of public services, with £283.9 million on revenue services and the remainder on its capital programme. In delivering these services, the council generated an accounting surplus of £36.2 million, the majority of which relates 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 has increased its usable (cash backed) reserves by £9.1 million. Of this amount, £7.7 million relates to an increase in the unallocated general fund balance.

Budgetary control

38. The budget for 2010/11 was based on a Band D council tax level of £1,135. Net service expenditure across the council was £206.9 million, an underspend of £6.3 million against the budget. Around one third (£2.6 million) of this underspend relates to savings from vacancy management. The Corporate Director (Corporate Services) has identified that around £2 million of the total underspend relates to recurring annual savings. These will offset delays in achieving savings in 2011/12 resulting from the time required to implement staffing or other contractual reductions. These recurring savings will also reduce the savings target for 2012/13. In addition, the council's income was £1.2 million greater than budget, resulting in an overall budget underspend of £7.5 million.

Financial position

39. Exhibit 1 shows the balance in the council's cash backed funds at 31 March 2011 compared to the previous year. Funds include a repair and renewal fund for financing expenditure incurred in repairing, maintaining, replacing and renewing non current 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 2011, the council had total funds of £24.4 million, an increase of £9.1 million on the previous year.

Exhibit 1: Reserves and Funds

Description	31 March 2011 £ Million	31 March 2010 £ Million
General Fund	17.529	9.011
Housing Revenue Account Balance	1.255	1.491
Repair and Renewal Fund	2.507	2.249
Insurance Fund	1.352	1.348
Capital Fund	0.604	-
Capital Receipts Reserve	1.060	1.056
Unapplied Capital Grants	0.081	0.175
Total	24.388	15.330

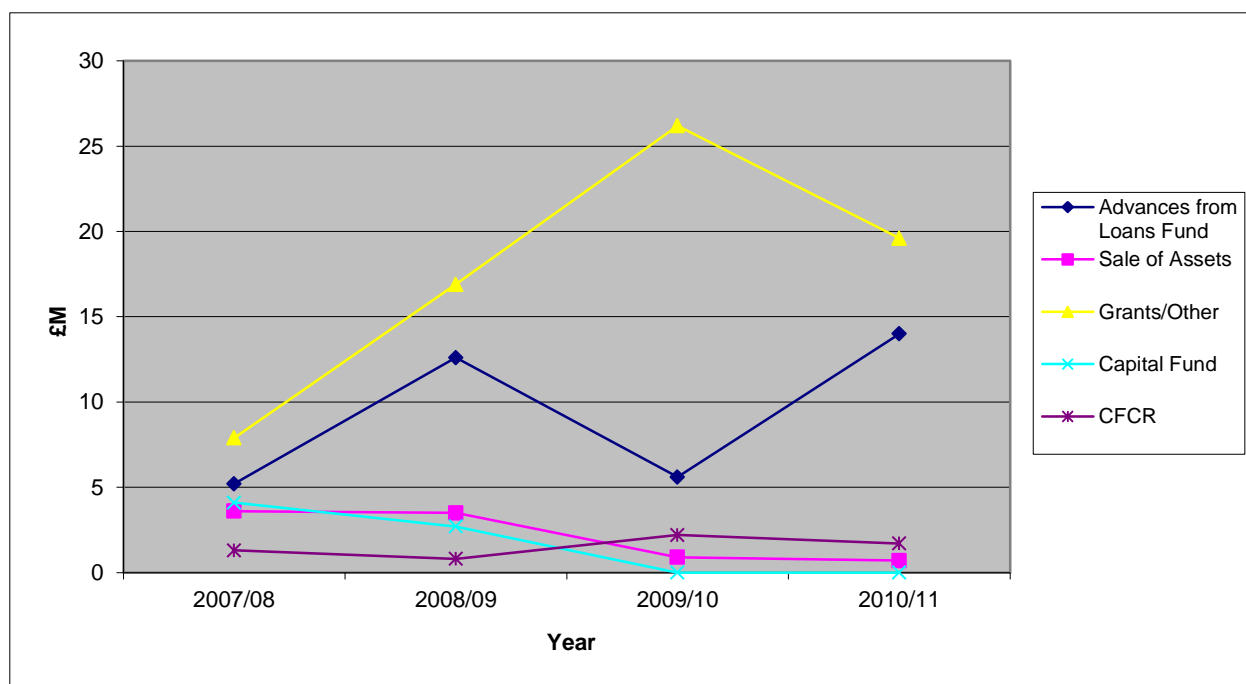
Source: *The Moray Council 2010/11 financial statements*

