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Moray Council

Annual Report to Members and the Controller of Audit for the year ended 31 March 2012

2011/12 Audit

October 2012

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Contents

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In May 2011 Audit Scotland issued a revised Code of Audit Practice. The Code's purpose is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of the Code. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Executive summary

Introduction – Section 1

Our overall responsibility as external auditor of Moray Council ("the Council") is to undertake our audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice ("the Code"), revised and published in May 2011. We have a dual reporting responsibility for the audit: to the Members of the Council and to the Controller of Audit.

Under the Auditing Practices Board's International Auditing Standard (UK and Ireland) 260 "ISA (UK&I) 260" - "Communication of audit matters with those charged with governance" we are required to report to those charged with governance on the significant findings from our audit before giving our audit opinion on the Council's accounts.

This Annual Audit Report to Members and our ISA 260 presentation at the September 2012 Full Council meeting, together with previous reports to the Audit and Performance Review Committee throughout the year, discharges the requirements of ISA 260. It contains the significant matters we wish to report to you arising from all aspects of our audit programme of work in accordance with ISA (UK&I) 260.

Financial Statements and Audit Opinion – Section 2

We are pleased to report that our opinion on the financial statements for the year ended 31 March 2012 is **unqualified**.

We proposed a number of adjustments during the audit relating to financial and disclosure matters. All of these adjustments have been processed by management in the final version of the 2011/12 financial statements.

In 2012, the Council completed its PPP schools project which resulted in significant fixed asset additions as well as the recognition of a long term finance liability. This is a complex and judgemental area of the accounts resulting in non-routine accounting transactions.

We have examined the accounting treatment and reached agreement with management concerning an adjustment for £8.8 million for the most appropriate figures to be recognised in the accounts.

The Council, like most other public sector bodies, holds on its balance sheet a significant net liability in respect of employee retirement benefits. We examined the value of the Council's pension liability at the year end by obtaining fund valuation information. We also verified the asset data against third party information, where possible. No financial adjustments were proposed as a result of our work.

2011/12 Financial Management and Performance – Section 3

The Council achieved a surplus on the provision of services of £6.591 million in 2011/12. After required adjustments, the Council increased its General Fund balance by £3.583 million to £21.1 million. In total the Council had useable reserves of £27.252 million at 31 March 2012.

Useable reserves include the general fund, housing revenue account, capital funds, and other statutory funds. These reserves are designed to enable the Council to deal with unforeseen events and help manage the future periods of heightened economic uncertainty.

The Council's Annual Efficiency Statement showed that in 2011/12, £4.48 million[1] of recurring savings were achieved. This falls short of the Scottish Government's 3% savings target for 2011/12. The Council has identified that further significant savings are required in future financial years.

Financial Outlook – Section 4

The Council has acknowledged the financial challenges which exist in its 2012/13 revenue budgets and in medium financial plans covering 2013 to 2015.

A balanced budget was approved for 2012/13, with planned revenue expenditure of £198.87 million [2](2011/12 budget £193.83 million). To achieve this position, it is recognised that efficiency savings will be required in future years and an allocation of £1.06 million from reserves was approved.

In February 2011, the Westminster Government published the Welfare Reform Bill which set out plans to fundamentally overhaul the benefits system. The stated overarching objectives of the Bill were to simplify the benefits system, achieve savings and increase incentives for unemployed people to work. The Welfare Reform Act was given Royal Assent on 8 March 2012. The Council should ensure that it puts in place specific arrangements to address the implications of the Act.

Governance and Control – Section 5

We have assessed the Council's overall governance arrangements including a review of Council and key Committee structures and minutes, financial reporting to Committees, and the risk management framework. We consider that appropriately structured arrangements and reporting are in place. We have also considered key areas of risk to the Council including partnership working; service sustainability; performance management; and people management as part of our interim management letter which we reported to the Audit and Performance Review Committee in May 2011.

