

Aberdeenshire Council

**Report to Councillors and the Controller of Audit
on the 2008/09 Audit**

October 2009



 **AUDIT SCOTLAND**

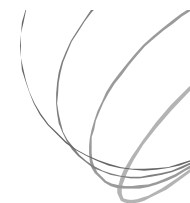


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Key Messages

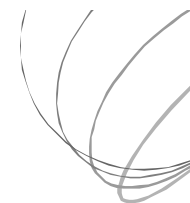
We have given an **unqualified** opinion on the financial statements of Aberdeenshire Council. Last year we reported that final accounts preparation processes and working papers required to be reviewed to ensure there was an adequate package available for audit in future years. This year we saw improvement in the key areas identified last year but more needs to be done to address the accounting issues identified this year and to improve the quality of the supporting information provided by some departments. We will continue to work with finance staff to clarify our requirements and help improve the accounts preparation and audit processes.

In 2008/09, Aberdeenshire Council spent a total of £786 million (revenue and capital) on the provision of public services. Despite difficult economic conditions, actual expenditure was £10.7 million less than budget due mainly to savings in capital financing costs and a £6.2 million underspend on Education, Learning and Leisure Services. We have been advised that this underspend is due to timing differences between planning for the academic year and the need to account for expenditure at the financial year end. Under the council's year end flexibility arrangements, the majority of the underspend has been carried forward to 2009/10. The council is currently considering how to reduce the impact of these timing differences in future years.

Variances against the council's budgets have followed a similar pattern over the past three years, with overspends forecast in the early part of the year and underspends achieved by the year end. As a result, and despite efforts to reduce it, the working balance is now £11.4 million in excess of the minimum balance the council considers necessary to provide it with a cushion against unforeseen events and contingencies. In these challenging times, the council needs to understand the underlying reasons for this pattern in order to ensure all available resources are focused on the delivery of the council's priority services.

During the year, the council continued to develop its approach to policy led budgeting as part of its integrated strategic planning framework. Plans are in place to prepare the 2010/11 budget using the new framework which aims to link the council's strategic priorities and the single outcome agreement's national outcomes with Service budgets. Until the new strategic planning framework is fully implemented and there are clear linkages between the various planning documents, there is a risk that the council may be unable to deliver its priorities for improving public services for the people of Aberdeenshire.

The council assessed its 2008/09 corporate governance arrangements against the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government*. Although a number of areas for improvement were identified, the results suggest that, overall, the council has a sound governance framework in place. More work is required to fully embed risk management at all levels within the council and plans are in place to develop operational risk registers during 2009/10. Last year we reported that many of the 2007/08 year end reconciliations contained differences or unmatched items which had still to be investigated and cleared. Whilst progress has been made with these during 2008/09, there is still more work to be done.



In June 2009, the council approved a revised organisational structure for the leadership and management of the council's services. Three Heads of Service have recently been appointed to the statutory roles of Section 95 Officer, Monitoring Officer and Chief Social Work Officer. 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.

The council is clear about its overall direction and priorities, and has been effective in establishing a culture of continuous improvement. Over the last year, the council has completed 54% of the actions contained within its best value improvement plan and all but three of the remaining actions will be completed on schedule. Progress has, however, been slower than initially anticipated, with around a third of the original implementation dates requiring to be revised.

The council works well with its partners and is involved with a significant number of partnerships. The 2009/10 single outcome agreement acknowledges the challenges facing the Community Planning Partnership in delivering the local outcomes for the people of Aberdeenshire. If community planning is to be effective in delivering better services and outcomes for the people of Aberdeenshire, the council, as lead partner, will need to continue to provide clear leadership whilst sharing responsibility with other partners in areas it has previously been solely accountable for.

Although the council has a good performance management framework in place with regular reporting of service performance to elected councillors, the 2008/09 public performance report and performance against the strategic priorities reports lack balance, focusing solely on positive messages. In addition, the 'big picture' narrative approach to summary reporting makes it difficult for councillors to form a clear view as to how well the council is performing against each of the eighty four actions that underpin its strategic priorities. Whilst it is accepted that responsibility for monitoring the detail of service performance lies with service committees, all councillors have a role in scrutinising progress made in implementing the actions required to deliver the council's strategic priorities.

Outlook for future audits

The council faces significant financial pressures in the coming years. Savings of around £10.8 million will be required to achieve a balanced budget in 2011/12 and the council's fifteen year capital plan is not fully funded beyond 2010/11. Work is currently ongoing to identify savings as part of the council's development of policy led budgeting and capital funding for later years

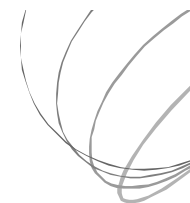
The retiral of the Director of Law & Administration and both Heads of Service represents a loss of experience to the new Legal & Governance section within Corporate Services. The council has recently appointed to the new post of Head of Legal & Governance.

The co-operation and assistance given to us by the Aberdeenshire Council councillors and staff during the year is gratefully acknowledged.



Introduction

1. This report summarises the findings from our 2008/09 audit of Aberdeenshire Council, focusing on the financial statements audit and any significant findings that have arisen from our review of the management of strategic risks during the year. A summary of the other reports issued during the year is provided at Appendix A.
2. The report reflects the new corporate assessment framework, based on the characteristics of a best value council, being developed for Best Value 2 (BV2) and joint scrutiny work. Our comments are made on the basis of information made available in the course of the annual audit supplemented by other work by Audit Scotland and other scrutiny bodies. We do not offer an overall best value judgement because we do not have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time and for that to form the basis of a proportionate best value audit. This report is a step towards that goal.
3. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. We mention the key findings from some of these reports and the implications for Aberdeenshire Council in the performance and use of resources sections of this report. Reports published in the last year of direct interest to the council are:
 - Improving energy efficiency.
 - Civil contingencies planning
 - Mental health overview
 - The impact of the race equality duty on council services.
 - Asset management in local government.
 - Strategic procurement
 - Overview of drug and alcohol services
4. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action*. We do not expect all risks to be eliminated or even minimised. Instead, we expect the council to be aware of the risks it faces and have processes in place to manage them. Councillors should ensure that they are satisfied with the proposed management action. The Scrutiny and Audit Committee monitor progress made in implementing the planned actions included in the action plan in March of each year.
5. This report is addressed to councillors and the Controller of Audit and will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for her annual overview of local authority audits report later this year. The overview report is published and used by the Accounts Commission as the basis for its annual briefing to the Scottish Parliament's Public Audit Committee and Local Government and Communities Committee.



Financial statements

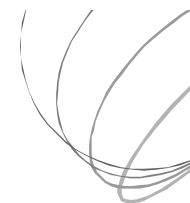
Introduction

6. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources. In this section we summarise the key outcomes from our audit of the council's financial statements for 2008/09, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.
7. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the council and its income and expenditure for the year
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
8. We also review the Annual Governance Statement by considering the adequacy of the process put in place by the council to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the council.

Audit opinion

9. We gave an **unqualified** opinion on the financial statements of Aberdeenshire Council for 2008/09.
10. The Local Government in Scotland Act 2003 requires councils to maintain and disclose trading accounts for significant trading operations, which are required to break-even over a three year rolling period. The council's two statutory trading organisations made aggregate surpluses in the three years to 31 March 2009.
11. The council submitted its unaudited financial statements to the Controller of Audit prior to the deadline of 30 June. The audited accounts were finalised by the target date of 30 September 2009 and are now available for presentation to the council and publication.
12. Last year we reported that final accounts preparation processes and working papers required to be reviewed to ensure there was an adequate package available for audit in future years. This year we saw improvement in the key areas identified last year but more needs to be done to address the accounting issues identified this year (see paragraphs 14 to 18) and to improve the quality of the supporting information provided by some departments. We will continue to work with finance staff to clarify our requirements and help improve the accounts preparation and audit processes.

Key risk area 1



Accounting practice

13. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice* (the SORP). Overall, we were satisfied that the council prepared its financial statements in accordance with the 2008 SORP.

Issues identified during the financial statements audit

14. The financial statements have not been adjusted to correct fifteen financial misstatements. These were reported to the Director of Finance in our ISA260 *Communication of audit matters to those charged with governance* report. The net impact of these unadjusted errors is to reduce the deficit on the Income and Expenditure Account by £2.738 million and reduce the total assets less liabilities and net worth in the Balance Sheet by £4.636 million. Overall, these misstatements are not material to the financial statements. Details of significant accounting issues arising in the course of our audit are summarised below.

Material misstatements

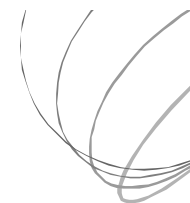
15. Two weaknesses were identified in the final accounts preparation processes which resulted in offsetting material misstatements of the Bank Overdraft and Creditors figures. In both cases the errors were due to finance staff adopting a cash rather than accruals basis when accounting for these figures. Although these misstatements were offsetting and so together did not materially misstate the financial statements submitted for audit, it is essential that final accounts processes are reviewed to ensure that these misstatements do not recur in future years. As noted above, a number of other errors were also identified which require to be addressed in the preparation of the 2009/10 financial statements.

