The Moray Council

Report to Members and the Controller of Audit on the 2007/08 Audit

AUDIT SCOTLAND

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The Moray Council

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Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by the council. We audited the financial statements and looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes from the 2007/08 audit and the outlook for the period ahead.

Key outcomes from 2007/08 audit

We have given an **unqualified** opinion on the financial statements of The Moray Council. Final accounts working papers were generally good and the council coped well with the significant changes required by the 2007 Code of Practice on Local Authority Accounting.

Overall the council's expenditure for 2007/08 was in line with its budget. Recurring overspends were more than offset by recurring underspends and so do not impact on the 2008/09 budget. At 31 March 2008, the council had total cash backed funds of £22 million including an unallocated general fund balance which exceeded its £5 million target by £4.3 million. This additional flexibility is likely to be required in the medium term to fund a number of significant financial pressures facing the council in the years ahead.

The council continued to make progress against the improvement actions agreed as a result of its best value audits. At the request of the Accounts Commission, a further follow up audit was undertaken in 2008. This work is currently being completed and a separate report will be published in early 2009.

One of the key findings of previous best value audits was the need for elected members to demonstrate consistent strategic leadership and develop their role in all of the council's affairs. In order to do that the council set six objectives within its Best Value Improvement Plan including delivery of training on strategic leadership and the development of a personal training plan for all members.

The council provided members with training on strategic leadership skills as part of the induction process and in a separate seminar led by the Director of the Scottish Local Authority Management Centre at Strathclyde University. Personal development plans have been prepared but only 8 of the council's 26 members have met with the training team to agree their individual plan. Observation of council meetings has identified that not all members are fully engaged with the council's equalities agenda. Audit Scotland is about to publish a report on the impact of the race equality duty. We will review the council's arrangements for addressing the report's recommendations as part of our 2008/09 audit.

The council needs to improve its corporate governance arrangements. More work is required to embed risk management throughout the organisation and to develop business continuity and disaster recovery plans. During the year the council continued to develop its workforce and asset management plans.

Staff shortages during the year prevented internal audit from delivering their audit plan in full, which impacted on the time spent on the review of core financial systems. As a result, we could take only limited assurance from internal audit’s work in 2007/08. Where internal audit do not provide the coverage required for our audit, we are required to undertake the work ourselves and this impacts on the external audit fee charged. The Convener and Chief Executive also rely on internal audit’s work when signing the Annual Governance Statement.

Historically, the council has been one of the best performers in national comparisons with more than 40% of its statutory performance indicators in the top quartile. Last year the council invested in performance management software which allows performance information to be monitored, analysed and reported in a number of different ways. Quarterly performance reports are submitted to service committees with ‘traffic light’ indicators highlighting good and poor performance, and additional narrative providing explanations and planned actions to address poor performance. The council has improved the timeliness of its public performance reporting, publishing its report for 2007/08 in October 2008, some four months earlier than the report for 2006/07.

Outlook for future audits

The council intends to use its single outcome agreement as a basis for developing a revised corporate development plan over the next few months. In the absence of an up to date corporate development plan, service plans for 2008/09 have been based on the current key issues for services. Without clear linkages between the various planning documents, the council may be unable to deliver its priorities for improving public services for the people of Moray

The council faces a number of significant financial pressures in the medium to longer term. These include increasing demand for community care services and out of area placements, the need to realise efficiency savings, and the uncertainty over the level of future funding for the flood alleviation schemes. Although balances remain relatively high as at 31 March 2008, these uncertainties require members to take a cautious approach to the use of reserves. At the time of writing, the council had £2 million in a frozen account with the collapsed Icelandic bank, Landsbanki. It is unclear whether all of this money will be recovered from the bank’s administrators.

The 2008-2012 financial plan identifies that the council needs to make efficiency savings of at least £3 million over the next four years. The council has recently completed the first phase of its Designing Better Services project which identified a programme for change that could potentially deliver annual revenue savings of £4.4 million. The council is currently implementing phase two of the project which will assess these opportunities in more detail and produce full business cases as to how these could be implemented

The council is currently developing its own performance model, 'Moray Performs', based on the 'Virginia Performs' model used by the Scottish Government. The model aims to develop a more effective performance management system which focuses on the single outcome agreement and the council's local priorities. The programme is ambitious and will require the full support of members and officers if it is to be successfully implemented.

The council has a formal duty to facilitate and maintain community planning. The council's previous best value reports have highlighted the need for members to be more engaged with community planning and less focused on local issues. The council has recently decided not to introduce local area committees following consultation with local communities. It has yet to establish what alternative it will put in place to ensure it meets its legal duties and obligations with respect to community planning, engagement and empowerment whilst also providing opportunity, at local level, to deliver services, scrutinise service delivery and provide funding for local priorities.

The co-operation and assistance given to us by The Moray Council elected members and staff during the year is gratefully acknowledged.

Audit Scotland
October 2008

Introduction

1. This report summarises the findings from our 2007/08 audit of The Moray Council, the second year of a five year appointment. Findings are set out in four sections: financial statements, financial position, governance and performance. Within each of these we have also provided an outlook section setting out key issues and concerns facing the council going forward.

2. The scope of the audit was set out in our Annual Audit Plan (AAP), which was submitted to the council in February 2008. The AAP summarised the specific governance and other risks that could affect the council's financial statements and described the work we planned to carry out in response to these risks.

3. As part of the planned work we submitted a Strategic Audit Risk Analysis (SARA) to the council in May 2008. Under the following strategic themes, the SARA set out our views on the key business risks facing the council and described the work we planned to carry out as part of the annual audit:

   - supporting political governance
   - adopting a strategic framework to deliver change
   - using performance management to drive service improvement
   - demonstrating good governance
   - funding sustainable services and performance improvement
   - effective community planning and partnership working

4. Overall conclusions about the council's management of key risks are discussed throughout this report. The Appendix sets out the key risks highlighted in this report which we wish to draw to the attention of members and the action planned by management to address them.

Financial statements

Introduction

5. In this section we summarise key outcomes from our audit of the council's financial statements for 2007/08. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.

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

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

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

Overall conclusion

8. We gave an **unqualified** opinion on the financial statements of The Moray Council for 2007/08.

9. The Local Government in Scotland Act 2003 requires councils to maintain and disclose trading accounts for significant trading operations, which are required to break-even over a three year rolling period. The council's four statutory trading organisations made aggregate surpluses in the three years to 31 March 2008.

10. The council submitted its un-audited financial statements to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation processes and working papers were generally good and this enabled the audit to progress smoothly. Audited accounts were finalised prior to the target date of 30 September 2008 and are now available for presentation to the council and publication.