The Code of Audit Practice requires us to review and report on the Council's Statement of Governance and Internal Control. The Council has outlined the processes it employed to identify and evaluate risks. In addition, key elements of the Council's control framework have been highlighted, along with a self evaluation of developments and areas for further improvement. Based on our normal audit procedures, **we do not disagree** with the disclosures contained in the Statement.

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[1] *Efficiency Statement*, Policy and Resources Committee, 7 August 2012.

[2] *Revenue Budget 2012/13*, Special Moray Council, 9 February 2012.

1. Introduction

Purpose of this Report

1.01 Our Annual Audit Report is designed to set out the scope, nature and extent of our audit, and to summarise our opinion and conclusions on issues arising. Specifically this will direct the Council's attention to matters of significance that have arisen out of the 2011/12 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

Scope, nature and extent of our audit

1.02 Our overall responsibility as external auditor of the Council is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011. In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources. It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving the "appointed auditor", the Auditor General for Scotland and other auditors such as Audit Scotland's Public Reporting Group. Our audit has been planned and conducted to take account of these wider perspectives.

1.03 Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260: "Communication of audit matters to those charged with governance", we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This Annual Audit Report to Members and our presentation to the September 2012 Moray Council meeting, together with previous reports to the Audit and Performance Review Committee throughout the year, discharges the requirements of ISA 260.

1.04 Our audit work during the year was performed in accordance with the plan that we presented to the Audit and Performance Review Committee in February 2012. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix 2 to this report.

Acknowledgement

1.05 We would like to formally extend our thanks to the Council's managers and staff for the assistance they have given us during the audit process.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Glasgow
31 October 2012

2. Financial Statements and Audit Opinion

Audit Opinion

2.01 We have completed the audit of the Council's accounts in line with current International Auditing Standards and have given an **unqualified** opinion that the financial statements of the Council for 2011/12 give a true and fair view of the financial position and expenditure and income of the Council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

2.02 We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report is **unqualified**. Our audit opinion does not extend to any other part of the Remuneration Report.

Audit Approach

2.03 Our audit approach was set out in our Annual Audit Plan as presented to Audit and Performance Review Committee members in February 2012. There have been no changes to our audit plan.

Audit Process

2.04 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The working papers provided were of a high standard, reflecting the deliverables listing we issued to management in advance of the audit. We would like to formally express our thanks to the finance team for producing a number of detailed working paper files in support of the financial statements. Overall we believe an efficient audit process was achieved and an effective working relationship is developing between us and your officers.

Basis of Preparation

2.05 The financial statements were prepared in accordance with the accounting requirements contained in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Service Reporting Code of Practice 2011/12, supported by International Financial Reporting Standards (IFRS).

Misstatements and significant audit adjustments

2.06 We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature.

2.07 A number of adjustments to the format of, and figures within, the financial statements have been discussed during the course of our audit. **All audit adjustments have been processed** in the final financial statements.

Significant Accounting Issues Identified and Reporting

2.08 During the course of our audit we have identified a number of issues that we are required to report upon formally. The most significant of these audit areas are set out below.

PPP schools project completion

2.09 The construction phase of the PPP schools project was completed during 2011/12 with Keith Primary school being brought into use in February 2012 and Elgin Academy in March 2012. The accounting treatment for these transactions was to recognise the two schools as assets on the balance sheet at fair value, and recognition of an equal corresponding liability.

2.10 We engaged internal PwC experts and considered the judgements made by management in determining which costs contained in the financial model should be included in the fair value asset valuation.

2.11 Following consultation and reference to relevant accounting standards, being IFRIC 12 (Service concession arrangements), IAS 17 (Leases) and IAS 16 (Property, plant and equipment), we concluded that whilst the accounting treatment in principle was appropriate, the costs used to determine fair value were not. In particular, set-up and development costs and rolled-up borrowing costs are not eligible for capitalisation and should therefore have been excluded.