Key risk area 1

Fixed Assets and Capital Accounting

16. A number of errors were identified relating to capital accounting entries processed as part of the year end closedown procedure. These included failure to clear a suspense account, the incorrect treatment of previous year's capital expenditure on assets revalued in 2008/09, the failure to calculate depreciation correctly on assets revalued at the start of the year, and errors in how the asset register software calculates the writing down of the Revaluation Reserve. These errors are not material either individually or cumulatively and so have not been corrected in the audited accounts.
17. The council has contacted its software supplier and been advised that the error identified will be corrected in the next version of the software due for release soon. We will discuss the council's response to the other errors identified with finance staff as part of our planning for the 2009/10 financial statements audit.

Key risk area 1



Reconciliations

18. Last year we reported that many of the 2007/08 year end reconciliations contained differences or unmatched items which had still to be investigated and cleared. Whilst progress has been made with these during 2008/09, there are still a number of items which have yet to be investigated and cleared. Although these are not material, either individually or cumulatively, and do not impact on our audit opinion, reconciliations are a key element of the council's internal control system. We are concerned that this issue has not been fully resolved more than a year after we first raised it with the council. The council has advised us that all prior year differences and unmatched items will be cleared by 31 March 2010.

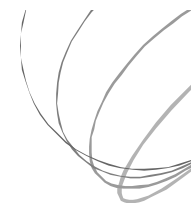
Key risk area 2

Group accounts

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

Subsidiaries and associates

20. The council consolidated the results of Archaeolink and Scotland's Lighthouse Museum as subsidiaries and Grampian Joint Police Board, Grampian Joint Fire and Rescue Board, Grampian Valuation Joint Board and NESTRANS as associates into its group accounts in accordance with the 2008 SORP. Audit assurances were obtained through review of board minutes, internal audit reports and audited accounts, supplemented by the completion of a questionnaire by the auditors of Archaeolink and Scotland's Lighthouse Museum.
21. The accounts of the Grampian Joint Police Board and Grampian Joint Fire and Rescue Board were qualified due to disagreement about the accounting treatment of FRS 17 pension costs. The Local Government Pension Reserve Fund (Scotland) Regulation 2003 provides the statutory basis for local authorities to remove FRS 17 based costs from the General Fund and replace them with actual pension contributions / payments made during the year. This Regulation does not, however, apply to the new pension schemes established by The Police Pensions (Scotland) Regulations 2007 and The Fire-fighters Pension Scheme (Scotland) Order 2007. Although the Scottish Government intend amending the Regulation to include these new schemes, there is currently no statutory basis for reversing the impact of the FRS 17 based costs on the Joint Boards' General Fund balances.
22. As a result, Grampian Joint Police Board's General Fund balance and Pensions Reserve are overstated by £4.025 million and Grampian Joint Fire and Rescue Board's General Fund balance and Pensions Reserve are overstated by £1.141 million as at 31 March 2009. Aberdeenshire Council's group accounts have not been amended for these overstatements as the Council's share, £1.837 million, is not material and would not impact on the group's net assets as at 31 March 2009.



Trust funds

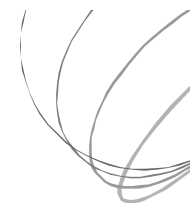
23. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. The date of full implementation has, however, been deferred by the Scottish Charity Regulator until 2010/11. For 2008/09, reliance will again be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.
24. The council has identified a number of charitable trusts which have been inactive for a considerable period, or have outdated purposes, and is currently considering options for reorganising its existing charities.

Common good fund

25. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners, '*Accounting for the Common Good Fund*'. This guidance, which recognises the legislative distinction of the common good as a managed fund, requires disclosure of these funds within the council's financial statements and the establishment of a separate common good asset register by March 2009.
26. Aberdeenshire Council's financial statements contain an Income & Expenditure Account and Balance Sheet for its common good funds. A separate common good funds asset register is maintained as required by the guidance. Audit testing identified, however, that the asset register only records those assets which are being depreciated and so does not tie up with the fixed assets figure included in the common good funds Balance Sheet. The council has agreed to update the asset register to include all common good assets during 2009/10.
27. The council has not undertaken a title deeds search of all its assets because it considers such an exercise to be time consuming, expensive and possibly inconclusive regarding ownership. Instead, the council checks the title deeds whenever an asset is identified for disposal to determine whether or not it is owned by the one of the common good funds.

Legality

28. Each year we request written confirmation from the Director of Finance that the council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in our audit programmes. The Director of Finance 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 additional legality issues arising from our audit which require to be brought to councillors' attention.



Financial reporting outlook

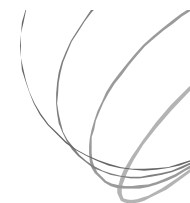
IFRS adoption

29. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. Although some aspects of IFRS have already been adopted, 2009/10 is a key year in the transition to IFRS. Councils are expected to prepare a comparative balance sheet as at 1 April 2009, and are expected to account for PFI projects and prepare their whole of government accounts on an IFRS basis from 2009/10.
30. The council has engaged CIPFA and PwC to provide technical advice and support throughout the IFRS transition process. Five key areas (impact on financial statements, leases, PFI and service concessions, fixed asset accounting and employee benefits) have been identified for review but a detailed project plan setting clear milestones for the delivery of each work stream has yet to be prepared.

Key risk area 3

Carbon reduction commitment

31. From April 2010 a new and complex system for charging for carbon emissions will be introduced by the EU. The council will be required to purchase and account for carbon credits to cover all of its non transport related energy usage. Incentives and penalties will be built into the system to encourage a reduction in carbon emissions. Initial estimates are that carbon allowances will cost the council in the region of £0.788 million in the first year of the scheme.
32. In 2008, we published a report on *Improving Energy Efficiency*. Our report concluded that the public sector in Scotland has made progress in using energy more efficiently, recording a 5% decrease in energy consumption in councils for the three years to March 2007. However, the amount spent on energy, over the same period, increased by 47% due to price increases. Public bodies are recommended to develop and implement robust energy strategies and to encourage the necessary changes to culture and behaviour.
33. In June 2008, Aberdeenshire Council approved a Climate Change Action Plan aimed at reducing its carbon emissions. Although the action plan was prepared prior to the publication of the national report, it addresses many of the findings from the study. Progress against the action plan is regularly reported to the council's Sustainability Sub Committee and an annual report was presented to the Policy and Resources Committee in September 2009.



Use of resources

Introduction

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

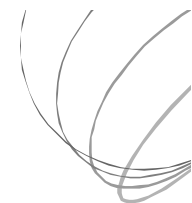
Financial management

Financial results

35. In 2008/09, Aberdeenshire Council spent a total of £786 million (revenue and capital) on the provision of public services. The council's net operating expenditure in 2008/09 was £523.7 million. This was met by central government grants and local taxation of £499 million, resulting in an income and expenditure account deficit of £24.7 million. After taking account of statutory and non statutory adjustments, a general fund surplus of £2.3 million was achieved in the year, which when added to the general fund balance brought forward from 2007/08, results in a general fund balance of £23.1 million at 31 March 2009.