40. The general fund increased by £8.5 million to £17.5 million as at 31 March 2011. The council aims to maintain a general fund working balance of £5 million. At 31 March 2011, the council had earmarked amounts totalling £1.3 million, leaving an unallocated general fund balance of £16.2 million which is £11.2 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 financial planning section below.
41. 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. For 2010/11, 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

42. In February 2010 the council approved a capital programme of £56.3 million including £4 million of budget for new council house build carried forward from 2009/10. Capital expenditure in 2010/11 totalled £36 million. Whilst this represents an increase of £1.1 million compared with 2009/10, it equates to slippage of £20.3 million against the council's 2010/11 capital programme. Of this amount, £3.8 million was, however, planned slippage as the council had approved more projects for 2010/11 than funding allowed in an effort to better manage its capital programme. The slippage was mainly due to delays in the flood alleviation schemes (£15.3 million), office accommodation (£1.5 million), ICT (£1.3 million) and vehicles (£0.7 million) programmes. All of this slippage has been added to the 2011/12 capital programme.
43. 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 the funds received through the sale of assets reflecting the decline in the sale of council houses and the drop in the property market. This coupled with the decrease in government finance received has resulted in a significant increase in the advances made to services from the council's loans fund in 2010/11.

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



Treasury management

44. As at 31 March 2011, the council had a bank overdraft of £5.7 million compared to a cash and cash equivalents balance of £0.057 million at 31 March 2010. The majority of this decrease relates to the council's decision to use its cash deposits to partly fund its capital programme as interest rates on investments are so low.

45. The council's external borrowing has reduced by £4 million to £134 million as at 31 March 2011. 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 5.58%.

Financial planning

46. 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 consulted with the public and held a series of community meetings to hear public opinion on the potential budget savings identified. A number of areas of uncertainty and financial pressure remain, however, including the need to fund essential improvements to the school estate, the increasing demand for care services for the elderly and the impact of inflationary pressure on pay and prices. Funding for the council's flood alleviation schemes also remains uncertain. We have been advised that COSLA is in the process of changing the mechanism for flood alleviation schemes which will ring fence the funding available for larger schemes.
47. The impact of the proposed changes to the RAF bases on the council's ability to continue to deliver its priorities is difficult to predict. The council has assumed that the Ministry of Defence contribution to council tax income for service families housed at the Kinloss base will be withdrawn in 2011/12 but, thereafter, the position is too uncertain to provide any meaningful estimates. The impact on the council's workforce is also uncertain as numerous RAF personnel have family members who are currently employed by the council. As a result, the Local Area Network (LAN) assessed this as an area of uncertain scrutiny risk within the assurance and improvement plan (AIP) update 2011-14 and will continue to monitor this as part of future shared risk assessments.

Change management and efficiency

48. In 2008, the council approved an ambitious modernisation programme, 'Moray Performs', based on the 'Virginia Performs' model used by the Scottish Government. The Local Area Network (LAN) plans to undertake some focussed Best Value work around the 'Moray Performs' project in 2012/13 to provide assurance that the council is identifying and managing improvement on an ongoing basis. 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.

49. The council's Designing Better Services project is a key part of its response to the financial challenges it faces in the coming years. It aims to modernise the delivery of the council's services and generate recurring benefits of £4.4 million by 2014. The project involves five large, complex and challenging projects covering property, procurement, vehicle utilisation, community care redesign and customer services. More information on some of the Designing Better Services projects is included within this report.

Asset management

50. 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, which is integrated with its asset management planning. Progress against the corporate asset management plan is reported annually to the Policy & Resources Committee by the Corporate Director (Corporate Services).
51. Asset management is one of the key areas being addressed under the 'Designing Better Services' theme of 'Moray Performs'. As part of this project, the council is refurbishing a former supermarket and reconfiguring its existing headquarters building to create a new HQ campus in order to rationalise the office accommodation required to provide all Elgin based services. Office accommodation outwith Elgin will also be reviewed as part of the 2012/13 Corporate Asset Management Plan.
52. 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. The first school is expected to be operational in October 2011. The council recently approved a procedure for reviewing its existing school estate and has instructed officers to obtain up to date estimates of how much it would cost to bring each school up to a 'B' standard for condition and suitability.

Procurement

53. 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.
54. 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. The council improved its rating from non-conformance (19%) in 2009 to conformance (27%) in 2010. Improvements were noted in every category assessed under the PCA except for contract and supplier management where the score remained unchanged.