2.12 We proposed a downwards adjustment of £8.8 million to the fair value at which the PPP scheme was initially measured and the corresponding liability. Management agreed to make the adjustment in the accounts.

2.13 The net effect on the balance sheet of the adjustment is nil and there is no impact on the general fund. **We are satisfied that the accounting treatment and disclosure requirements have been met.**

Exit Packages

2.14 The *Code of practice on local authority accounting in the UK 2011/12* (2011/12 Code) requires Councils to disclose the number and cost of agreed exit packages, reflecting the termination benefits recognised in the financial statements. This new requirement for 2011/12 saw the inclusion of this information within the Remuneration Report for the first time.

2.15 We have performed work around the Council's disclosure of exit packages and are satisfied that the disclosure requirements have been met.

Equal pay provision and contingent liability

2.16 Moray Council has a number of equal pay cases still outstanding at 31 March 2012 resulting in a remaining provision of £0.6million. As initial settlements were made in 2006, new claims under the initial process are now ineligible as the five year timeframe has passed.

2.17 The Council has settled a number of payment protection claims. However, there remains a possibility of further claims in the period to 2015 for which a contingent liability is disclosed in the accounts. Due to the uncertainty around the number of claims expected the Council has been unable to attribute a value to these claims.

2.18 We are satisfied that any liability in relation to these specific equal pay claims would be difficult to value with any accuracy and that disclosure as a contingent liability is appropriate at this stage.

2.19 We have considered both the provision and contingent liability against the criteria set out IAS 37 – Provisions, Contingent Liabilities and Contingent Assets and the Code of Audit Practice on Local Authority Accounting and we are satisfied with management's accounting treatment.

2.20 We performed work around management's accounting treatment of equal pay claims and concluded it to be satisfactory.

Pension liability

2.21 Moray Council, like most other public sector bodies, holds on its balance sheet a significant net liability in respect of employee retirement benefits which at 31 March 2012 had risen to £108.8million (2011: £89 million). Council employees (excluding teachers) contract into the North East of Scotland Pension Fund (NESPF) which is administered by Aberdeen City Council.

2.22 In substantiating the pension liability at the year end, we obtained fund valuation information from Aberdeen City Council and verified the asset data against third party information, such as published equity prices, where possible. We reviewed the portion of the total NESPF fund liability attributed to Moray Council to ensure it was reasonable given the Council's share of scheme participants and used internal PwC specialists to assess the assumptions used by the actuary. No financial adjustments were proposed as a result of our work.

3. 2011/12 Financial Performance

2011/12 Financial Performance

3.01 The Council's General Fund and Housing Revenue Account financial performance for 2011/12 is summarised in the table below with 2010/11 comparatives included. The Council achieved a positive General Fund outturn of £21.112 million against a breakeven budget.

	2011/12 £000		2010/11 £000	
Net Cost of Services	**198,793**		**174,329**	
Taxation and Non-Specific Grant Income	(220,680)		(221,091)	
Other operating expenditure	6,525		106	
Other Income and Expenditure (Financing and Investment)	8,771		10,410	
(Surplus)/Deficit on Provision of Services	**(6,591)**		**(36,246)**	
	General Fund	**HRA**	**General Fund**	**HRA**
Surplus/(Deficit) on Provision of Services	**7,665**	**(1,074)**	40,532	(4,286)
Adjustments between accounting basis and funding basis under regulations.	(4,074)	1,202	(32,007)	4,305
Net Increase/(Decrease) before Transfers to Reserves	**3,591**	**128**	8,525	19
Transfers to/(from) Reserves	(8)	(256)	(7)	(255)
Increase/(Decrease) in Year	**3,583**	**(128)**	8,518	(236)
Opening Balance	**17,529**	**1,255**	9,011	1,491
Closing Balance	**21,112**	**1,127**	17,529	1,255

3.02 An exceptional pensions past service gain of £24 million was included in the 2010/11 results. This contributed to the significantly lower Net Cost of Services in the prior year.