Accounting practice

11. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* (the 'SORP'). The 2007 SORP required a number of significant changes to be made to the 2007/08 financial statements to make them more consistent with the accounts of other public and private sector entities. The major changes include:

   - accounting for financial instruments based on financial reporting standards 25, 26 and 29
   - replacement of the fixed asset restatement account and capital financing account by a revaluation reserve and capital adjustment account
   - provision for penalties under the Landfill Allowance Schemes.

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

Issues identified during the financial statements audit

13. The council adjusted the financial statements to reflect the majority of our audit findings. As is normal practice, immaterial unadjusted errors were reported to the Chief Financial Officer in our ISA 260 C*ommunication of audit matters with those charged with governance* report*.* Four adjustments were made to the figures included in the un-audited accounts advertised for public inspection. The net effect of these adjustments was to reduce the deficit for the year by £3,000 and decrease the council's net assets by £2.659 million. Details of significant accounting issues arising in the course of our audit are summarised below.

Unapplied capital grants and contributions

14. Unapplied capital grants and contributions were incorrectly treated in the un-audited financial statements. Correction of this error in the audited financial statements resulted in a decrease in the Capital Receipts Reserve of £2.346 million and the establishment of a new Unapplied Deferred Grants Account with a balance of £2.346 million as at 31 March 2008.

Valuation of Tangible Fixed Assets

15. During the year, the council identified that a group of fixed assets, with a value of £1 million, was duplicated within the asset register (and prior year accounts) and processed a correcting adjustment within the 2007/08 financial statements. The audit did not identify any other duplicated assets. The council has confirmed that it has updated its procedures to ensure that assets are not duplicated in future.

Identification and valuation of common good assets

16. There have been a number of Scottish parliamentary petitions concerning the proper recording, auditing and safeguarding of common good assets and this area continues to produce a significant amount of correspondence and complaints. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The paper, which recognises the legislative distinction of the Common Good as a managed fund, requires disclosure of these funds within the local authority financial statements and that common good asset registers be put in place by March 2009.

17. In August 2008, Audit Scotland received correspondence regarding the administration of the Forres Common Good Fund. Although Audit Scotland does not normally investigate matters which arose more than three years previously, the external auditor is made aware of any issues raised for consideration as part of the ongoing audit process.

18. The correspondence raised two points regarding the sale of Common Good Fund assets. The council has recently concluded its investigation of the first point which queried the ownership of New Forres Quarry at the time it was sold. This found that ownership passed from the Royal Burgh of Forres (Town Council) to the County Council on 6 November 1969. The sales proceeds (£13,600) were paid to the Town Council at that time. Once sold, the Quarry ceased to be a Common Good asset.

19. The second point referred to the treatment of the proceeds from the sale of the Lodge in Grant Park, Forres. The council's Chief Financial Officer wrote to the correspondent at the end of August 2008 providing a reconciliation between the opening fund balance at 1 April 2000 and the closing fund balance at 31 March 2002. We have examined the reconciliation, financial statements and working papers covering the period 1 April 2000 to 31 March 2002 and have confirmed that the sale proceeds (£15,700) were deposited within the Forres Common Good Fund capital reserve during 2000/01.

20. As a result of other queries raised about the Forres Common Good Fund, the council identified an asset that had been erroneously transferred from the Common Good Fund to the council during 2006/07. This was corrected within the audited 2007/08 financial statements, increasing the Forres Common Good Fund net assets by £87,000. The council plans to review its procedures to ensure that future transfers are supported by appropriate documentation and are checked prior to preparation of the financial statements. In addition, when any asset is identified for disposal the council checks the title deeds to see whether or not it is an asset owned by one of the common good funds. A title deeds search of all assets would be time consuming, expensive and possibly inconclusive.

Appropriateness of accounting policy

21. For a number of years, the council agreed an annual budget that included a transfer from the capital fund (of an amount equal to the interest earned) to the general fund, although this was never actioned until 2007/08. Such a transfer is not permitted under the 1975 Act and, therefore, should not be included in the council's future financial budgets. This issue is also commented on in the Legality section below at paragraph 23.

Legality

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

23. As noted above, the un-audited accounts contained a transfer of £0.4 million from the capital fund to the general fund which is not permitted under the 1975 Act. This was drawn to the attention of the Chief Financial Officer and removed in the audited accounts.

24. We reported last year that local authorities with registered charitable bodies (registered trust funds) are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund, although the date of full implementation has been deferred by the Scottish Charity Regulator. The Office of the Scottish Charities Regulator (OSCR) has indicated that the interim measures introduced in 2006/07, can again be used in 2007/08 and reliance placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.

25. The council has identified a number of charitable trusts which have been inactive for a considerable period, or have outdated purposes and has approached OSCR with a view to re-organising its existing charities.

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

Financial reporting outlook

IFRS adoption

27. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2009/10. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2009/10. The intention is that local government will adopt IFRS for 2010/11, although there is a possibility that early adoption may be required in some areas and this might include PFI.

Financial position

Introduction

28. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2008, providing an outlook on future financial prospects, including our views on potential financial risks and pressures. Under the strategic theme of 'funding sustainable services and performance improvements', our SARA recognised the significant challenges being faced by the council both in relation to delivery of its improvement agenda and also managing ongoing financial pressures such as increasing demand for community care services and out of area placements.

Council tax and the general fund

Operating performance 2007/08

29. The 2007/08 budget was based on a Band D council tax level of £1,135 with no planned contribution to or from the general fund. The council's net operating expenditure in 2007/08 was £174.1 million. This was met by government grants and local taxation of £169.6 million, resulting in an income and expenditure account deficit of £4.5 million. After taking into account statutory and non-statutory adjustments, a general fund deficit of £2,000 was achieved in the year, which when added to the general fund balance brought forward from 2006/07, results in a general fund balance of £12 million at 31 March 2008.

30. Within this overall outturn, there were a number of variances against budget. In his Foreword to the financial statements, the Chief Financial Officer grouped these into those that are recurring (net underspend of £0.4 million) and those of a one off nature (net to zero).

31. The net recurring underspend comprises additional costs for out of area residential childcare (£0.8million), support for learning (£0.2 million) and property repairs (£0.1 million), offset by reduced operating costs (£0.8 million) and additional income of (£0.7 million).

Reserves and balances

32. Table 1 shows the balance in the council's funds at 31 March 2008 compared to the previous year. At 31 March 2008, the council had total cash backed funds of £22 million, a decrease of £6.5 million on the previous year.

Table 1: Reserves and Funds

Description	31 March 2008 £ Million	31 March 2007 £ Million
General Fund	11.982	11.984
General Fund – Housing Revenue Account Balance	1.029	0.843
Repair and Renewal Fund	2.575	2.201
Capital Fund	2.639	7.133
Insurance Fund	1.296	1.227
Capital Receipts Reserve	2.485	5.120
	22.006	**28.508**

33. The council aims to maintain a general fund working balance of £5 million. At 31 March 2008, the council had earmarked amounts totalling £0.8 million, and committed a further £1.9 million to specific projects in 2008/09, leaving an unallocated general fund balance of £9.3 million which is £4.3 million in excess of its £5 million target. This additional flexibility is likely to be required in the medium term to fund a number of significant financial pressures facing the council in the years ahead. These are discussed in our Financial outlook section below.