55. 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 and have made resources available to manage the change process. The council reviewed the findings of the 2010 PCA and agreed actions to enable it to meet its target of achieving a score of between 30% and 40% in the 2011 PCA.
56. In November 2010 the council approved a new procurement strategy covering the period 2010-14. The results of the annual PCA will be used to evidence the impact of improved procurement practices and to influence the development of subsequent annual action plans and targets during the life of the strategy.
57. The council recently successfully completed the Designing Better Services Procurement Project set up to establish corporate procurement, purchasing and processing units; simplify and standardise procurement processes; and achieve savings through economies of scale through the use of national and local contracts. The financial benefits have exceeded expectations with a forecast £1.14 million of efficiencies achieved against a target of £0.682 million. Non cash savings were also realised through simplifying and standardising ordering and payment processes throughout the council. Further work is required to streamline the more complex procurement processes and this will be included in future project plans.

Workforce reduction

58. 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 terminated the contracts of 88 employees during 2010/11 at a cost of £1.026 million. The majority of this (£0.872 million) relates to redundancy payments with the remainder being added years' service for the calculation of retirement lump sum payments.
59. Workforce planning is another of the six themes making up 'Moray Performs'. The council has developed a Workforce Strategy and Plan for 2011 to support the council's modernisation programme and considerable resources have already been invested in developing policies and employment practices to support new ways of working. The council also reviewed its Voluntary Early Retirement Scheme and Voluntary Severance Scheme during 2010/11. Applications under these schemes will only be approved where the business case ensures that the cost of releasing the employee is recoverable within 3 years.

Outlook

2011/12 budget

60. 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 needed in previous years and this requires strategic planning and the implementation of sustainable measures to balance the budget, supported by rigorous monitoring.
61. The council's 2011/12 budget was approved on 10 February 2011 and included £9 million of savings compared with 2010/11 expenditure levels. Savings were identified for each service area and included reductions in staffing levels, discontinued or reduced services levels, increased charges for council services and the use of £0.4 million of reserves.

2011/12 budget reporting

62. The latest revenue budget monitoring report for 2011/12 highlights that net expenditure was £1.5 million less than budget as at 30 June 2011. The majority of services contributed to this underspend although overspends were recorded in some areas. The report projects an underspend of £3 million against budgeted expenditure of £184.1 million at 31 March 2012 but cautions that this is contingent on many factors including the continued high level of staff vacancies and the absence of any additional expenditure resulting from, for example, bad winter weather requiring increased winter maintenance of roads.

Financial forecasts beyond 2011/12

63. Looking ahead, it is clear that that the outlook for public spending in 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. The council has shown a good understanding of the financial pressures it faces with current estimates requiring no additional savings in 2012/13 and £2 million in 2013/14. Continuing to deliver vital public services with reducing budgets will be a significant challenge for the council.

Refer action plan no. 1

Governance and accountability

64. 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.
65. 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.
66. 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.
67. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

68. Each year the council assesses its own corporate governance arrangements against the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government' and reports the results in the Annual Governance Statement included within its financial statements. The 2010/11 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 update 2011-14 assessed the council as having no significant risks in this area.
69. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the modernisation agenda. The Audit and Performance Review Committee meets regularly to receive reports from internal and external audit and scrutinise performance. 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'.

Internal control

70. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the council's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
71. 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.
72. 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 2010/11 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. Our review of internal audit's work in these areas concluded that we could take reliance from the work undertaken.
73. In his 2010/11 Annual Report the Internal Audit Manager 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 2011.

ICT

74. As part of our audit work, we carried out a high level review of The Moray Council's ICT services. Our review found that ICT services are meeting user needs, within the limits of the resources available. There are, however, areas where improvements can be made, particularly in documenting operating procedures (user access, back-up and recovery, change control, etc.), and the monitoring of security policies and actions/access by privileged users.
75. In 2009, the council commissioned consultants to provide advice and guidance on implementing Information Technology Infrastructure Library (ITIL) best practices for IT service management within its ICT section. The consultants' report concluded that significant improvements could be made to the processes for the help desk and incident management, change management and customer/supplier relationships and made ten recommendations for 'quick wins' in the following 12 to 18 months. Although actions to address these recommendations were included within the Finance & ICT Services improvement programme, these have not yet been implemented due to the decision to prioritise the use of scarce specialist ICT resources to support the Designing Better Services project.

Refer action plan no. 2

Prevention and detection of fraud and irregularities

- 76. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
- 77. The Moray 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 committees.