Designing Better Services

3.03 *Designing Better Services,* the Council's programme to deliver £4.4 million of recurring efficiency savings by 2014 is now into its third implementation phase. Considerable progress has been made to date with Procurement, Transport and Plant projects now closed. Three significant work streams remain: the Core Project; the Property Project; and the Community Care Redesign project. Some of the key projects completed in the last year have been the implementation of car pooling, next stage procurement project and Elgin estate rationalisation including relocation to the new Annexe building.

3.04 The Council's Annual Efficiency Statement showed that in 2011/12, £4.48 million[3] of recurring savings were achieved. This falls short of the Scottish Government's 3% savings target for 2011/12. While the Council is actively monitoring its performance against these targets, the challenge of meeting efficiency targets will become increasingly more difficult as 'quick wins' have already been achieved.

Action 1

Capital Investment – flood alleviation schemes

3.05 In early 2012, funding arrangements for the Council's flood alleviation schemes was confirmed, enabling the Council to approve the annual capital plan 2012/13 totalling £52.6 million, of which £30.8 million related to flood alleviation schemes.

3.06 Historically, delivering capital expenditure in line with the annual capital plan has been challenging for the Council. A trend of slippage against the project plan has been a feature in recent years, including last year where £8 million of capital expenditure originally budgeted for flood schemes in 2011/12 was approved to be carried forward to 2012/13. At 30 June 2012, only £2.3 million[4] of actual capital expenditure relating to flood alleviation schemes had been incurred. Given that only 7.5% of the annual budget had been spent in the first quarter of the year, management will have to be proactive in managing capital spend to ensure benefits are realised at the soonest opportunity and that the underspend for the scheme in 2012/13 is not significant.

Action 2

Trading Operations

3.07 Moray Council operates four trading operations (Building Services, Roads, Vehicle Maintenance and Ground Maintenance). Each trading operation achieved its statutory performance target of 'break-even', over a three year period. The total net surplus on trading services in 2011/12 was £0.217 million (2010/11: £1.062 million).

Statutory Performance Indicators

3.08 The Accounts Commission has a statutory responsibility to specify information that Councils must publish about their performance in the form of statutory performance indicators. For 2011/12, the Accounts Commission stipulated the publication of 25 Statutory Performance Indicator (SPIs).

3.09 Auditors are required to review those arrangements in place for collecting, recording and publishing performance data. Based on our work performed and review of the procedures undertaken by the internal audit function, the Council was able to demonstrate the basis for the SPIs reported.

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[3] *Efficiency Statement*, Policy and Resources Committee, 7 August 2012.

[4] Capital Monitoring Report 30 June, Policy and Resources Committee, 7 August 2012

4. Financial Outlook

Revenue budget 2012/13

4.01 The Council approved its 2012/13 revenue budget of £198.87 million (2011 /12 budget £193.83 million) in February 2012, which provided for a break-even position.

4.02 In accepting the Local Government Finance Settlement (December 2011), the Council agreed to freeze council tax for 2012/13. The 2012/13 revenue budget was approved by the Council in February 2012. The Council was required to generate £2.96 million of savings to balance the 2012/13 budget. Savings totalling £1.9 million were approved, with the remaining £1.06million funded from reserves.

	£000
Savings	**2012/13**
DMS Reduction	225
S1/S2 English and Maths teachers	160
Surestart , Couple Counseling , Family Mediation	33
Assumptions	
School Rolls	200
Charges (income)	225
Energy consumption (2% target set by P & R 04/06/11)	60
DBS	1,000
Total	1,903

4.03 In August 2012, management reported the financial results for the first quarter of 2012/13, in which an underspend of £0.6 million against budget was reported. However, the underlying position was anticipated to be an overspend against departmental budgets and that anticipated budget pressures would require a release of £1.075 million from contingency funds.