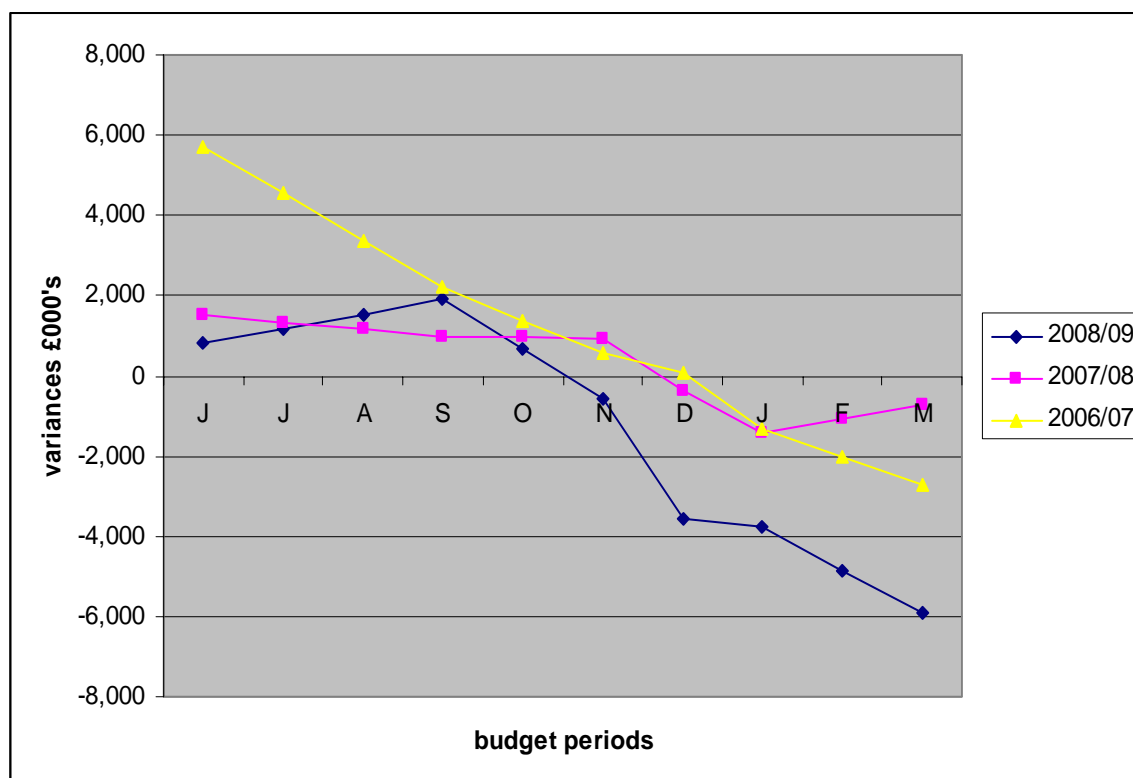
Budgetary control

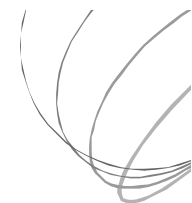
36. The budget set for 2008/09 was based on a Band D council tax level of £1,141 after a £4.8 million contribution from the general fund working balance. Actual expenditure was £10.7 million less than budgeted, resulting in an increase of £5.9 million in the working balance at the year end.
37. Within this favourable outturn, there were a number of significant under and over spends against budget. Savings of £4.4 million were made in capital financing costs and significant underspends were reported by Education, Learning and Leisure Services (£6.2 million), Housing and Social Work Services (£1.1 million), Transportation and Infrastructure Services (£1.5 million) and Central Services (£1.5 million). Significant overspends were reported by Trading Accounts (£0.9 million) and Cross Service Savings (£1.7 million). In addition, income from Council Tax was £1.2 million less than budget due to the downturn in the property market. The reasons for the variances against Service budgets are set out in the Revenue Budget Outturn report presented to councillors in September 2009.



38. The Revenue Budget Outturn report also compares the final outturn position (increase in working balance of £5.9 million) with the forecast position as at January 2009 (decrease in working balance of £1.1 million). The majority of the difference relates to the Education, Learning and Leisure Services underspend against budget of £6.2 million. We have been advised that this underspend is due to timing differences between planning for the academic year and the need to account for expenditure at the financial year end. Under the council's year end flexibility arrangements, the majority of the underspend has been carried forward to 2009/10. The council is currently considering how to reduce the impact of these timing differences in future years.
39. Chart 1 shows that the council's variances against budgets have followed a similar pattern over the past three years, with overspends forecast in the early part of the year and underspends achieved by the year end. As a result, and despite efforts to reduce it, the working balance is now £11.4 million in excess of the minimum balance the council considers necessary to provide it with a cushion against unforeseen events and contingencies. There is clearly a need to investigate the underlying reasons for this pattern in order to ensure that all available resources are focused on the delivery of the council's priority services.

Chart 1: Variances in budget forecasts 2006/07 to 2008/09





40. In recent years, the council has sought to improve its budget setting process by moving from an incremental based approach towards a more strategic (policy led) budgeting process. As an initial step, the 2009/10 budget was developed with reference to the council's strategic priorities, and focused on ensuring that additional monies were targeted at these areas.
41. In setting its 2010-2013 budget, the council intends to build on this experience in order to provide a clear link between the council's strategic priorities, the single outcome agreement's national outcomes and Service budgets. As part of this process, the council has assumed that the current budget is reflective of the council's strategic priorities. This 'base budget' will be used as the benchmark to determine whether the current level of service increases, reduces or stays the same. We will continue to monitor the council's arrangements for setting and monitoring its budgets as part our 2009/10 audit.

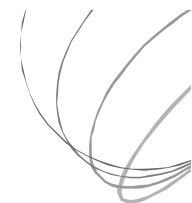
Reserves and balances

42. Table 1 shows the balance in the council's cash backed funds at 31 March 2009 compared to the previous year. Funds held by the council include a renewal and repair fund for financing expenditure incurred in repairing, maintaining, replacing and renewing fixed assets, an insurance fund to be used to meet any uninsured losses, and a capital fund which may be used to defray capital expenditure or repay loan principal. At 31 March 2009, the council had total funds of £61.2 million, an increase of £4.7 million on the previous year.

Table 1: Reserves and Funds

| Description | 31 March 2009 £ Million | 31 March 2008 £ Million |
|--|------------------------------------|------------------------------------|
| General Fund | 23.101 | 20.806 |
| General Fund – Housing revenue account balance | 29.086 | 29.365 |
| Renewal and Repair Fund | 3.506 | 4.709 |
| Insurance Fund | 1.487 | 1.567 |
| Capital Fund | 4.012 | - |
| | 61.192 | 56.447 |

43. The council aims to maintain a general fund working balance of £7 million. At 31 March 2009, the council had earmarked amounts totalling £4.7 million, leaving an unallocated balance of £18.4 million which is £11.4 million in excess of its target. Full Council has recently agreed that this balance should be used to meet the one-off costs relating to succession planning (£1.1 million) and to fund future commitments in respect of year end flexibility and ring fenced funding carried forward to 2009/10.



Capital performance 2008/09

44. The council's prudential indicators for 2008/09 were set in February 2008. Capital expenditure in 2008/09 totalled £61 million, an increase of £6.2 million compared with 2007/08. The trend in capital investment and sources of funds is reflected in Table 2.

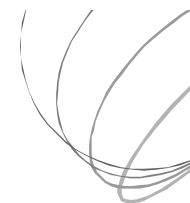
Table 2: Sources of finance for capital expenditure 2004/09

| | 2004/05 Actual £M | 2005/06 Actual £M | 2006/07 Actual £M | 2007/08 Actual £M | 2008/09 Actual £M |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Capital Receipts, Grants and Contributions | 12.066 | 6.266 | 19.522 | 34.174 | 25.318 |
| Advances from Loans Fund and Capital Accruals | 13.575 | 22.646 | 25.918 | 14.987 | 23.984 |
| Revenue Financing | 5.686 | 17.587 | 11.362 | 5.602 | 11.692 |
| Total | 31.327 | 46.499 | 56.802 | 54.763 | 60.994 |

45. The capital programme experienced slippage of £7 million during 2008/09, representing 10% of the planned programme. This was mainly due to delays in concluding contracts relating to improvements to the council's housing stock. All of this slippage was added to the 2009/10 capital programme. The council does not envisage that this will impact on contractors' ability to deliver the existing programme.

Pension liabilities

46. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. The council's estimated pension liabilities at 31 March 2009 exceeded its share of the assets in the Aberdeen City Council Pension Fund by £190 million, increasing from £169 million in the previous year. Based on the latest full actuarial valuation of the fund, the actuary has recommended that the council's contributions should be 19.1%, 19.2% and 19.3% of pensionable pay in 2009/10, 2010/11 and 2011/12 respectively.

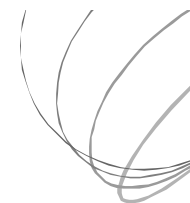


Group balances and going concern

47. The widening diversity of service delivery vehicles used by local authorities means that group accounts are required to give a true and fair view of all council activities. The overall effect of inclusion of all of the council's subsidiaries and associates on the group balance sheet is to reduce net assets by £184.5 million, mainly due to the inclusion of joint board pension liabilities. All group bodies' accounts were, however, prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.
48. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All of these boards (Grampian Joint Police Board, Grampian Joint Fire and Rescue Board and Grampian Valuation Joint Board) had an excess of liabilities over assets at 31 March 2009 due to the accrual of pension liabilities. In total these deficits amounted to £544.9 million, with the council's group share being £194.4 million.

Financial planning

49. The council continues to face a number of significant financial pressures. These include increasing demand for services for the elderly, increased refuse collection and waste disposal costs, reduced income from planning applications and council tax, increased fuel costs, and uncertainty surrounding the level of future financial settlements.
50. The latest monitoring reports for 2009/10 shows a projected underspend against budget of £3.2 million based on the position as at 30 June 2009. The majority of this relates to a significant underspend (£2.4 million) on capital charges resulting from previous debt restructuring exercises and the early repayment of debt. Two Services are forecasting major overspends - Education, Learning and Leisure Services project a £0.7 million overspend on non-teaching staff whilst Planning and Environmental Services project a £1.2 million overspend due in part to reduced income resulting from the current downturn in house building. Both Services are considering where savings can be made to offset these overspends in the current year.
51. In February 2009, the council approved its three year revenue budget to 31 March 2012. 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. Based on the position at 30 June 2009, the council estimates that savings of £10.8 million will be required to achieve a balanced budget in 2010/11. Work is currently ongoing to identify these savings as part of the council's development of policy led budgeting.



52. During 2008/09, the council participated in the national Diagnostic Pathway Project aimed at identifying opportunities to simplify, standardise or share processes in order to deliver service improvements and release financial efficiencies. The initial phase, completed in June 2009, identified a programme for change that could potentially deliver £9.6 million of savings over a five year period. Work is currently ongoing to implement each of the opportunities identified for service improvements through integration with existing programmes and initiatives e.g the Work Smart initiative.
53. The council also faces pressures in funding its capital programme. A fifteen year capital plan, covering the period 2008 to 2023, has been prepared but currently only the first four years are fully funded. Work is ongoing to identify funding for later years. The council is monitoring the development of the Scottish Futures Trust as one means of obtaining future funding for key capital projects.
54. Due to the uncertainty associated with financial settlements, the council has yet to develop financial planning beyond a three to five year timeframe. The Scottish Government has made it clear that public expenditure will be constrained for the medium term. This means that councils need to plan now for a future where there is no real growth in funding. Savings take time to accrue and the council needs to take action now to be sure of achieving savings in the future.