34. Reserve funds are held on deposit with various financial institutions. Each year the council approves a list of banks in which to invest in the coming year. Only those rated highest by investment rating agencies are considered. The council had £2 million on short-term deposit with Landsbanki when it collapsed in October and this money has been frozen by the receivers. At the time of writing, it is uncertain how much of the £2 million the council will be able to recover.

Group balances and going concern

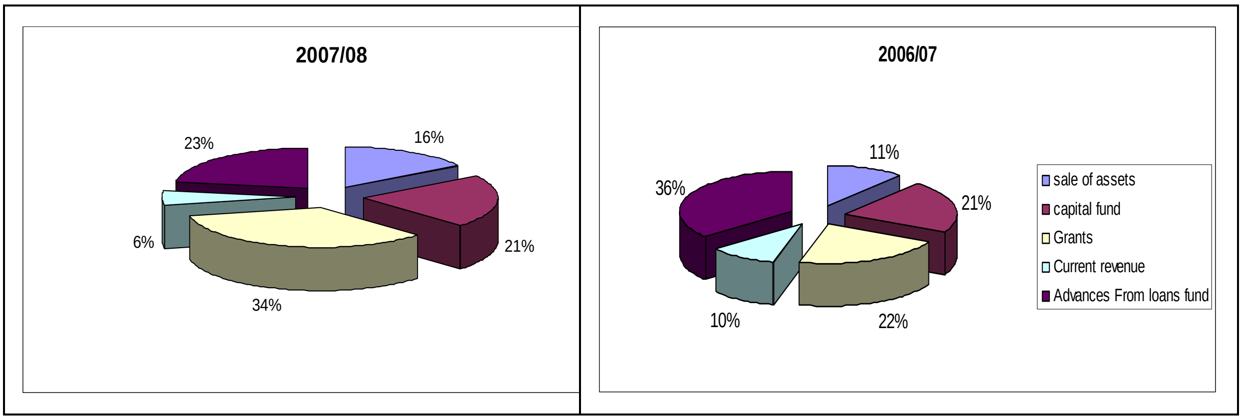
35. The widening diversity of service delivery vehicles used by local authorities means that group accounts are required to present fairly all the activities of councils. The overall effect of inclusion of all of the council's subsidiaries and associates on the group balance sheet is to reduce net assets by £96.5 million, substantially as a result of pension liabilities. All group bodies' accounts were prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee contributions, government grants and council tax.

36. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All of these boards (Grampian Police Joint Board, Grampian Joint Fire & Rescue Board and Grampian Valuation Joint Board) had an excess of liabilities over assets at 31 March 2008 due to the accrual of pension liabilities. In total these deficits amounted to £750 million, with the council's group share being £121 million.

Spending on assets and long-term borrowing

37. Capital expenditure in 2007/08 totalled £22.9 million compared with £25.5 million in 2006/07. Capital investment in the last two years was funded as shown in Chart 1.

Chart 1: Sources of finance for capital expenditure



38. The capital programme experienced slippage of £1.8 million during 2007/08, representing 7% of the planned programme. This was mainly due to delays in the flood alleviation schemes (£0.5 million), and the roads and transport (£0.4 million), schools (£0.6 million), waste management (£0.3 milllion) and contaminated land (£0.5 million) programmes offset by expenditure on efficiency projects initially included within the capital programme but subsequently grant funded. All of this slippage has been added to the 2008/09 capital programme.

39. There was no movement in the amount of long term debt owed by the council during 2007/08. Although all of the council's long term borrowing at the year end matures after more than 10 years, the council has actively managed its exposure to variable rate interest rate movements with less than 23% of its debt exposed to variable rate risk.

Significant trading operations

40. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period.

41. The council has four STOs: building services, roads, vehicle maintenance and grounds maintenance. In the three years to 31 March 2008, all four met the statutory target.

42. In October 2007, the council agreed a framework for demonstrating the competitiveness of its trading operations, including reviews and benchmarking exercises designed to highlight areas of weakness which could be challenged by the members.

43. All trading operations (whether significant or not) were reviewed during the year with a monitoring report submitted to the Policy and Resources Committee in August 2008, some five months later than planned. Although the report did not conclude on the competitiveness of individual operations, it summarised the work done throughout the year and provided sufficient evidence to conclude that the council's significant trading operations are competitive. The council is currently considering how to build on this comprehensive review to ensure that it continues to demonstrate the competitiveness of its trading operations in future years.

Financial outlook

44. The council faces a number of significant financial pressures in the medium to longer term. These include increasing demand for community care services and out of area placements, the need to realise efficiency savings, the impact of inflationary pressures on the schools PPP and other capital projects and the uncertainty over the level of future funding for the flood alleviation schemes. Although balances remain relatively high, with an uncommitted general fund balance of £9.3 million as at 31 March 2008, these uncertainties require members to take a cautious approach to the use of these reserves.

Key risk area 1

2008/09 budget and council tax freeze

45. The council's revenue budget for 2008/09 was approved in February 2008 with no increase in council tax as required by the concordat between the Scottish Government and COSLA. Under this concordat councils agreed to freeze council tax levels for three years in return for some additional funding and the removal of some ringfencing. The council reviewed previously ringfenced individual spending areas totalling £13.5 million during 2008/09 and agreed not to make any significant changes to these during the current financial year.

46. The September monitoring report for 2008/09 projects an overspend of £1.5 million against budgeted net expenditure of £188 million at 31 March 2009. This is due to a number of financial pressures including the effect of inflation on fuel costs and food prices, increased care costs and increased costs relating to recent changes in police and fire pensions. The council is currently considering what action is required to manage this projected overspend in the coming months. A further monitoring report will be considered by the Policy and Resources Committee in December.

47. In May 2008, the council approved its four year financial plan to 31 March 2012. This assumes no increase in council tax throughout the period and highlights key areas of pressure, including increasing demand for services for the elderly and inflationary pressures given the current economic climate. Although the relaxation of some ringfencing gives the council greater flexibility in the allocation of resources, the council tax freeze increases the pressure to identify and deliver efficiency savings. The council's financial plan identifies the need to make efficiency savings of at least £3 million over the next four years.

Key risk area 1

Equal pay and single status

48. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an Employment Tribunal. During 2006/07, the council paid £5.6 million to settle the majority of equal pay claims. As at 31 March 2008, 172 appeals are still outstanding. The council has provided for £1.3 million in its 2007/08 financial statements although it has acknowledged in its contingent liabilities note within the financial statements that the final figure may be in excess of this. The council has agreed that any excess will be met from reserves.