National Fraud Initiative in Scotland

- 78. 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. Last year we highlighted that the national report on the last NFI exercise had 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.'*
- 79. The council received the latest NFI matches in January 2011 and has made good progress in reviewing the reports for housing benefits and payroll matches. Progress was initially slow in reviewing other match types, particularly blue badges. The Internal Audit Manager has recently taken on a more proactive role in the NFI process and other matches have begun to be reviewed.

Refer action plan no. 3

Housing benefit inspections

- 80. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. 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 has recently been reviewed as part of the current round of inspections and the findings are due to be reported to the council by the end of 2011.

Standards of conduct

- 81. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and having proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct. Auditors consider whether bodies have adequate arrangements in place.

82. 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. To assist in complying with the revised procedures for registering and declaring interests, elected members are reminded every six months by the Monitoring Officer to complete and submit the pro forma return to the Democratic Services Manager.

Roles and relationships

83. In Summer 2010 Audit Scotland and HMIE undertook the scrutiny activity on leadership and direction set out in the 2010-13 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.
84. The joint team interviewed both members and officers, held a member focus group and carried out a members' survey. The key findings of the scrutiny audit activity were that:
- 'The council has made some progress in improving strategic leadership. The council shows awareness of the need to strengthen working arrangements by clarifying the respective roles and responsibilities of councillors and officers, to support them in working together towards a shared vision and to provide clear strategic leadership. Councillors and officers need to address this issue as a priority. Councillors still lack commitment to the equalities agenda and to their own training and development. Despite sound advice from officers, councillors do not show sufficient strategic leadership to improve the education for learners in Moray. Improving education for learners, and the equalities agenda are examples of where the council's shared vision still needed to be achieved.'*
85. In February 2011, the Full Council considered the joint scrutiny report's findings and agreed to take the following actions to address its conclusions:
- a report clarifying the role of the Service Development Group within the Scheme of Administration to be brought back to a future meeting. This report to also include the issue relating to the direction to be taken to achieve the council priorities
 - the appointment of an elected member champion for equality issues be referred to the Communities Committee for consideration
 - a report clarifying the respective roles for senior officers and elected members be brought back to a future meeting
 - the Chief Legal Officer to look further at the issues raised in regard to elected member training in consultation with the Group Leaders and non-aligned members.

86. To date, none of these actions has been completed. We have been advised that plans are in place to progress these over the next few months and that all should be completed by 31 March 2012.

Refer action plan no. 4

Management restructuring

87. During 2010/11, the council reviewed its service structure and reduced the number of directors from 5 to 4 with effect from 1 April 2011. The new structure amalgamates the Directorates of Education and Community Services into an Education and Social Care Directorate, brings together Finance, Personnel, ICT and Legal and Committee Services into a Corporate Services Directorate, and creates a new Strategic Planning and Governance Directorate to lead on community planning, the single outcome agreement, performance management, corporate governance and customer care.
88. In addition, there have been a number of changes in key officer roles over the last 12 months including the retirements of the Director of Environmental Services and the Director of Educational Services, and the appointment of the Corporate Director (Strategic Planning and Governance) as Acting Chief Executive whilst the Chief Executive recovers from major surgery.
89. Under the new structure, the statutory roles of Section 95 Officer and Monitoring Officer will be undertaken by the Head of Financial Services and Head of Legal and Democratic Services respectively with effect from 1 October 2011. In our opinion, it is essential that the Section 95 and Monitoring Officers are full members of the council's Management Team in order to fulfil their statutory duties. CIPFA has produced a useful document on the role of the chief financial officer in public sector organisations which supports this view for the Section 95 Officer. The document sets out the five principles that define the core activities and behaviours expected from the role and the organisational arrangements needed to support them.

Best Value, use of resources and performance

90. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
91. 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 to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
92. 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.
93. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. 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.
94. This section includes 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

95. The council received a full Best Value review in 2005, with the report published in February 2006. The Accounts Commission requested that the council's progress in implementing its improvement programme be formally reviewed in 2007 and again in 2008. The council agreed to address all of the areas highlighted in the 2008 Best Value progress report, including members need to recognise the importance of personal development, through the 'Moray Performs' modernisation programme and the development of a members' training programme on key competencies including political and community leadership; communication skills; and working in partnership. The timing of the council's next Best Value audit (BV2) will be determined by the risk assessment performed by the LAN.