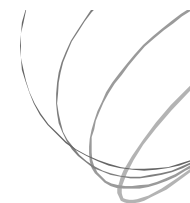
Key risk area 4

Treasury management

55. The crisis in the banking sector and the collapse of Icelandic banks prompted the council to review its treasury management practices during 2008/09. The council has reduced investment risk by reducing the maximum period that funds can be invested with any one institution and the amount it invests with institutions not backed by government guarantees.
56. In addition, the council has reduced the amount of temporary investments it holds from £81 million at 31 March 2008 to £29.7 million at 31 March 2009. These funds have been used to repay £64 million of outstanding loans and fund capital expenditure during 2008/09. Discounts of £2.5 million were generated and the council achieved an annual interest saving of £3.5 million from the early redemption of these loans.

People management

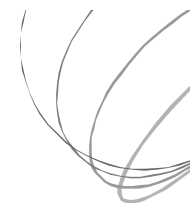
57. The council implemented its single status agreement with effect from January 2007. As at October 2009, 589 single status appeals remain outstanding. The 2008/09 financial statements include a contingent liability for these appeals as the outcome is uncertain and the liability cannot be accurately estimated.



58. In addition, the council has settled the majority of the equal pay claims made to date and has 432 equal pay appeals outstanding as at 31 March 2009. The council has provided for £2.7 million in its 2008/09 financial statements to cover the estimated costs of these appeals. Little progress was made with these during 2008/09 due to conflicting judgements from Employment Tribunal 'test cases'. Until the legal position is resolved, there is risk that further equal pay claims may materialise. Although the council has set aside funds to deal with existing claims, these may not be sufficient to settle any future claims received.
59. As part of the implementation of single status, the Policy and Resources Committee approved, in September 2006, a programme of modernisation reviews covering service delivery requirements, the structure required to deliver that service, the numbers and levels of employees required and the job redesign and training and development requirements of employees. As at 20 May 2009, nineteen reviews had been completed, six were being implemented and another eleven had still to be finalised. Councillors have previously expressed concern about the slow progress being made and the consequential impact that this may have on staff.
60. Historically, the council has had difficulties in recruiting and retaining staff in some key areas due to low unemployment and national skill shortages. In January 2009, the council approved a Workforce Strategy to provide a framework for addressing workforce issues. The strategy sets out the key elements the council needs to address in order to ensure it has a highly trained, flexible and innovative workforce able to deliver excellent services for the people of Aberdeenshire.
61. The strategy is supported by an Implementation Plan which identifies and prioritises twenty eight actions required to address the key elements included in the workforce strategy. The plan acknowledges that it will take approximately four years for all of the current planned activities to be completed.
62. In November 2008, the council agreed to progress a 'Work Style Transformation' project to explore ways of modernising working practices, including the introduction of flexible working arrangements. The council recognises that this will require a change in the management culture of the organisation and a move from counting heads to developing output and productivity measures for individuals and teams of staff. The project is expected to be phased over a 5 year period.

Asset Management

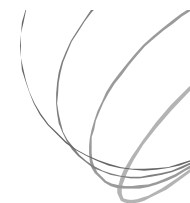
63. Effective management of council assets helps the council achieve its objectives and get best value from its investment in property. Effective management benefits service delivery by making council buildings work better for staff and service users now and in the future. It also reduces the opportunity cost of money locked up in surplus property and reduces the council's carbon footprint.



64. As part of the national study programme Audit Scotland evaluated the extent to which councils manage their property assets to ensure effective service provision and achieve value for money. The resulting report, *Asset management in local government*, concluded that strategic management was not well developed in the majority of councils. For Scottish councils as a whole, over a quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them. More than half of Scottish councils did not have an approved corporate asset management strategy.
65. The council approved its corporate asset management plan in June 2009. Since 2006, the council has been assessing the condition and suitability of its asset base. This found that 53% of operational assets are below recognised accepted standards. The council estimates that it has a critical maintenance backlog of £98.6 million with a further £61.1 million required to bring these assets up to essential/desirable standards.
66. The report also noted that, nationally, joint working in relation to asset management was not widely embedded across services although there was a high level commitment to joint working. Aberdeenshire Council has progressed joint working with partners on property issues through the North East of Scotland Joint Public Sector Property Group. Members of this group include Aberdeen City Council, Grampian Fire and Rescue Service, Grampian Police, NHS Grampian, The Moray Council and the Scottish Ambulance Service. The group has developed an Integrated Property Strategy setting out its vision, a framework for investment decision making, and arrangements for risk management.
67. Data held about council tax payers and service users requires to be managed in the same way as physical assets held by the council. Data handling and security have received increased public and media attention recently as a result of a number of national incidents relating to lost data. We reviewed the council's arrangements for data handling and security in 2007/08 and concluded that they were satisfactory. Services have responsibility for local aspects of data handling, and up to date policies, guidance and system documentation are in place, supported by appropriate technological and physical security measures.

Procurement

68. Local authorities spend significant sums of money annually on purchasing goods and services and as part of the efficient government initiative, the Scottish Government anticipated that scope existed for significant financial savings through improved procurement procedures and practices. The McClelland report on procurement published in March 2006 confirmed that significant savings were possible but concluded that public sector procurement processes still had weaknesses in resources, skills, organisational structures and practices.



69. In response to the McClelland report the Scottish Government introduced the Public Procurement Reform Programme (the Programme) in April 2006. In July 2009, Audit Scotland reported the extent to which the Programme had progressed nationally. The report, *Strategic Procurement*, concluded that while some significant steps had been made, more work was required before the Programme could achieve its full potential:

- there was no systematic basis for reporting savings directly attributable to the Programme
- savings from collaborative contracts are being achieved more slowly than expected
- there are wide variations in the quality of purchasing data, practice and skill levels.

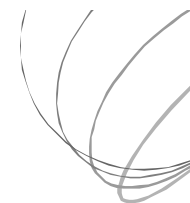
70. The council operates a Central Procurement Unit in partnership with Aberdeen City Council. This shared service is one of three regional centres of excellence for procurement in Scotland. The unit's achievements have recently been recognised at the Government Opportunities (GO) Excellence in Public Procurement Awards event where it was placed highly commended (runner-up) in the Team Excellence Award.

71. A procurement policy, and procurement strategy are in place and savings have been generated through the re-tendering of a number of existing council contracts. The unit has also worked with Services to improve procurement practices.

72. Difficulties in recruiting suitably qualified staff have, however, continued to impact on the unit's ability to deliver the anticipated levels of savings. In the last three years, the council has realised only £1.7 million of the £14 million potential net savings external consultants identified could be made through improved procurement practices over a five year period. Although additional staff have now been recruited, only £2 million of procurement savings have been built into the 2009/10 budget. It is unlikely that the council will achieve the level of savings anticipated in the consultants' report within the initial five year period.

Key risk area 4

73. Audit Scotland recently surveyed Scottish local authorities to establish the nature of information held by councils on procurement processes, obtain information on key procurement statistics and establish if individual councils have plans in place to implement the key recommendations from the McClelland report. The council's response demonstrated a good awareness of procurement issues and that plans are in place to address the findings of the McClelland report.

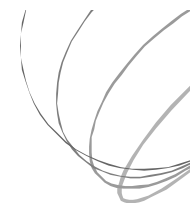


Shared services

74. The Accounts Commission commented on the lack of progress in developing shared services in its *Overview of the local authority audits 2008*. They recommended that councils should give this high priority in the light of financial pressures and the drive for efficiency. Aberdeenshire Council is committed to developing shared services with its neighbouring authorities. It has operated a shared procurement service with Aberdeen City Council since 2007 and has recently approved the creation of a shared trading standards service with the City. Discussions are currently ongoing about sharing other services including public transport, social work commissioning and contracting, homelessness temporary accommodation, and teaching staff during periods of bad weather.
75. The council is also involved in the North of Scotland Local Authorities (NOSLA) financial services project exploring the creation of a shared revenues and benefits service for seven councils across the North of Scotland. External consultants have concluded that the shared services solution is feasible, although substantial investment will be required of around £6 million. Annual savings are estimated at £3.7 million following a payback period of around 4.5 years. Five of the seven councils have recently agreed to submit a bid to the Scottish Government seeking a financial contribution towards the costs of the next stage of the project (detailed design and implementation). We will continue to track the progress of this project throughout the remainder of our audit appointment

Outlook

76. Clearly we are in a period of reduced economic growth with big implications for the council's resources and the demand for services. The council needs to remain alert to the impact of the recession on the community it serves and what that means for its own objectives and services. At the same time as the council tries to support its local economy and provide best value services, it is likely to face a reduction in resources.



Governance and accountability

Introduction

77. We believe that an effective council is committed to high standards of probity and can demonstrate high standards of governance and accountability. It has effective political and managerial structures and processes to govern decision-making and the exercise of authority within the organisation, supported by mature and effective relationships between members and officers. An effective council is committed to public performance reporting as a key element of public accountability. It clearly sets out service standards which reflect the needs of local people and other stakeholders, and is balanced in its presentation of the council's strengths, weaknesses and challenges for the future

Overall arrangements

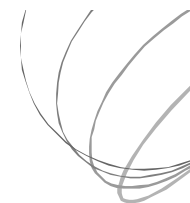
78. Corporate governance is about direction and control of organisations. Councils are large complex organisations and so good governance is critically important. The council has assessed its own arrangements against the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government*. The assessment identified a number of areas for improvement, but overall, the results suggest that the council has a sound governance framework in place.