49. In 1999 a single status agreement was reached between Scottish local authorities and trade unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers. In December 2006, the council was the first in Scotland to implement its single status agreement. All appeals had been settled by 31 March 2008.

Future capital programme

50. Capital plans for 2008/09 and 2009/10 anticipate annual capital expenditure of £42.5 million and £35.5 million respectively. This is expected to be funded by a number of sources including capital receipts, grants and other contributions and further increases in borrowing totalling £37.9 million over the two years.

51. The council faces a number of pressures on its capital programme over the next six years, the most significant of which is the uncertainty relating to the funding of its flood alleviation schemes. Expenditure of £134.4 million is required in the period to 31 March 2014 in order to complete the council's ambitious flood alleviation programme. The council's financial settlement for 2008-2011 includes capital grant funding of £39.7 million for these schemes. This represents a £23 million shortfall which the council plans to address through the accelerated use of its capital fund (which will be exhausted in 2008/09) and additional borrowing.

52. Beyond 2010/11, the position will remain uncertain until the Scottish Government announces its next financial settlement at the end of 2009. The council estimates that if capital grant levels remain the same as the current settlement, additional annual savings would be required to fund additional borrowing of up to £41 million. The impact of construction industry inflation on the future costs of the council's capital projects will further impact on the projected shortfall in funding and increase the pressure on the council's budgets.

Key risk area 1

Public Private Partnership (PPP)

53. In November 2007, the council agreed to build two new schools (a new Elgin Academy and a new Keith primary school) using the not for profit PPP model proposed by the Scottish Government. The updated business case has been approved and expressions of interest invited to design, build, finance and operate the two schools. A shortlist of three approved bidders has recently been agreed, all of whom will be invited to participate in 'competitive dialogue' to develop solutions for the design, build, financing and operation of the facilities. Final tenders are expected in August 2009.

54. The council has agreed to fund this project from the general services budget rather than by increasing council tax. PPP funding of £3.6 million per annum will be provided by the Scottish Government as a contribution towards the annual operating costs of this project.

55. The council's four year financial plan highlights construction inflation on the schools PPP project and other capital projects as a key risk facing the council in enabling it to meet its annual budget in the medium term.

Key risk area 1

Pension liabilities

56. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts.

57. The council's estimated pension liabilities at 31 March 2008 exceeded its share of the assets in the Aberdeen City Council Pension Fund by £63 million, increasing from £34 million in the previous year. Based on the last full actuarial valuation of the fund, the actuary has recommended that, in order to maintain the solvency of the fund, the council's contributions should be increased from 285% of employee contributions in 2007/08 to 300% in 2008/09.

58. The next full actuarial valuation will assess the position at 31 March 2008. This will determine contribution rates for 2009/10 and the next two financial years. Recent changes to the Local Government Pension Scheme regulations are expected to release some future financial benefits, while providing additional flexibility to future pensioners.

Governance

Introduction

59. In this section we comment on key aspects of the council's governance arrangements during 2007/08. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2007/08

60. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on the work undertaken, we concluded that the council needs to improve its corporate governance arrangements. In particular, elected members need to do more to demonstrate consistent strategic leadership and develop their role in all of the council's corporate affairs.

61. The council's financial statements include an Annual Governance Statement which outlines the council's arrangements under the six principles of good governance contained in its Local Code of Corporate Governance. The council's Local Code was updated during the year following the publication of CIPFA/SOLACE's framework 'Delivering Good Governance in Local Government'. The Statement identifies a number of areas for further improvement in the coming year including strengthening partnership arrangements, reviewing scrutiny arrangements, and improving linkages between risk management and service planning.

Political Governance

62. The political context for councils changed significantly in 2007, with a new Scottish government and a shift to more coalition and minority administrations in local government. In common with many councils, the May 2007 elections resulted in a considerable number of new Moray councillors, with 16 newly elected members out of 26. The council sought to address this challenge by providing a comprehensive programme of induction training. This training was open to all members (both new and returning) and proved very popular, with 96% of members attending.

63. The need for consistent strategic leadership by elected members was one of the key findings of the 2007 best value progress report. In response, the council set six objectives within its Best Value Improvement Plan including delivery of training on strategic leadership skills and the development of a personal training plan for all members.

64. The council provided members with training on strategic leadership skills as part of the induction process and in a separate seminar led by the Director of the Scottish Local Authority Management Centre at Strathclyde University. Personal development plans have been prepared for all members based on a training needs assessment but only 8 of the council's 26 members have met with the training team to agree their individual plan. Audit Scotland is currently gathering information from councils in order to obtain a fuller picture of member training across Scotland.

Key risk area 2

65. During the year the council reviewed its decision making structures to ensure they were the most effective for the new council and to better align them with the priorities set out in the Single Outcome Agreement (see Governance outlook section). The new structure took effect from May 2008 and consists of the following committees:

- Children and young people
- Planning and regulatory services
- Policy and resources
- Audit and performance review
- Health and social care
- Economic development and infrastructure
- Communities
- Licensing

66. As part of the review, the council also agreed in principle and subject to consultation with local communities to introduce local area committees as a first step to decentralising some elements of the council's business and to complete the community planning structure. The consultation exercise identified significant opposition to the implementation of local area committees and the council has decided not to proceed with them. The council has yet to establish what alternative it will put in place to meet its legal duties and obligations with respect to community planning, engagement and empowerment whilst providing an opportunity, at local level, to deliver services, scrutinise service delivery and provide funding for local priorities.

Key risk area 3

Audit and Performance Review Committee

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

68. The Audit and Performance Review Committee meets regularly to receive reports from internal and external audit and scrutinise performance. Its remit has recently been extended to include monitoring of progress against the targets and performance indicators included in the single outcome agreement.

69. During the year we reviewed the committee's effectiveness against CIPFA's guidance note *'Audit Committee Principles in Local Authorities in Scotland'*. Our review concluded that, overall, the committee complies with the expectations set out in CIPFA's guidance note. In order to achieve full compliance, the committee requires to:

- introduce a mechanism to ensure that internal and external audit (see Final remarks section of this report) recommendations are implemented
- ensure that inspection reports from external bodies such as Her Majesty's Inspectorate of Education (HMIE) and the Social Work Inspection Agency (SWIA) are appropriately followed up. Although a process is already in place, monitoring reports are not always as timely as they should be.
- ensure that the reports from Audit Scotland's national study programme are considered and the council's existing arrangements reviewed in light of the recommendations and best practice reported.
- have formal procedures in place for the selection of the Chair including the best practice expectation that the position be held by a member independent of the council's administration. Currently, both the Chair and Deputy Chair are independent of the council's administration.
- consider our International Standard on Auditing 260 (ISA 260) report '*Communication of Audit Matters to those Charged with Governance'* and ensure that any issues arising from the process of drawing up, auditing and certifying the authority's annual accounts are properly dealt with.
- consider members' training needs and the skills they require to effectively serve on the committee. Given the key role played by the committee in the council's governance and scrutiny arrangements, consideration should be given to making key training mandatory for all members.