96. There are currently no plans for a Best Value review of the council over the next three years. The AIP update includes, however, two areas of focussed Best Value work (assessment of the council's approach to customer focus in year 1 and assessment of the impact of the council's 'Moray Performs' programme including its approach to self-evaluation in year 2) which will help inform the LAN's decision as to the timing of the next Best Value review.
97. Elected members recently considered a report by the Acting Chief Executive entitled 'Best Value for Moray; Addressing the Challenges' which set out a composite programme to deliver the culture and change required to meet the pressures and challenges facing the council in 2011/12 and beyond. The proposed approach aims to ensure that the council's priorities are set, managed and delivered effectively within a programme which enables effective corporate planning of priorities and balances competing pressures for resources. The composite programme will be considered further at the next full Council meeting in November.

Self-evaluation arrangements

98. Self-evaluation was identified as an area of uncertain scrutiny risk by the LAN in 2010/11 as there was insufficient evidence to demonstrate that the council was able to undertake effective self-evaluation. The assurance and improvement update 2011-14 highlighted very good progress in improving self-evaluation within educational establishments but noted that the HMIE child protection follow through inspection had concluded that approaches to delivering service improvements through self-evaluation were at an early stage of development in individual services. Due to this and the limited information available to evidence the impact that the council's approach to self-evaluation has had on its service delivery, the LAN concluded that this remained an area of uncertain scrutiny risk in 2011/12 and included some focussed Best Value work to assess the council's progress with self-evaluation in 2012/13.
99. The council adopted the Public Service Improvement Framework (PSIF) self-assessment tool, as part of the 'Moray Performs' project, and is one of only six councils to have completed PSIF assessments of all of its services. In January 2011, it commenced its second round of assessments which will be undertaken over the next three years. The initial round of assessments found that most services have evidence of good operational processes in place and where services are working in partnerships, relationships are good. The majority of services highlighted the need for improvements in gathering customer satisfaction information. Although the council has yet to use PSIF for self-evaluation at a corporate level, plans are in place to pilot a corporate review of the Community Planning Partnership in conjunction with the Improvement Service.

Community/user/employee engagement

100. The council is committed to community engagement and has had a Consultation and Engagement Strategy in place since 2007. Customer focus and responsiveness was identified as an area of high scrutiny risk in the AIP update as the council had yet to develop a strategic or corporate approach to customer feedback, and had insufficient council-wide customer satisfaction information, especially for non-inspected services.

101. In March 2011, the Community Planning Board approved a Community Engagement Strategy which aims to 'develop, lead and sustain a working relationship between public bodies and communities to reach a shared understanding and act on the needs or issues in Moray'. This will be achieved by:
- improving how partnership organisations engage with communities;
 - working together to identify and address local issues;
 - defining the roles of the key individuals across the community engagement process;
 - evidencing the outcomes of engagement; and
 - improving the quality of community engagement with minority groups.
102. The strategy is supported by a Community Engagement Framework and will be delivered by the Community Engagement Action Plan which will be subject to regular monitoring and review. The Community Engagement Group met in May 2011 to further develop the Action Plan and identified three key actions to be taken forward in 2011 and 2012. A progress report was submitted to the Policy and Resources Committee in July 2011. The Local Area Network plans to review the progress made in developing the council's customer focus approach in November 2011 for consideration as part of the next shared risk assessment.
103. The council's 2011 Employee Survey results indicate that the vast majority of employees enjoy their job, have a strong public service ethos and believe that they can make a difference in their day to day work. The survey was less positive in the areas of what the council is seeking to achieve, leadership, culture, management of change and cross service communication. The council plans to address these areas through a strongly led and consistent employee engagement programme.

Risk management

104. 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.
105. The council made some progress in further developing its risk management and business continuity arrangements during 2010/11. Resources were, however, limited due to the decision to second the Business Continuity Officer to the task of co-ordinating the move to the new headquarters building. As a result, risk registers have not been timeously reviewed for consistency and completeness, and the development and testing of existing business continuity plans has been deferred pending the reconfiguration of services as a result of the council's Designing Better Services project. The risks arising from the DBS programme continue to be monitored with a list of critical functions prepared for business continuity purposes for each affected service.