79. The council adopted a local code of governance in June 2004 and each year publishes a Statement of Assurance on corporate governance signed by the Leader of Council and the Chief Executive within the financial statements. The 2008/09 statement concludes that the council's corporate governance arrangements were adequate and operating effectively during the year but highlights business continuity planning as an area requiring improvement during 2009/10 (see paragraph 131 for current position). The statement has yet to be updated to reflect the revised CIPFA/SOLACE guidance.

Scrutiny and Audit Committee

80. Effective scrutiny is central to good governance, with a significant role for councillors to scrutinise performance, hold management to account and support the modernisation agenda. The Scrutiny and Audit Committee meets regularly to receive reports from internal and external audit. It also undertakes investigations into areas of concern. Involvement in these investigations helps councillors to increase their understanding of the concepts of scrutiny and audit as well as the functions and operation of the council.

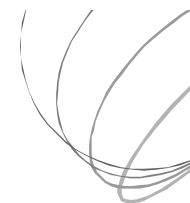
81. Last year we reported that the membership of the committee had changed significantly since the May 2007 elections, and this continued throughout 2008/09. These changes, including appointment of a new vice-chair, have impacted on the committee's progress with its programme of investigations.



82. Training and team building events have been provided to assist new councillors to understand the role of the committee and explain the processes and procedures involved in conducting an investigation. A handbook has also been produced to support councillors in their role. It has taken some time, however, for new committee members to find their feet and contribute fully to the work of the Committee.
83. Despite these challenges, the committee continued to develop its scrutiny role by agreeing to monitor relevant service committees' progress with implementing the recommendations contained in inspection reports. The committee should consider extending this role to include consideration of the findings contained within Accounts Commission national study reports and the annual overview of local government report to ensure that significant matters are being addressed by the council.
84. With effect from 2009/10, we are required to present our ISA260 *Communication of audit matters to those charged with governance* to the committee for their consideration before we sign the auditor's opinion on the financial statements. As part of the planning process for 2009/10, we will discuss the implications of this new requirement on our audit timetable and agree an appropriate date for the committee to receive our report.

Management restructuring

85. In June 2009, the council approved a revised organisational structure for the leadership and management of the council's services. The new structure reduces the number of directors from 7 to 5 and amalgamates the Directorates of Finance, and Law & Administration together with ICT into a Corporate Services Directorate. A new post of Assistant Chief Executive has been created with responsibility for a number of functions including personnel, policy and performance improvement and corporate communications.
86. The number of heads of service has also been reduced under the new structure, from 29 to 21. The statutory roles of Section 95 Officer, Monitoring Officer and Chief Social Work Officer are now undertaken at this level, and the Head of Finance, Head of Legal & Governance and Chief Social Work Officer have recently been appointed to these key roles. 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.



87. The council acknowledges that these changes to the management structure carry significant risks for the organisation which require to be carefully managed. In particular, the retiral of the Director of Law & Administration and both Heads of Service represents a loss of experience to the new Legal & Governance section within Corporate Services. The council has recently appointed to the new post of Head of Legal & Governance.

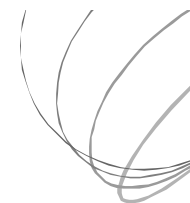
Key risk area 5

Councillors' continuous professional development

88. The Accounts Commission recommends that councils give priority to the continuous professional development of its members. The council's 'A Guide to the Role and Duties of an Aberdeenshire Councillor' requires Aberdeenshire Council councillors to undertake at least 36.25 hours Continuous Professional Development (CPD) each year. In the year to 31 March 2009, only 40 (59%) of councillors could demonstrate that they had met this expectation. In addition, only 41 (60%) have completed and returned their training needs assessment, and only 43 (63%) councillors have a personal development plan in place. In April 2009, the council approved a CPD policy to support councillors in meeting their continuous professional development requirements. Work is currently underway to develop a database for councillors to use to record their CPD activity in future years.

Internal audit

89. 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 2008/09.
90. 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 2008/09 fee negotiations we agreed to reduce our proposed external audit fee on the understanding that internal audit would undertake the testing we would otherwise have to do for our opinion audit on the following systems: budgetary control, cash income and banking, teachers' payroll, housing rents, council tax, and housing and council tax benefits.



91. Our review of internal audit's work in these areas concluded that we could place formal reliance on their work on budgetary control, cash income and banking, teachers' payroll, and housing and council tax benefits. We were, however, unable to place reliance on their work on housing rents and council tax billing and collection as the work on housing rents was not completed in time and the work on key controls operating within the council tax system covered the 2009/10 financial year. As a result, we had to do additional work ourselves to obtain the assurances required to enable us to express our audit opinion on the 2008/09 financial statements. We will continue to work with internal audit as part of our 2009/10 planning process in order to obtain maximum benefit from the systems work undertaken by internal and external audit.

Systems of internal control

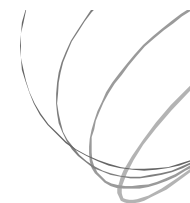
92. In his annual report for 2008/09 the Chief Internal Auditor provided his opinion that, based on the internal audit work undertaken in the year, reasonable assurance could be placed on the adequacy and effectiveness of the council's internal control system in the year to 31 March 2009 subject to the following exception. The absence of fully tested contingency and business continuity planning in relation to the main financial systems continues to expose the council to significant risk should there be a major systems failure.

93. As part of our work, we took assurance from a number of the council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:

- payroll
- housing rents
- main accounting system
- debtors and income
- cash income and banking
- creditors payments
- council tax
- business rates
- budgetary control

Prevention and detection of fraud and irregularities

94. 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 councillors and staff; and defined remits for relevant regulatory committees.

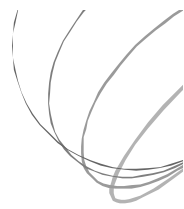


NFI in Scotland

95. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£40 million to 2008). If fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.
96. The most recent data matching exercise was carried out in October 2008. The council has responded positively to the 2008/09 NFI exercise and is making good progress reviewing the recommended matches. The majority have already been processed or are in the process of being investigated. The council has also extended its review beyond the recommended matches to review a large number of additional housing benefit and payroll matches. So far, the council has not identified any potential fraud cases, but 24 errors have been found in the information provided by the public resulting in overpayments totalling £11,000.
97. There are a number of areas, however, where the council has yet to make a start on reviewing the recommended matches, including those comparing Right to Buy applicants with Housing Benefit claimants and residents of Private Residential Care Homes with DWP's list of deceased persons. The council has to the end of 2009/10 to review these matches and we will continue to monitor the council's involvement in NFI as part of our 2009/10 audit. National findings will be published by Audit Scotland in May 2010.

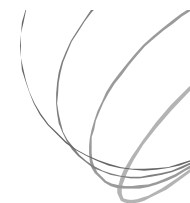
Housing Benefit

98. From April 2008, Audit Scotland took over inspecting the housing and council tax benefit functions from the Benefit Fraud Inspectorate in Scotland. All councils' benefits services are being risk assessed by a specialist team of Audit Scotland staff over a two year period.
99. In October 2008, the findings from the risk assessment of the council's benefits service were reported to the Chief Executive and management team. The council has developed an action plan in response to the risks identified in the report and progress against this action plan will be reviewed as part of the next round of inspections which are due to start in 2010.



Partnership working and community engagement

100. Many council services are planned and delivered in partnership with other public, private and voluntary organisations, community groups and forums. These partnerships are of particular importance in tackling complex or cross-cutting issues. The council has a formal duty to initiate, facilitate and maintain a community planning process and ensure effective leadership within the Community Planning Partnership.
101. The council works well with its partners and is involved with a significant number of partnerships. A Partnership and Joint Working policy has been developed setting out criteria (accountability, public accessibility, internal governance, conduct of members, evaluation of the costs and benefits) against which council partnerships can be measured.
102. The council assessed its involvement in the Community Planning Partnership against these criteria in June 2009 and has plans in place to review its remaining partnerships by May 2010. The review found that the Community Planning Partnership's governance arrangements are basically sound but identified a number of areas for improvement, including adoption of a scheme of delegation, a formal complaints procedure and better arrangements for advertising partnership meetings.
103. The 2009/10 single outcome agreement acknowledges the challenges facing the partnership in delivering the local outcomes for the people of Aberdeenshire. In particular, the move to collective responsibility for the delivery of the single outcome agreement requires all partners to review their existing governance arrangements to ensure that they fit with the needs of the partnership. If community planning is to be effective in delivering better services and outcomes for the people of Aberdeenshire, the council, as lead partner, will need to continue to provide clear leadership whilst sharing responsibility with other partners in areas it has previously been solely accountable for.
104. The council is committed to community engagement and has been active in seeking the views of the local community, making widespread use of surveys. In June 2009, the council approved a Community Engagement Strategy to co-ordinate its approach to community engagement activities. The aim of the strategy, which builds on Communities Scotland's National Standards for Community Engagement, is to 'support strong, active and inclusive communities that are informed and involved in decision making'.