70. As noted at paragraph 61, the council's Local Code of Corporate Governance was updated during the year following the publication of CIPFA/SOLACE's framework *'Delivering Good Governance in Local Government*'. This framework incorporates the six principles of the Langlands' report '*Good Governance in Local Government*'. The council assessed itself against this framework during 2007/08 and reported the results in the Annual Governance Statement within the financial statements.

Internal audit

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.

72. 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 2007/08.

73. The internal audit section experienced significant staff shortages during the year which resulted in slippage against the annual audit plan. This mainly impacted on the time spent on review of the controls in operation within the council's core financial systems. As a result, we planned to take only limited assurance from internal audit's work in 2007/08.

74. In April 2008, we advised the Chief Financial Officer of the level of internal audit input we would require to enable us to reduce the external audit fee below the maximum of the range. We expect to have further discussions on this as part of our planning for the 2008/09 audit in order to ensure that maximum benefit is gained from the systems work undertaken by internal and external audit.

75. Separately, the council needs to undertake a local risk assessment to establish what internal audit work is required to provide adequate assurance to support the Convener and Chief Executive in signing the Annual Governance Statement.

Key risk area 4

Risk management

76. Risk management is an essential component of the corporate governance framework in any well managed organisation. Although a risk management policy and corporate risk register have been in place for some time, the council acknowledges that more needs to be done to embed risk management, particularly at a service level, and to demonstrate how the risks identified have been addressed through corporate and service planning. Partnership arrangements for managing risk also require to be reviewed. In the absence of a fully embedded risk management process, there is a concern that the council may not have identified or managed all of its key operational risks.

Key risk area 5

Business continuity planning

77. Business continuity planning should minimise disruption to important systems caused by major failures or disasters. During the year, we reviewed the council's arrangements for business continuity planning and concluded that little progress had been made since the resignation of the Business Continuity Officer in 2006.

78. A corporate business continuity policy is in place but needs to be updated to address data protection and recent data handling issues. Further work is also required to update the 2006 business impact analysis prior to developing a corporate critical services plan, and corporate and local business continuity plans. In the absence of a clear approach to business continuity and disaster recovery, there is a risk that the council would not be able to continue to deliver services in the event of system failure due to inadequate business continuity arrangements.

Key risk area 6

Systems of internal control

79. In his 2007/08 Annual Report the Team Leader (Internal Audit) provided his opinion that, based on the internal audit work undertaken during the year, reasonable assurance can be given on the adequacy and effectiveness of the council's control environment during the year to 31 March 2008.

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

- payroll
- housing rents
- main accounting system
- creditors payments
- council tax
- non domestic rates

Prevention and detection of fraud and irregularities

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

NFI in Scotland

82. In 2007/08, the council again took part in the National Fraud Initiative (NFI) in Scotland. NFI brings together data from public bodies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.

83. In May 2008, Audit Scotland published a 'National Fraud Initiative in Scotland 2006/07' report which highlighted that fraud and overpayments in excess of £9.7 million were identified as a result of the 2006/07 NFI exercise in Scotland.

84. The council identified nearly £62,000 of overpayments as a result of this exercise, reported six cases to the Procurator Fiscal and issued four administrative penalties with two cases still ongoing. This relatively low incidence of identified fraud and overpayments provides assurance that the council's internal arrangements for preventing and detecting fraud are operating satisfactorily.

85. The 2008/09 NFI exercise commenced in October 2008. We will continue to monitor the council's involvement in NFI as part of our 2008/09 audit.

Housing and council tax benefits inspections

86. From April 2008, Audit Scotland took over responsibility for inspecting the housing and council tax benefit functions from the Department for Work and Pensions. Risk based inspections will be undertaken on a cyclical basis with all councils being inspected over an 18 month period. The council will be notified of the timing of its inspection in due course.

Data handling and security

87. Data handling and security has received increased public and media attention recently as a result of a number of national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. The council has undertaken a review of its arrangements to enable it to identify its exposure to these risks. Policies, such as the information security policy, and procedures have been reviewed to ensure that the appropriate control environment is in place.

88. In addition, the Scottish Government has set up a group of privacy and security experts to scrutinise how local government services handle personal data. This group will develop a set of guiding principles to inform future information management and security actions.

Payment card standards

89. The Payment Card Industry Data Security Standard (PCI/DSS) was developed by major credit card companies as a guideline to assist organisations that process card payments to prevent credit card fraud, hacking and various other security threats. Any organisation processing, storing or transmitting payment card data must be PCI/DSS compliant or risk losing the ability to process credit card payments. The council is currently working with its banking provider to ensure compliance with this standard.

Governance outlook

Single outcome agreements

90. The concordat between the Scottish Government and COSLA sets out the terms of a new relationship between the Scottish Government and local government and underpins the funding provided to local government in the period 2008 to 2011. Central to the concordat is the Single Outcome Agreement (SOA) between each council and the government which sets out each council's contribution to the government's 15 key national outcomes.

91. Moray community planning partnership's community plan 2006-2010 was the starting point for the development of the partnership's SOA as it already contained reference to most of the national outcome themes. Community and statutory partners were consulted throughout the process ensuring that the approach adopted was both inclusive and focused on local issues. The council received positive feedback from the Scottish Improvement Service's review of its SOA. This highlighted a number of areas of good practice including the strong and clear local context, comparison with Scottish positions and benchmarking comparator councils and the engagement of elected members in drafting responses to each national outcome.

92. The SOA contains a number of performance indicators which will be used to demonstrate the progress made against each of the key national outcomes. Performance management will be led by the council and although governance arrangements are still being established, a quarterly performance management cycle is being developed to review progress against the targets within the SOA. An annual performance report will also be prepared across the activities of all partners within the community planning partnership. The effectiveness of these reporting arrangements will be crucial to demonstrating that community outcomes are being achieved.

Key risk area 7

Performance

Introduction

93. In this section we summarise how the council manages its performance, provide an outlook on future performance, including our views on the current status of risks identified in our SARA which have not been addressed elsewhere in this report, and comment on the main findings from Audit Scotland's national performance studies.

Corporate objectives and priorities

94. In December 2007, the new council published its priorities for 2008 – 2011. These are to:

- protect communities across Moray and lobby the government to provide maximum funding for flood alleviation schemes and to simplify flooding legislation
- improve levels of achievement and attainments in Moray schools
- develop modern care services for older people and allow people to be cared for in their own homes for as long as possible
- make Moray safer and improve road safety, reduce anti-social behaviour and lessen the impact that the drink culture has on communities
- work with the public and private sectors to maximise the number of affordable homes to rent and buy in Moray
- encourage residential and commercial development in rural communities
- support and lobby for an Elgin bypass and improve the roads infrastructure in Elgin in order to alleviate traffic congestion
- support and promote economic development in Moray and support the sustainable growth and development of the tourism industry.