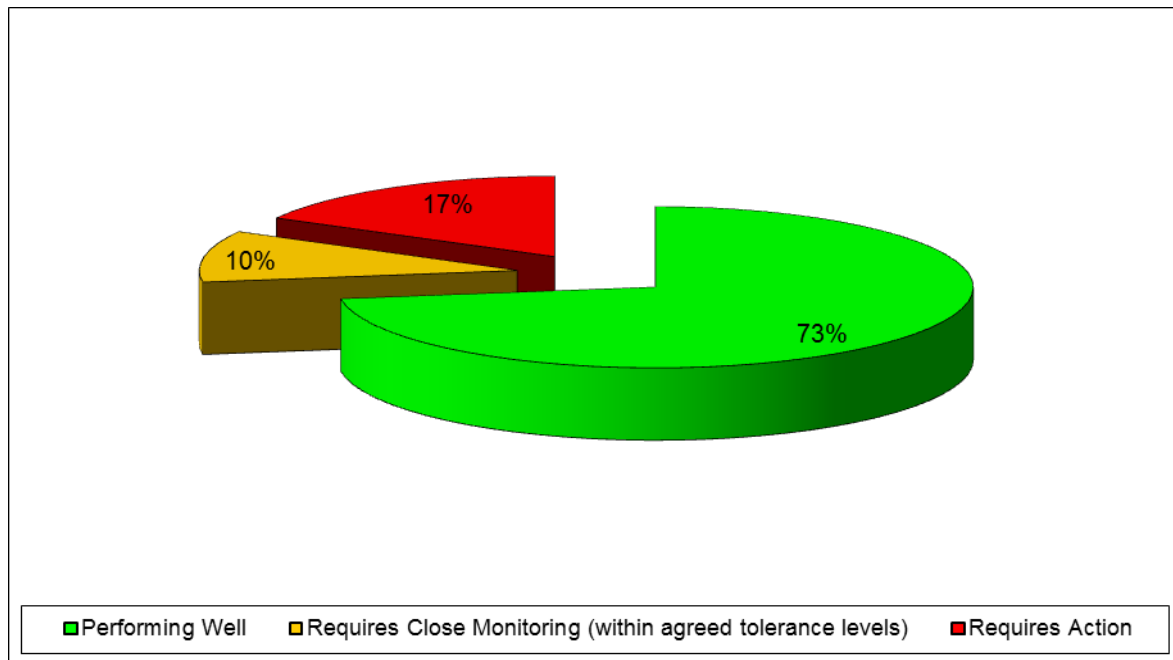
Refer action plan no. 5

Overview of performance in 2010/11

Performance management

- 106.** 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.
- 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 2011 are collated under five strategic themes. These are: Safer and Stronger, Wealthier and Fairer, Smarter, Greener, and Healthier. Of the 411 milestones due to be completed by 31 March 2011, 343 (83%) were completed, 21 (5%) were well advanced and the remaining 47 (12%) were not progressed as originally planned.
- 108.** 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). Exhibit 3 summarises the council's performance against its 2010/11 service performance indicators.

Exhibit 3: Summary of the council's service performance indicators 2010/11



Source: The Moray Council Quarter 4 Performance Reports

Statutory performance indicators

109. 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.
110. These show a mixed picture with 11 indicators improving, 6 remaining unchanged and 8 declining from the values reported for the previous year. Indicators showing improvement include public access to council buildings, the council tax collection rate and compliance with the Scottish Housing Quality Standard. Sickness/absence levels have also improved with council workers taking 3,100 fewer sick days than in the previous 12 months. SPIs where performance has declined include refuse collection and disposal costs, road carriageway condition, domestic noise complaints and rent management. The council has investigated those SPIs where performance has declined and is taking action to improve performance in future years.
111. The council has recently published a Statutory Performance Indicators compendium on its website to assist readers to 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 a selection of the more than 800 local indicators the council uses to monitor performance across all council services. The data is set out under the two categories, Corporate Management and Service Performance, specified in the Accounts Commission's annual direction.

Public performance reporting

112. 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.
113. 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.

National performance reports

114. 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 4.

Exhibit 4: A selection of national performance reports 2010/11

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

Source: www.audit-scotland.gov.uk

115. All national performance reports published by Audit Scotland are presented to the council's Audit and Performance Review Committee under the standing item 'Performance Management: External Audit and Inspection Reports' along with a brief update on the position at the council. This ensures that officers and members review the findings and recommendations included in each report in order to identify any that will assist the council in its drive for continuous improvement.

Sustainable Waste Management

- 116.** 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.
- 117.** In 2009/10 The Moray Council achieved a rate of recycling of 41.5% against a target of 40%. In February 2011, the council approved a plan to meet the 2013 target of recycling 50% of waste and thus reduce the amount of waste being sent to landfill. The key elements of this plan are to extend kerbside collection of dry recyclables into additional rural areas and to introduce a food waste collection service for all households.
- 118.** The council estimates that it will cost an additional £2.6 million over the three years to 2013/14 to achieve the target together with a one off capital cost of £0.5 million in 2011/12 to enable the purchase of bins, boxes and kitchen caddies to support the increased level of recyclables and separate collection of food waste. The plan anticipates that the target can be met using the council's existing infrastructure.
- 119.** The council has yet to approve a plan to deliver the targets beyond 2013. This has, however, been recognised, and work is ongoing to identify options to achieve these targets.