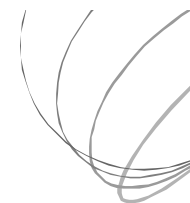
Public performance reporting

105. The council published its annual public performance report 'Serving Aberdeenshire – a guide to council performance 2008/09' in September 2009. The report provides information, under each of the council's six main themes, on what the council has delivered in 2008/09 and identifies key actions for the coming year. A financial overview section is also included setting out how the council was funded and what it cost to deliver services during the year. The report provides a very positive view of the council's performance during the year, with little reference to areas where the council could improve its performance.

Key risk area 6

Outlook

106. Partnership working is critical to the council's success. We are developing our approach to the audit of partnerships through the new approach to best value and, in future, shall increasingly be looking at the contribution of partners as well as the council's own contribution to the delivery of outcomes. We expect to see further developments in clarifying accountability, governance and public performance reporting in 2010/11.



Performance management and improvement

Introduction

107. We believe that an effective council has a clear and ambitious vision for what it wants to achieve for its locality and communities in order to secure high quality services and effective outcomes for local people. The vision is effectively promoted by the member and officer leadership of the council and supported by staff and partners. It is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery.

108. Effective performance management at both service and corporate levels is essential to achieve intended objectives, and to assist elected members and senior managers to form an overall view of how their council is performing across all areas of activity. Councils need to know how their services are performing before they can demonstrate that they are improving, offer value for money, are competitive and are of high quality.

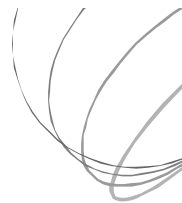
Vision and Strategic Direction

109. In November 2007, the council approved its strategic priorities (strategic plan) for the next four years. A total of eighty four actions underpin the council's thirty three strategic priorities. These are set out under the five community plan themes plus an additional theme of corporate improvement:

- community well being
- jobs and the economy
- lifelong learning
- sustainable environment
- developing our partnerships
- corporate improvement.

110. The council is currently implementing a revised strategic planning framework which aims to be fully integrated, linking corporate, service and local priorities and fully incorporating customer feedback and service performance management. As part of this framework, the council approved six local community plans in late 2008. In April/May 2009, new style Service Reports were approved setting out how each service will contribute to the council's strategic priorities in 2009/10. More work is required to link these plans to individual and team objectives and accountabilities through the development of Heads of Service Work Programmes and a revised Employee Development and Review Scheme (EDRS).

Key risk area 7



111. There is a culture of continuous improvement throughout the council with a range of approaches used to review how it delivers services. These include Kaizen process reviews and Scrutiny and Audit Committee investigations. In June 2009, the council adopted a continuous improvement framework to co-ordinate the council's continuous improvement activities. The framework is based on a simple 'Plan-Do-Check-Act' cycle of improvement and brings together the council's strategic planning (Plan), performance management (Do), performance monitoring (Check) and continuous improvement (Act) activities.

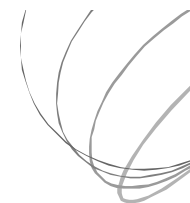
Performance management

112. The council has a good performance management framework in place supporting regular reporting of service performance to elected councillors. Performance monitoring against the council's strategic priorities is reported to the Policy and Resources Committee on a six monthly basis. These reports contain 'big picture' messages in a narrative style.

113. More detailed performance monitoring information for each council service is provided on a quarterly basis to the relevant service committee. These reports provide information on a range of indicators relating to the service, including a commentary on significant movements and the trends over the past year. Work is ongoing to review all of the council's existing performance indicators and map them against each of the eighty four actions underpinning the council's strategic priorities and the local outcome measures contained in the single outcome agreement (SOA). This will ensure there is an appropriate performance indicator for each action/outcome measure and that only relevant performance indicators continue to be monitored and reported. Without clear links between the strategic priorities, SOA outcomes and detailed service level performance monitoring the council may be unable to deliver its priorities and the single outcome agreement.

Key risk area 7

114. The council has taken the lead in managing performance against the outcomes set out in the SOA. The council's performance management system has been updated to include the SOA performance indicators and performance against the 2008/09 SOA was reported to the Policy & Resources Committee in September 2009. Future SOA performance reports will be prepared by the Community Planning Partnership.



Overview of performance in 2008/09

115. As noted at paragraph 112 above, progress against the council's strategic priorities is reported twice yearly to the Policy & Resources Committee. These reports seek to focus on what the council feels really matters to the residents of Aberdeenshire and avoid duplication of the monitoring role undertaken by individual service committees. The latest report, to 31 March 2009, provides a summary of performance under each strategic priority theme and includes the following highlights:

Community Wellbeing

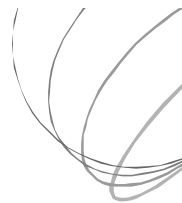
- 89% of residents feel 'quite safe' or 'very safe' in their own home after dark and 53% of residents have not been a victim of any form of anti-social behaviour.
- 96% of housing re-lets are offered to new tenants within less than 10 working days.
- The proportion of all children/young people accommodated away from home experiencing fewer than 3 changes in placement increased to 83% in the six months to March 2009 (previous six months 80%).

Jobs and the Economy

- On the basis of provisional road condition indicator results, Aberdeenshire ranks 2nd equal out of the 32 Councils in the state of its roads. Aberdeenshire is one of the few councils to retain a top quarter position throughout the 6 years of the survey.
- In May 2008 Aberdeenshire had the best quality of life amongst rural areas in Scotland and in November 2008 came second within the list of areas enjoying the best overall quality of life.

Lifelong Learning

- At September 2008 59% of secondary schools were fully occupied compared with 41% in 2006/07. 55% primary schools were fully occupied, the same as 2006/07. At September 2008 all children in Aberdeenshire were in receipt of appropriate educational provision.
- Achievement and attainment in Aberdeenshire schools continues to be above the national average. When benchmarked against the family of comparator authorities, Aberdeenshire was first on seven of the National Priority measures of attainment measures, second on a further five and third in the remaining two.
- Attendances at Council owned swimming pools are 2% up on the previous quarter. This is counter to national trends.



Sustainable Environment

- Energy efficiency measures which reduce energy consumption, carbon dioxide emissions and energy costs continue to be carried out in Council buildings in 2008-09. These include the installation of swimming pool covers, insulation for heating valves, draught proofing and the installation of more energy efficient lighting.
- The percentage of waste recycled in the year ending March 2008 rose by 1% to 31% compared with the previous year.

Developing our Partnerships

- There are currently 36 partnerships registered with the Council.
- The financial support to the 10 rural partnerships from the Council has been enhanced this year. The Aberdeenshire Community Asset Fund has been enlarged and the Council funding is matched by Scottish Enterprise.
- Updated Local Community Plans are scheduled to be published in April 2010.

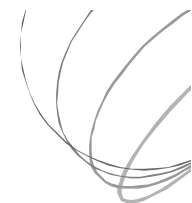
Corporate Improvement

- The average processing time for housing and council tax benefits in the quarter ending December 2008 was 28 days.
- All customer complaints received an acknowledgment within the 5 working day target. From October 2008 to March 2009 68% of complaints were completely resolved within 20 working days (compared with 66% in the previous quarter). Overall customer satisfaction ratings for March 2009 obtained through follow up surveys were: Council Tax - Very Satisfied; Housing - Very Satisfied; Roads – Satisfied; Waste - Very Satisfied.
- 96% of Council Tax and 99% of business rates were collected in the year ending March 2009 (provisional figures awaiting final audit of accounts).

116. All of the performance information contained in the report was positive, with no areas highlighted as requiring improvement. As a result, councillors are not being provided with a balanced picture of progress against strategic priorities. Reporting areas of poorer performance enables remedial action to be discussed, agreed and monitored.

117. In addition, the 'big picture' narrative approach to monitoring progress makes it difficult to form a clear view as to how well the council is performing against each of the eight-four actions that underpin its strategic priorities. Whilst it is accepted that responsibility for monitoring the detail of service performance lies with service committees, all councillors have a role in scrutinising progress made in implementing the actions required to deliver the council's strategic priorities.

Key risk area 8

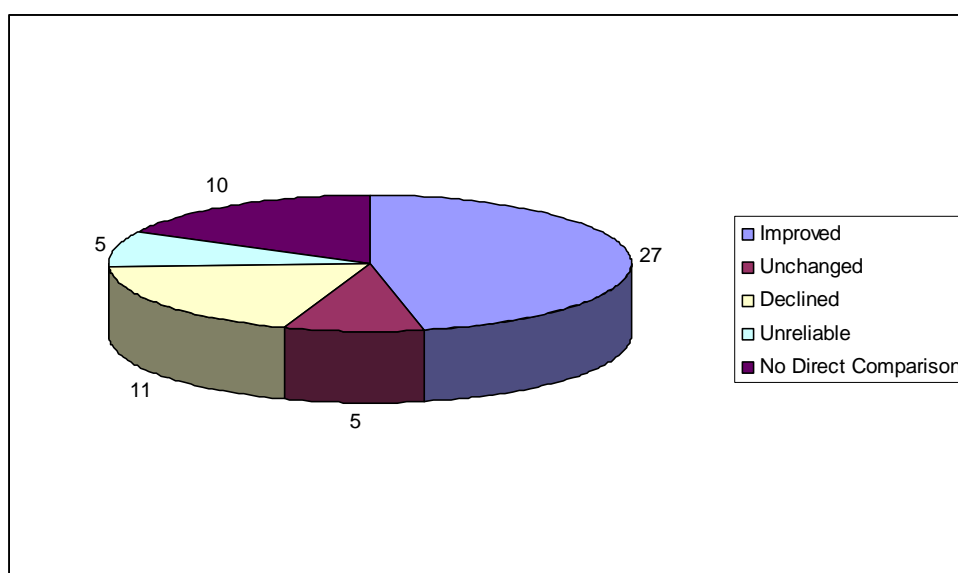


Statutory performance indicators

118. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). Aberdeenshire Council uses the number of statutory performance indicators (SPIs) in the top quartile to measure the achievement of its vision of being the best council. In 2007/08, the council had 14 (18%) of its SPIs in the top band, reducing from 18 (23%) in 2006/07. Comparative figures for 2008/09 are not yet available.