95. Moray's single outcome agreement for 2008/09 was developed from the key partnership strategy documents already in place including the council's priorities and the community plan 2006-2010. The council intends to use its single outcome agreement as a basis for developing a revised corporate development plan over the next few months and to review the arrangements for the preparation of the next community plan. In the absence of an up to date corporate development plan, service plans for 2008/09 have been based on the current key issues for services. There is a risk that without clear linkages between the various planning documents, the council will be unable to deliver its priorities for improving public services for the people of Moray.

Key risk area 8

Overview of performance in 2007/08

Measuring Performance

96. Last year the council invested in performance management software which allows performance information to be monitored, analysed and reported in a number of different ways. Quarterly performance reports are submitted to service committees with ‘traffic light’ indicators highlighting good and poor performance, and additional narrative providing explanations and planned actions to address poor performance. The chair of each service committee also reports on performance to the Audit and Performance Review Committee.

97. As noted at paragraph 92, the council has agreed to lead on performance monitoring against the single outcome agreement. The council is currently developing its own performance model, ‘Moray Performs’, based on the ‘Virginia Performs’ model used by the Scottish Government. The model aims to develop a more effective performance management system which focuses on the single outcome agreement and the council’s local priorities. The programme is ambitious and includes the following key areas:

- development, for each service, of a vision and a set of key measures that are based on outcomes, focused on results rather than processes, and with clear links to the financial resources required for their delivery
- review of the service standards for each activity to ensure that they take account of national and statutory standards and targets
- development of a ’management scorecard’ which focuses on key management activities to be undertaken during the year. This will be based on the Public Sector Framework, a self-assessment tool which requires the council to systematically and comprehensively review its activities and results in order to identify its strengths and areas for improvement.

Public performance report

98. The council’s annual public performance report was published in October 2008 providing information on performance against the Scottish Government’s five strategic objectives which form the basis of Moray’s single outcome agreement. The report provides a balanced view of the council’s achievements during the year. Key areas highlighted include:

- flood alleviation schemes continue to progress with construction started on the Forres scheme, the Rothes scheme given Ministerial approval and submission of the Flood Prevention Order for the Elgin scheme

- achievement and attainment in schools has been mixed with improvements in the level and number of Standard Grade passes achieved whilst performance at Higher Grade fell to below the national average.
- the council recycled 44% of household and business waste in 2007/08, exceeding the 2010 national target of 40%
- more than 65% of the council's housing stock meets the Scottish Housing Quality Standard.

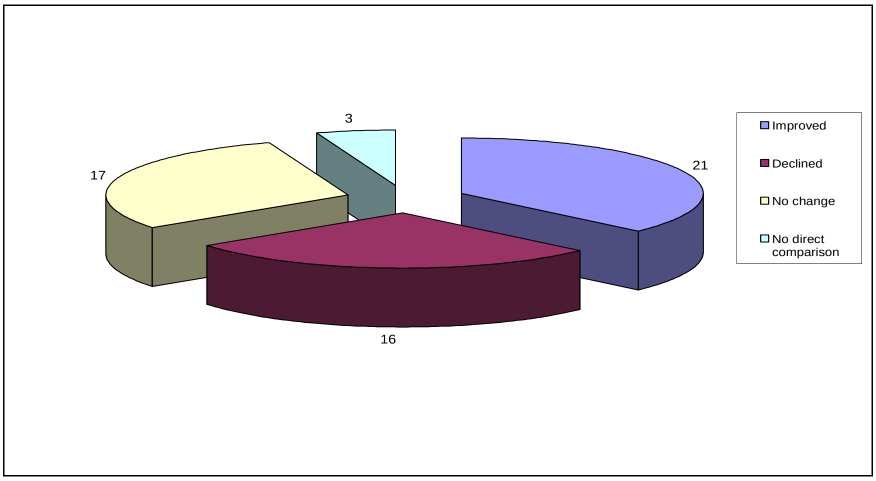
99. The council continues to develop other approaches to reporting performance information to stakeholders. These include webcasting all committee meetings, displaying community care performance information on television screens at the local hospital and a direct web link to the local newspaper, the Northern Scot. There have also been plans to publicise performance information on the side of council vans for a number of years but this has yet to be implemented.

Statutory performance indicators

100. One of the ways of measuring council performance is through the 57 statutory performance indicators (SPIs). Historically, the council is one of the better performers in national comparisons with more than 40% of its SPIs in the upper quartile, although performance varies across the organisation.

101. In 2007/08, the council saw an improvement in just over a third of its reported indicators.

Chart 2: Changes in SPIs between 2006/07 and 2007/08



102. Each year we review the council's arrangements for preparing the SPIs and assess the reliability of the resulting indicators. We place reliance on Internal Audit's work in this area. Overall, the quality of working papers provided to support the SPIs was variable. Internal Audit have recently finalised a report on their review of the Statutory Performance Indicators, including an agreed action plan, to improve the procedures in place for the preparation of SPIs in future years.

103. Two indicators (adult social work indicator 6 – social enquiry reports and protective services indicator 2 – domestic noise complaints) were classified as unreliable compared with none in 2006/07. In addition, the council failed to report protective services indicator 2b and was unable to report adult social work indicator 1 - community care assessments.

104. The council publishes an annual Performance Indicators Public Performance Report analysing its performance against the previous year. Service areas which have improved and declined by more than 15% are highlighted along with high level explanations for the changes. As noted at paragraph 95, performance information is monitored quarterly at service committees and action taken to address areas of poor performance.

Best Value audit

105. 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 the findings from this work were reported in August 2007. The follow up concluded that:

> The council is moving in the right direction and the pace of change has been steady. The council still has much to do but it has invested in developing a firmer base from which to make future improvements. It needs to build on this investment and sustain the pace of improvement to deliver better outcomes for local communities. In particular, elected members need to set a clearer strategic direction for the area and the organisation, promote a culture of continuous improvement, and ensure that there is sufficient capacity to sustain improvement.
>
> The challenge for the new council is to sustain and build on the improvement made since the original Best Value audit. It now needs to ensure that its investment flows through to improved services for the people of Moray. In order to do this, the council needs to further develop and support elected membership leadership capacity and ensure that it has the capacity to sustain continuous improvement.

106. The Commission requested a further progress report on continued improvement in The Moray Council as at June 2008. This work is currently being completed and will be reported in a separate report early in the new year.

Performance outlook – opportunities and risks

Introduction

107. As stated in paragraph 3, our SARA identifies some of the strategic risks faced by The Moray Council in delivering its stated objectives and priorities in the years ahead. Many of these risks are discussed within earlier sections of this report. In the following paragraphs we comment on the progress made by the council on those risks not addressed elsewhere in this document.

108. Risk exists in all organisations which are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be ‘risk aware’, and have sound processes of risk management, rather than ‘risk averse’. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.