Refer action plan no. 6

Progress against the scrutiny risks identified in the Shared Risk Assessment

120. The AIP update included a number of areas of scrutiny risk or uncertainty and the associated audit and scrutiny activity required to address these. A number of these areas have already been referred to elsewhere within this report. The following paragraphs note the position against the remaining areas of scrutiny risk and uncertainty identified.

Outcomes

121. The AIP update recorded an overall improvement in the council's ability to demonstrate the impact that it is making in delivering its priorities but noted there remained a number of areas, for example for economic impact and for the resilience of its communities, where there remained insufficient evidence to cover the breadth of some outcomes. The LAN plans to further assess the council's progress in developing performance indicators and measuring its impact as part of the next shared risk assessment.

The protection and welfare of vulnerable people

122. Child protection was identified as an area of high scrutiny risk in 2010/11 with significant concerns identified by both HMIE and SWIA. HMIE undertook a follow through inspection review in June 2010 and found that good progress had been made in responding to the main points for action in the original February 2009 inspection report. As noted at paragraph 98, approaches to delivering service improvements through self-evaluation were at an early stage of development in individual services and so child protection was categorised as an area of uncertain scrutiny risk in the AIP update. Inspectors will revisit the council in February 2012 as part of the second round of child protection inspections.

123. The Adult Support and Protection Act came into effect in 2008. SWIA's follow-up performance inspection in 2009 found that the adult protection committee was still evolving and concluded that the council needed to retain a strong focus on assessing and managing risk in adult services. Adult protection was, therefore categorised as an area of uncertain scrutiny risk and it was included for consideration as part of SWIA's Initial Scrutiny Level Assessment (ISLA) in 2011/12. The findings from the ISLA will be considered by the LAN as part of the next shared risk assessment due to be undertaken in December 2011.

124. The homelessness service and criminal justice services were also identified as areas of uncertain scrutiny risk in the AIP update and so some focussed scrutiny work was undertaken by the Scottish Housing Regulator and SWIA in 2011/12. The results of this work will be considered by the LAN as part of the next shared risk assessment.

Financial position

125. Our AIP update stated that no scrutiny risks were identified within the council's financial management processes. The council has been proactive in preparing plans and identifying savings to reflect reduced local government settlements. However, in the context of the lean financial position and the level of savings to be delivered by all councils, we considered that it would be difficult for the council to maintain its financial position and this was, therefore, an area of uncertainty for us.
126. Audit Scotland's recent report 'Scotland's public finances - responding to the challenges' noted that the Scottish Government planned to publish detailed spending plans for years 2012/13 to 2014/15 in September 2011. This should establish a framework that the council will be able to use for more medium-term decisions about future spending plans.

Outlook

127. As noted at paragraph 95, there are currently no plans for a Best Value review of The Moray Council over the next three years although focussed best value activity is planned in November this year and in 2012/13. Activity by other scrutiny bodies over the next three years includes an HMIE - child protection follow up inspection in February 2012.

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 Committee
Review of IFRS shadow financial statements	12 January 2011	15 February 2011 P & R Committee
Annual Audit Plan	31 March 2011	11 May 2011 Audit & Performance Review Committee
Shared Risk Assessment / Assurance and Improvement Plan Update 2011-14	30 April 2011	25 May 2011 Full Council
Assurance on Internal Controls	30 June 2011	14 September 2011 Audit & Performance Review Committee
Report to those charged with governance on the 2010/11 audit	16 September 2011	28 September 2011 Full Council
Audit opinion on the 2010/11 financial statements	29 September 2011	23 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	63	<p>Financial Uncertainty</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 no additional savings in 2012/13 and £2 million in 2013/14.</p> <p><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></p>	<p>The Council's current financial planning process takes account of its need to find savings whilst taking account of its priorities from the Single Outcome Agreement (SOA), Corporate and Service Plans. The Council intends that future financial plans will be developed as part of a fully integrated planning approach between the SOA, Corporate and Service Plans.</p>	<p>Corporate Services Directors</p>	<p>30 June 2012 (subject to agreement by new council)</p>