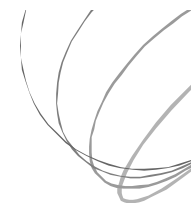
119. In 2008/09, the council saw an improvement in nearly half of its reported indicators:

Chart 2: Changes in SPIs between 2007/08 and 2008/09



120. Each year we review the council's arrangements for preparing the SPIs and assess the reliability of the resulting indicators. Last year we raised our concerns about the quality of some of the working papers provided to support the SPIs and met with officers to discuss how to improve these and reduce the number of indicators assessed as unreliable due to failure to comply with the guidance.

121. Despite this, the quality of working papers provided to support the 2008/09 SPIs remained variable although there were some improvements in the information provided. In addition, the number of indicators assessed as unreliable rose from 3 in 2007/08 to 5 (adult social work indicator 7 – probation; corporate management indicator 4 – public access; cultural and community services indicator 3a - museum visits and usages, waste management indicator 5 - abandoned vehicles and cultural and community services indicator 4b - library stock) in 2008/09.



122. The approach to the SPIs is changing with effect from 2009/10. The Accounts Commission has specified 25 indicators, and asked councils to report a range of local performance indicators demonstrating that they are securing Best Value across a number of corporate management and service performance categories. It is essential that the council revisits its arrangements for ensuring that published performance information is, as far as is practicable, accurate and complete. In particular, all officers involved in the collection, checking and reporting of performance information should be made fully aware of their responsibilities and the contents of the SPI Guidance issued by Audit Scotland. Particular attention should be paid to ensuring that members of Service Management Teams are clear about what checks are required before they sign SPI assurance statements.

Key risk area 9

Progress on delivery of the council's best value improvement plan

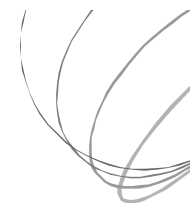
123. The council received its Best Value audit during 2007/08, with the report published in June 2008. The following table summarises the conclusions in the report.

Table 3: Conclusions from the Best Value Audit

Aberdeenshire Council is clear about its overall direction and priorities, and has been effective in establishing a culture of continuous improvement. This has been helped by good working relationships between elected members and senior officers. The council has many of the building blocks of necessary to deliver Best Value, but better co-ordination is needed. The council's leadership needs to take a more strategic approach, making clearer choices about improvements and targeting resources to maximise the impact on delivery and efficiency. The council needs to follow through more rigorously to ensure that its intended outcomes and impact are achieved.

A good performance management framework is in place and scrutiny of performance is improving, but there is limited scrutiny of decision-making. Senior management must take more ownership of corporate and service performance. Financial management is sound and people are motivated and committed. Some arrangements such as risk management have been slow to develop. Strategies also need to be implemented for the management of assets and people. The council must do more to demonstrate the competitiveness of its services.

Some high-spending services such as education, housing and social work are performing well, but performance is mixed in others, such as planning, and there is scope for improvement in areas covered by statutory performance indicators. The council works well with its partners on individual projects, but improved leadership is required to ensure that Community Planning is effective in delivering better services and outcomes.



124. In June 2008, the council approved an improvement plan to address the issues raised in the report, setting out, for each priority area, the intended outcome and the actions required to achieve it. To date, the council has received two reports on progress made in implementing each of the 63 actions included in the improvement plan. The following table summarises progress made to 31 December 2008 and 30 June 2009 respectively:

Table 4: Progress on delivery of the best value improvement plan actions

| Actions completed | | Actions currently on schedule | | Actions behind schedule or yet to commence | |
|-------------------|--------|-------------------------------|--------|--|--------|
| Dec 08 | Jun 09 | Dec 08 | Jun 09 | Dec 08 | Jun 09 |
| 20 | 34 | 40 | 26 | 3 | 3 |

125. As at 30 June 2009, the council had completed 54% of the actions but progress has been slower than initially anticipated in some areas, with implementation dates for 21 (34%) of the actions requiring to be revised. Although all these actions have subsequently been, or are on schedule to be, completed by the revised date, it is important that council keeps slippage to a minimum in order to be well prepared for the next round of Best Value audits. We will continue to monitor progress against the council's Best Value Improvement Plan throughout our audit appointment.

Risk Management

126. 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.

127. Following the appointment of the Risk Management Adviser in May 2008, the council has made good progress in developing its risk management arrangements. A revised Risk Management Strategy was approved in August 2008, and a standard template has been developed and used in the preparation of revised corporate and service risk registers. A review and challenge process has been developed for risk registers and was implemented as part of the updating of service risk registers as at June 2009. General awareness training has been provided to staff and more is planned as services start to develop their operational risk registers.

128. More work is required, however, to fully embed risk management at all levels within the council. Operational risk registers have yet to be developed, committee reports do not routinely refer to risk and risk is not a standing item on the management team agendas. We have been advised that the council plans to focus on the development of operational risk registers, starting with Housing and Social Work and Finance Services, in 2010.

Key risk area 10



129. Plans are also in place to formalise how progress in developing the council's risk management arrangements is reported to senior officers and councillors. With effect from November 2009, a quarterly Risk Management Report will be prepared for the Management Team covering all aspects of the risk management process. In addition, a summary report will be presented twice yearly to the Policy & Resources Committee and annually to the Scrutiny & Audit Committee.
130. The council delivers many of its services in partnership with other organisations. Although a high level community planning risk register is in place, it does not cover the operational risks associated with delivering services through partnership working. Risk registers have yet to be developed for the council's other partnerships.

Key risk area 10

131. Business continuity planning is a key element of any organisation's risk management arrangements. The council prioritised this area during 2008/09 and business continuity plans are now in place for all services with the exception of ICT, which is expected to be completed by the end of November 2009. These plans cover each critical activity in order to minimise disruption due to major system failure or disaster. Procedures for testing and reviewing the effectiveness of these plans have been developed and the results will be monitored by the Risk & Business Continuity Team.

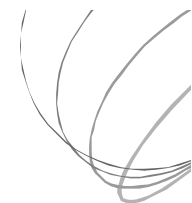
Equality and Diversity

132. In 2008, we published a study examining how councils responded to their race equality duty, *The impact of the race equality duty on council services*. This study found that all councils have developed policies and processes on race equality. A number of initiatives are in place to meet the diverse needs of local communities, such as the provision of interpretation and translation services, and information packs for recent migrants. However, councils lack information about minority ethnic communities, their needs and experiences. Councils are also unable to show how race equality is routinely built into the design and delivery of services.
133. Aberdeenshire Council approved a revised Race Equality Scheme in November 2008. Although the revised scheme was prepared prior to the publication of the national report, it covers many of the findings from the study.



Outlook

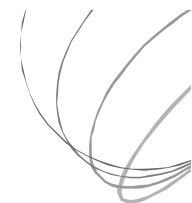
134. We have already mentioned the importance of developing the governance aspects of the SOA; the performance management aspects are also important. The long term and complex nature of many of the outcome targets pose many challenges for performance management. For example, how can the council tell if its resources are making a difference? We recognise the challenges and whilst we have no plans to audit the outcome progress reports in 2010/11, we will pay attention to the systems Aberdeenshire Council has in place to monitor progress and take remedial action.
135. We are currently developing our approach to Best Value 2 by working with five pathfinder councils. From April 2010, we shall be rolling out the new approach to all Scottish councils. The timing of the council's best value audit will be determined by a risk assessment. We will report the risk assessment in March 2010.
136. The risk assessment will be carried out in conjunction with other scrutiny bodies. That means that not only will it determine the timing and scope of the Best Value 2 audit of Aberdeenshire Council, but it will also identify the timing and scope of other scrutiny work. Along with the other bodies, we intend to publish a scrutiny plan for each council covering all scrutiny activity over a three year period.