Adopting a strategic framework to deliver change

109. Due to the uncertainty associated with financial settlements the council has yet to develop strategic planning beyond a three to five year timeframe. Although the council has recognised the need to put long term (at least 20 years) strategies in place which reflect commitments already made and the workforce and assets that will be required to deliver services in the future, these are still being developed. At present, there are no robust and demonstrable approaches to ensure that corporate strategies and objectives are supported by workforce and asset management plans in the long term. There is, therefore, a risk that the council is unclear about its long term objectives and how they are to be delivered.

Key risk area 8

110. The council has some significant projects underway, such as the major programme for flood alleviation and proposals to build two new schools through a public private partnership scheme. Inevitably, any significant change carries with it risks that expected benefits are not delivered, or that they are only delivered at greater time and cost. During the year, the council increased its capacity to deliver change through the appointment of an additional two project managers. Nevertheless, the introduction of the single outcome agreement and the development of the ‘Moray Performs’ model will continue to stretch the council’s capacity to deliver all of its planned projects at the pace required. A focus on major change projects is also likely to limit the ability of individuals to manage ‘business as usual’.

Funding sustainable services and performance improvement

111. Ensuring sustainability of services in the future requires a comprehensive policy led approach to budgeting. The council has continued to develop its approach to policy led budgeting in preparing its four year financial plan, including costing each of the council's priorities to help inform members' decision making and allocating additional funding to local and national priorities. Further work is required to fully integrate financial planning with community and corporate planning arrangements and to further improve councillors' engagement in the process.

112. The 2008-2012 financial plan identifies the need for the council to make efficiency savings of at least £3 million over the next four years. The council has recently completed the first phase of its Designing Better Services project which sought to identify opportunities to simplify, standardise or share processes in order to deliver service improvements and release financial efficiencies.

113. Phase one identified a programme for change that could potentially deliver annual revenue savings of £4.4 million and improve service delivery. The changes required are wide ranging and will impact on the majority of council services as any quick and easy opportunities for efficiencies have already been implemented. The council is currently implementing phase two of the project which will assess the opportunities to deliver service improvements and efficiencies in more detail and produce full business cases as to how these could be implemented.

Effective community planning and partnership working

114. The council has a formal duty to facilitate and maintain community planning. The original best value audit concluded that the Community Planning Partnership needed to be more effective in collectively tackling some of the major issues affecting Moray whilst the 2007 best value follow up report highlighted the need for members to be more engaged with community planning and less focused on local issues.

115. The importance of community planning is further reinforced by the introduction of the single outcome agreement which sets out the outcomes the council is seeking to achieve with its community planning partners. The community planning partnership and the council have recently revised their structures to more closely reflect the themes of the single outcome agreement.

116. As noted at paragraph 66, the council has recently decided not to introduce local area committees following consultation with local communities but has yet to establish what alternative it will put in place to meet its legal duties and obligations with respect to community planning, engagement and empowerment whilst providing an opportunity, at local level, to deliver services, scrutinise service delivery and provide funding for local priorities.

Key risk area 3

National studies

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

Sustainable waste management

118. In recent years significant new investment has been made to reduce the amount of waste sent to landfill. Our national report on sustainable waste management, published in September 2007, highlighted that:

- significant progress has been made in meeting interim recycling targets, but the rate varies considerably between councils. The percentage of municipal waste recycled and composted increased from 7% in 2001/2 to 25% in 2005/6.
- there has been slow progress in developing facilities to treat residual waste and there is a significant risk that EU landfill directive targets might not be met.
- increased recycling has led to increased costs for councils.
- all parties need to work more effectively together to make progress in waste minimisation, recycling and waste treatment.

119. The percentage of waste recycled/composted in Moray has risen from 30.9% in 2005/06 to 44% in 2007/08, one of the highest rates within Scottish councils and in excess of the 2010 national target of 40%. This increase has mainly been achieved by making it as convenient as possible for residents to recycle their waste. The council operates a kerbside recycling collection service for bottles, cans, glass and garden waste which covers 82% of the households in Moray. Plastic bottle recycling was also introduced during 2007/08 at the five main recycling centres.

120. The EC Landfill Directive sets limits on the disposal of biodegradable waste to landfill and requires the pre-treatment of waste prior to landfill. The Moray Council has met all of its targets to date and currently has surplus landfill allowances totalling 12,348 tonnes. During the year, the council agreed to a request from Highland Council to transfer surplus allowances to it to enable it to meet its 2006/07 and 2007/08 targets. Where sharing of allowances takes place, this is done at no cost to either authority. From 2008/09 onwards, Scottish councils will be allowed to trade landfill allowances so that if one council performs better than its targets, it can sell its excess allowances to other councils.

Free personal and nursing care

121. Since July 2002, all councils have had systems in place to deliver free personal and nursing care (FPNC). People of all ages living in care homes are entitled to free nursing care and people over 65, living in any setting, are entitled to free personal and nursing care. Our national report about the financial implications of FPNC, published in September 2007, found that:

- individual councils have interpreted the legislation and guidance relating to food preparation differently
- councils should improve their information systems to enable them to collect comprehensive and accurate information on FPNC and other aspects of care and support services.
- councils should provide clear information to older people on what is covered by FPNC.
- councils should work with local health partners to evaluate the longer term consequences of reducing domestic homecare services.

122. The council revised its free personal and nursing care policy in April 2007 and no longer charges for food preparation. The council provides information on free personal and nursing care through leaflets, via its Community Care officers, and on its website which provides links to Scottish Government guidance and health professionals. In 2007/08, 760 people over the age of 65 received a free personal care package in Moray.

Scotland's school estate

123. A major programme of school building renewal started at the end of the 1990s. The programme aims to create a school estate that is well designed, well built and well managed. Our national study, published in March 2008, concludes that the current rate of progress will take up to 20 years to remove all schools from poor or bad condition. The report recommends that the Scottish Government and councils improve arrangements and support future achievements through:

- better planning to set specific, measurable and meaningful targets for the school estate strategy.
- greater use of the Scottish Government guidance by councils on future school design .
- making environmental sustainability a key element of school design.
- identifying and sharing good (and bad) practice in school design and estate management.
- estimating pupil rolls for at least ten years ahead with a minimum annual review.

124. The council's school estate management plan was reviewed and updated during 2007/08 and priority areas have been included in its revenue and capital programmes. Although almost all schools are in a satisfactory, or better, condition, there continues to be issues of suitability with significant over-capacity in primary schools. As noted at paragraph 53, the council is currently progressing its PPP project. Opportunities will be taken, during this programme, to learn from best practice elsewhere.