Action Point	Refer Para. No.	Risk Identified	Planned Management Action	Responsible Officer	Target Date
2	75	<p>ICT</p> <p>Due to the heavy involvement in the Designing Better Services (DBS) programme, the IT section has not been able to implement planned improvements to its service delivery standards.</p> <p>Risk: processes and procedures are not keeping pace with the accelerated change in technology resulting from the DBS programme or global and national developments in ICT.</p>	<p>The DBS programme is largely focussed on generating efficiencies from improved use of ICT. The programme is the Council's means of keeping pace with major technological developments and procedures are put in place through each tranche of work. The plan to take this forward will be reviewed as part of the 2012/15 service plan to ensure that resources are focussed on the Council's priorities. Consideration is also being given to resourcing levels required to support this.</p>	Head of Human Resources and ICT	30 April 2012
3	79	<p>National Fraud Initiative in Scotland</p> <p>The council received the latest NFI matches in January 2011 and has made good progress in reviewing the reports for housing benefits and payroll matches. Progress was initially slow in reviewing other match types, particularly blue badges.</p> <p>Risk: fraud and other irregularities may go undetected.</p>	<p>The council re-assigned responsibility for reviewing NFI data to the Internal Audit Manager in September 2011. The work as it relates to the January 2011 matches is now well advanced.</p>	Internal Audit Manager	31 December 2011

Action Point	Refer Para. No.	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	86	<p>Leadership and direction</p> <p>In February 2011, the full Council considered the report arising from Audit Scotland and HMIE's joint scrutiny work on leadership and direction within the Moray Council and agreed to take five actions to address its conclusions. To date, none of these actions has been completed.</p> <p><i>Risk: the council cannot demonstrate that progress continues to be made in improving the council's strategic leadership and that officers and members are working together to achieve the best outcomes for the residents of Moray.</i></p>	<p>Plans are in place to progress the actions agreed by full Council in February 2011:</p> <p>The appointment of an elected member champion for equality issues and the direction to be taken to achieve the council priorities will be taken forward under the council's Best Value for Moray programme.</p> <p>A report on the remit and establishment of the Service Development Group will be prepared for members' consideration in November 2011.</p> <p>A report on governance issues clarifying the respective roles of senior officers and elected members will be presented to members for their consideration by 31 January 2012.</p> <p>The Democratic Services Manager's responsibilities include the maintenance of training records for elected members and also oversight of training needs. A report on progress will be prepared for members' consideration by 31 March 2012.</p>	<p>Chief Executive</p> <p>Chief Executive</p> <p>Chief Executive</p> <p>Democratic Services Manager</p>	<p>30 November 2011</p> <p>30 November 2011</p> <p>31 January 2012</p> <p>31 March 2012</p>

Action Point	Refer Para. No.	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	105	<p>Risk Management</p> <p>The council made some progress in further developing its risk management and business continuity arrangements during 2010/11. Due to the limited resources available, however, risk registers were not timeously reviewed for consistency and completeness, and the development and testing of existing business continuity plans has been deferred pending the reconfiguration of services.</p> <p><i>Risk: risk management arrangements are not fully effective.</i></p>	<p>The importance of effective risk management and risk considerations now feature as a matter of routine in the council's decision making processes. Risk registers are prepared corporately and within service and project areas and managers are asked to review and update these periodically, most recently ahead of the preparation of service plans for 2012/13.</p> <p>It is acknowledged that central support for specific risk and business continuity tasks has been limited and the council will keep this under review as service redesign processes are completed.</p>	Corporate Director (Corporate Services)	31 March 2012

Action Point	Refer Para. No.	Risk Identified	Planned Management Action	Responsible Officer	Target Date
6	119	<p>Waste Management</p> <p>The council's current plans for waste management do not address any of the Scottish Government and EU targets beyond those for 2013.</p> <p><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></p>	<p>Domestic food waste collections have already commenced in urban areas. The extension of the kerbside collection of dry recyclables (including plastic bottles) and green / food waste will be rolled out to all rural households by December 2011.</p> <p>This will assist the Council in achieving both the recycling and landfill diversion targets. The household waste recycling rate currently stands at 48%.</p> <p>Proposals for further progression of the Council's Waste Strategy to meet targets beyond 2013 and the Zero Waste Regulations 2011 have been drafted and will be presented to Committee for consideration, in due course.</p> <p>A comprehensive programme of on-site monitoring of kerbside containers will be developed to ensure recycling is maximised and there will be stringent control of what is put in residual waste bins.</p> <p>Waste education and public engagement will continue.</p>	Environmental Protection Manager	<p>31 December 2011</p> <p>30 June 2012</p>