Appendix A

External audit reports and audit opinions issued for 2008/09

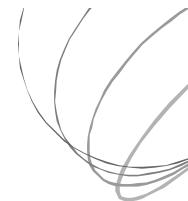
| Title of report or opinion | Date of issue | Date submitted to Scrutiny and Audit Committee |
|---|----------------------|--|
| Annual Audit Plan | 31 January 2009 | 1 April 2009 |
| Strategic Audit Risk Analysis | 31 March 2009 | 13 May 2009 |
| Report on financial statements to those charged with governance | 30 September 2009 | Presented to Director of Finance, Chief Executive and Leader of the Council (refer to paragraph 84 for new requirement for 2009/10) |
| Audit opinion on the 2008/09 financial statements | 30 September 2009 | 16 December 2009 Submitted to Full Council on 26 November 2009 |



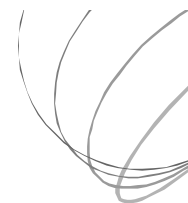
Appendix B: Action Plan

Key Risk Areas and Planned Management Action

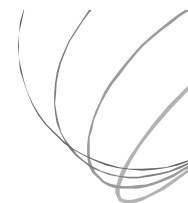
| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|---|--------------------------------------|---------------|
| 1 | 12, 15 to 17 | Financial statements Our audit of the 2008/09 accounts identified a number of significant accounting issues which require to be addressed in the preparation of the 2009/10 financial statements. <i>Risk: the 2009/10 financial statements may not give a true and fair view of the council's financial position. If material amounts are involved, the accounts may be qualified.</i> | One of the issues relating to bank and creditor was identified originally as a difference of opinion over the accounting treatment and has now been addressed internally as a training issue. The problem will not recur. | Head of Finance/ Chief Accountant | Immediate |
| | | | On one of the capital issues, the problem was identified as a fault in the accounting software, and we are working closely with the supplier to resolve this for next year. | Head of Finance/ Chief Accountant | 31 March 2010 |
| | | | The other issues will be discussed with appropriate staff to ensure that they do not recur. | Head of Finance/ Chief Accountant | 31 March 2010 |



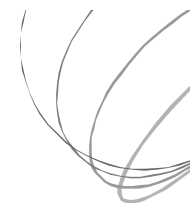
| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|--|---|--|----------------------|
| 2 | 18 | <p>Reconciliations</p> <p>Last year we reported that many of the 2007/08 year end reconciliations contained differences or unmatched items which had still to be investigated and cleared. Whilst progress has been made with these during 2008/09, there are still a number of items which have yet to be investigated and cleared</p> <p><i>Risk: the internal control system cannot be operating effectively in the absence of appropriate procedures which ensure that all differences identified within reconciliations are adequately investigated and cleared. As a result, inputting errors may not be timeously detected and the council's financial position may be misstated.</i></p> | <p>Significant progress has been made on this issue and the number and value of items remaining is not material and will be resolved shortly. As part of this work, time has been taken to review and enhance current procedures and to ensure that these are fully documented. This has undoubtedly meant that the work has taken longer than originally anticipated, but will ensure that there is no repetition of the problems first identified in 2007/08.</p> | <p>Head of Finance/ Revenues Manager</p> | <p>31 March 2010</p> |



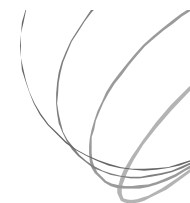
| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|--|---|-------------------------|
| 3 | 29 & 30 | <p>Adoption of International Financial Reporting Standards (IFRS)</p> <p>2009/10 is a key year in the transition to IFRS. Councils are expected to prepare a comparative balance sheet as at 1 April 2009, and are expected to account for PFI projects and prepare their whole of government accounts on an IFRS basis from 2009/10. The council has yet to develop a detailed project plan setting clear milestones for the work required to meet the timescales for adoption of IFRS.</p> <p>Risk: the council may be unable to produce IFRS compliant financial statements within the required timescales.</p> | <p>Work is well underway to prepare for IFRS and the Finance Service, in conjunction with most other Scottish councils, has employed external advisers to assist with this process. I am confident that the work will be completed on time.</p> | <p>Head of Finance/ Chief Accountant</p> | <p>31 December 2009</p> |
| 4 | 49 to 54, 72 | <p>Financial pressures</p> <p>The council is facing significant financial pressures due to uncertainties surrounding the level of future financial settlements, and increasing demand for many of its services for the elderly. Delays in recruiting staff to the procurement team resulted in procurement savings of £1.6 million not being achieved in 2008/09. The council estimates that up to £10.8 million of savings will be required to balance the budget in 2010/11. In addition, the capital plan is not fully funded beyond 2010/11.</p> <p>Risk: failure to achieve the level of savings anticipated will increase financial pressures and may impact adversely on the quality of services provided.</p> | <p>The Council is fully aware of the financial pressures to be faced over the medium term. A number of strands of work are well underway to ensure that the Council is fully prepared to meet these challenges and Councillors will be fully briefed throughout the budget review cycle. The Council has also introduced a new process linking budget monitoring with revisions to future years' budgets, and this will deliver a more joined-up budget process.</p> | <p>Head of Finance/ Chief Accountant/ Corporate Finance Manager</p> | <p>28 February 2010</p> |



| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|--|---|---|
| 5 | 85 to 87 | <p>Management team restructuring</p> <p>The council acknowledges that the recent changes to the management structure carry significant risks for the organisation which require to be carefully managed.</p> <p>In particular, the retiral of the Director of Law & Administration and both Heads of Service represents a loss of experience to the new Legal & Governance section within Corporate Services.</p> <p>In addition, in our opinion, it essential that the Section 95 and Monitoring Officers are full members of the council's Management Team to enable them to fulfil the statutory duties associated with their role.</p> <p>Risks: the new management structure may not provide effective leadership of the council's services. The Section 95 and Monitoring Officers may not be able to fully fulfil their new statutory roles and appropriate legal advice may not be available when required.</p> | <p>Recruitment to the posts of Head of Legal & Governance and Assistant Chief Executive has been completed with the post holders commencing in January 2010.</p> <p>A modernisation review of the Legal & Governance section is in progress.</p> <p>Statutory Officers are involved regularly and appropriately in the management of the organisation.</p> | <p>Chief Executive</p> <p>Director of Corporate Services</p> <p>Chief Executive</p> | <p>31 January 2010</p> <p>28 February 2010</p> <p>31 October 2009</p> |
| 6 | 105 | <p>Public performance reporting</p> <p>The annual public performance report provides a very positive picture of the council's performance during 2008/09, with little reference to areas where the council could improve its performance.</p> <p>Risk: the public may not provided with a balanced picture of the council's progress in meeting its strategic priorities.</p> | <p>To include more areas identified for improvement in future Public Performance Reports</p> | <p>Head of Corporate Communications</p> | <p>31 August 2010</p> |



| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|--|--|--|---------------|
| 7 | 110 & 113 | <p>Strategic planning framework</p> <p>The council is currently implementing a new strategic planning framework, including policy led budgeting, linking corporate, service and local priorities and fully incorporating customer feedback and service performance management.</p> <p>Risk: until the new strategic planning framework is fully implemented, there is a risk that the council will be unable to deliver its priorities for improving public services for the people of Aberdeenshire.</p> | We will ensure that all elements of the strategic planning framework are implemented. | Head of Corporate Policy and Improvement | 30 April 2010 |
| 8 | 116 & 117 | <p>Performance management</p> <p>The latest report of progress against the council's strategic priorities contains only positive messages, with no areas highlighted as requiring improvement.</p> <p>The 'big picture' narrative approach makes it difficult to form a clear view as to how well the council is performing against each of the eighty four actions that underpin its strategic priorities. Whilst it is accepted that responsibility for monitoring the detail of service performance lies with service committees, all councillors have a role in scrutinising progress made in implementing the actions required to deliver the council's strategic priorities.</p> <p>Risk: councillors may not have a balanced picture of the council's progress in achieving its strategic priorities, and may be unaware of how well the council is performing against each of the eight-four actions that underpin its strategic priorities.</p> | We will review the format, content and committee responsibility for strategic priorities monitoring to ensure that areas for improvement are highlighted and all actions included. | Head of Corporate Policy and Improvement | 30 April 2010 |



| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|--|---|---|
| 9 | 121 & 122 | <p>Statutory performance indicators</p> <p>The quality of working papers provided to support the 2008/09 SPLs remained variable.</p> <p>Five indicators were assessed as unreliable in 2008/09 compared to three in 2007/08.</p> <p>The approach to the SPLs is changing with effect from 2009/10. It is essential that the council revisits its arrangements for ensuring that published performance information is, as far as is practicable, accurate and complete.</p> <p>Risk: councillors and the public may not be provided with complete and accurate performance information.</p> | It is a priority for the Council to review its public performance information and reporting. | Assistant Chief Executive | 30 April 2010 |
| 10 | 128 & 130 | <p>Risk management</p> <p>More work is required, to fully embed risk management at all levels within the council. Operational risk registers have yet to be developed, committee reports do not routinely refer to risk and risk is not a standing item on the Management Team agendas. Although a high level community planning risk register is in place, it does not cover the operational risks associated with delivering services through partnership working. Risk registers have yet to be developed for the council's other partnerships</p> <p>Risk: the council may not have identified and managed all of its operational risks, including those associated with partnership working.</p> | <p>The Risk Manager will continue to support the embedding of risk management into the activities of all services. Enhancement of Risk Registers will be undertaken through identification of the operational risks faced by services.</p> <p>Quarterly reports to Management Team beginning November 2009 will ensure that risk is a standing item on this Agenda.</p> <p>Management Team to consider 'Risk' becoming a category on the committee report.</p> <p>Identify partnerships that require a Risk Register to be put in place and a process for managing the partnership risk.</p> | <p>Head of Service HR&OD</p> <p>Head of Service HR&OD</p> <p>Management Team</p> <p>Head of Service HR&OD</p> | <p>31 October 2009</p> <p>30 November 2009</p> <p>31 December 2009</p> <p>31 May 2010</p> |