Overview of sport in Scotland

125. Public bodies spend on average £558 million a year on sport in Scotland. Councils are responsible for 90% of this expenditure. Most of the money is spent on providing and maintaining facilities as well as programmes to encourage participation and support individual athletes. Our national report, published in April 2008, found that:

- the provision of sports facilities and other services is fragmented, with no clear links between the government's national strategy for sport and councils' investment. The development of single outcome agreements is an opportunity to clarify and align the links between national and local strategies.
- the level of participation and funding in sport has been declining and participation by younger people falls short of targets.
- Sportsscotland estimates that an additional £110 million a year is needed for the next 25 years to bring sports facilities up to an acceptable standard.
- arrangements to deliver the 2014 Commonwealth Games are still being developed.

126. In 2007/08 the council spent £3.2 million on sports development, including supporting the Moray Leisure Centre with a grant of £0.603 million. Historically, there has been a high level of participation in sport in Moray with the council ranked second highest in Scotland for the number of attendances per 1,000 population at swimming pools in 2006/07. Although attendances at Moray Leisure Centre declined in 2007/08 in line with national trends, attendances at local fitness centres, pitches and pavilions saw an increase in numbers. The Centre's Board of Directors are currently investigating ways of generating more interest and increasing participation in 2008/09.

The impact of the race equality duty on council services

127. In November 2008, Audit Scotland will publish a national report about the impact of the race equality duty. The report will:

- examine the impact of the duty on council services and people from minority ethnic communities
- consider the main factors that affect the performance of councils on race equality
- set out how councils can improve their performance
- make recommendations to councils as well as to national bodies that are active in the equalities field and have a role to play in supporting councils meet their equality responsibilities

128. Our observation of committee meetings has identified that not all members are fully engaged with the council's equalities agenda. We will review the council's arrangements for addressing the report's recommendations as part of our 2008/09 audit.

Final remarks

129. We have summarised our conclusions in the key messages section of this report. Attached is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. Only high level risks are included in the plan. In response, officers have considered the issues and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks.

130. A mechanism should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2008/09 audit.

131. The co-operation and assistance given to us throughout our audit by members and staff is gratefully acknowledged.

Appendix: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	44, 47, 52 & 55	**Financial pressures** The council continues to face significant challenges both in relation to its improvement agenda and in managing ongoing financial pressures. ***Risk: the council may not be able to sustain the current level of services in the future.***	Phase 1 of the Designing Better Services Project has identified substantial efficiency savings through transitional reform. The council will be asked to support further design to confirm the level of savings to be targeted and then move to implementation. Key milestones are: ▪ Recommend progression to detailed design ▪ Report on targeted savings ▪ Complete detailed design	Chief Financial Officer	 Nov 2008 Mar 2009 Dec 2009
2	64	**Member training** Personal development plans have been prepared for all members based on a training needs assessment but only 8 of the council's 26 members have met with the training team to agree their individual plan. ***Risk: members may not provide consistent strategic leadership and may not have all the skills necessary to fulfil their responsibilities.***	Remaining members to meet with the training team to agree training plans.	Chief Legal Officer	31 March 2009

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	66	**Community planning** The council has decided against the introduction of local area committees but has yet to establish what alternative it will put in place. ***Risk: the council may fail to meet its legal duties and obligations with respect to community planning, engagement and empowerment at the local level.***	Following an extensive consultation exercise, the council agreed not to proceed with local area committees. The Community Engagement Group will lead on the local agenda, a seminar has been held, the role and remit of the group established and working groups set up to develop their action plans. A sub-group has been set up to develop an action plan which will ensure that community engagement is developed. The council will continue to support Area Forums.	Chief Executive	31 January 2009
4	75	**Internal audit** Only limited time was spent on the review of the controls in operation within the council's core financial systems during 2007/08. ***Risks:*** • ***insufficient evidence is available to support the independent assurance provided annually by the Team Leader (Internal Audit)*** • ***the council's system of internal control may not be operating effectively***	The Internal Audit Plan for 2008/09 includes work on main financial systems, in addition to ongoing regularity testing of payroll and creditor systems. The Chief Financial Officer will monitor the position from a risk management perspective by considering the combined outputs of internal and external audit and the extent of reported deficiencies in the Council's control environment. The impact of the potentially expanding role of internal audit as a consequence of self assessment, transformational change and pressure to extend coverage of main financial systems will be considered. The need for more staff resources will be balanced against a range of demands and wider financial pressures facing the council. Ongoing liaison with the External Auditor will be required and the Audit and Performance Review Committee will be kept advised. Any changes will be incorporated into the Internal Audit plan for 2009/10.	Chief Financial Officer	31 March 2009

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	76	**Risk management** Further work is required to embed risk management throughout the organisation and to demonstrate how the risks identified have been addressed through corporate and service planning. Partnership arrangements for managing risk also require to be reviewed. ***Risk: in the absence of a fully embedded process, the council may not have identified or managed all of its key operational risks.***	The council is working towards fully embedding risk management processes. An action plan of tasks to be completed during 2008/09 has been prepared and agreed by the council's risk management group. The Internal Audit plan for the same period includes a review of partnership risks.	Team Leader (Audit)	31 March 2009
6	78	**Business continuity planning** Little progress had been made with business continuity planning since the resignation of the Business Continuity Officer in 2006. ***Risk: the council may not be able to continue to deliver services in the event of system failure***	The post of Business Continuity Officer was refilled in August 2008. A detailed Action Plan has been agreed with Audit Scotland as a result of a specific audit in this area with all areas due for completion by 30 September 2009.	Business Continuity Officer	30 September 2009
7	92	**Single outcome agreement (SOA)** Governance and performance management arrangements are currently being developed for the SOA. ***Risk: the partnership may fail to deliver the outcomes included in the Moray SOA.***	The Performance Management Framework is being revised to ensure that outcomes are reported to Community Planning Groups and the Community Planning Partnership Board. Governance arrangements for the partnership are being reviewed now that revised structures are operational.	Chief Executive	31 December 2008

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
8	95 & 109	**Strategic planning** The council intends to use its single outcome agreement as a basis for developing a revised corporate development plan over the next few months. In the absence of an up to date corporate development plan, service plans for 2008/09 have been based on the current key issues for services. At present, there are no robust and demonstrable approaches to ensure that corporate strategies and objectives are supported by workforce and asset management plans in the long term. ***Risk: without clear linkages between the various planning documents, the council will be unable to deliver its priorities for improving public services for the people of Moray.***	The council will use the Single Outcome Agreement, statement of values and management standards to produce a corporate plan. Environmental Services have piloted a new format of Service Improvement Plan to align with the Single Outcome Agreement. This will be developed for all services for 2009/10. The Corporate Management Team have agreed a strategic framework under the heading 'Moray Performs'. This framework incorporates: ▪ Single Outcome Agreement ▪ Performance Management ▪ Workforce Planning ▪ Designing Better Services ▪ Governance ▪ Public Sector Improvement Framework This programme will provide clear linkages between planning documents.	Chief Executive	30 November 2008 31 March 2009