4.04 The 2012/13 results will be impacted by the Police & Fire Reform (Scotland) Act which was given Royal Assent on 7 August 2012. Assets and liabilities in relation to Police and Fire services currently operating within Moray Council will be transferred at their carrying amounts to a newly created Scotland wide single force.

Moray Economic Strategy

4.05 The Council is engaged in planning activities around the region's economic development with its Economic Development Strategy and the 'Elgin - City for the Future' study. The Strategy proposes funding contributions to development projects such as the £3.3 million Elgin Conservation Area Regeneration Scheme (CARS) and the Moray Towns Partnership. The Strategy is supported by proposed governance and action plans. The Strategy combines local programmes funded by the European Regional Development Fund (ERDF) under rural priority initiatives.

4.06 The proposals contribute to the Single Outcome Agreement of the Community Planning Partnership with the Scottish Government and the stated priorities of the Council's plan in relation to the economy, jobs and tourism. The initiatives will help to achieve the Corporate Plan objective to maximise opportunities from European, Lottery and other funding sources.

Welfare Reforms

4.07 In February 2011, the Westminster Government published the Welfare Reform Bill which set out plans to fundamentally overhaul the benefits system. The stated overarching objectives of the Bill were to simplify the benefits system, achieve savings and increase incentives for unemployed people to work. The Welfare Reform Act was given Royal Assent on 8 March 2012.

4.08 Amongst the key proposals set out in the Act are:

- Universal Credit will be introduced, replacing many existing benefits such as Job Seekers Allowance and Tax Credits.
- Restrictions to the value of the amount of benefits individuals can receive.
- Stricter rules regarding the awarding of benefits to people with disabilities
- Housing Benefit will be subsumed within Universal Credit with local authorities no longer involved in its administration.
- Council's may no longer receive the grant received currently for administering benefits.
- Council Tax Benefit will be abolished and replaced by local schemes of assistance.
- Councils will only receive around 90% of the current level of Council Tax Benefit claimed.

4.09 At present Universal Credit will be introduced for new claimants from October 2013. Thereafter there will be a 2 year programme of migration of existing claimants to Universal Credit, as they go through changes in their basis of claim. Remaining claimants will then (from October 2015) begin to be moved to Universal Credit.

4.10 Council Tax benefit will no longer be paid to Councils from the Department for Work Pensions (DWP). In Scotland, an amount for Council tax support, is being passed from DWP to the Scottish Government as part of the block grant settlement. A 10% cut will be made by DWP in passing this sum to the Scottish Government.

4.11 For year 2013/2014, this is likely to mean a shortfall of around £40 million for Scottish Councils. This will be bridged by a £23 million contribution from the Scottish Government, with the gap being met by Councils. This funding package will allow a scheme of Council Tax support to be established, mirroring the existing scheme. At present there would only appear to be a commitment to a scheme and a package of funding support for year 2013/14. However, significant changes to Council Tax Benefit systems and software are required to enable the continuation of a form of this benefit into next financial year.

4.12 In April 2013, the Social Fund Community Care Grants and Crisis loans for living expenses will be abolished and the funding transferred to Scottish Ministers. CoSLA has been working with the Scottish Government on an interim local government delivery scheme (Scottish Community Support Grants) while a longer term delivery arrangement is being developed. Funding of £25-30million will be transferred to Scottish Ministers, on the basis of the equivalent Social Fund spend for 2012/13.

4.13 Given the scale and importance of the changes around Welfare Reform, a number of engagement processes have been commenced across the Scottish public sector. The DWP have embarked upon a business impact analysis exercise with Councils and will run a conference jointly with CoSLA on Welfare Reform. The Council continues to participate fully in these engagements. DWP are also establishing a series of district based meetings with local authorities on Welfare Reform.

4.14 ***The Council should put specific arrangements in place to ensure that Welfare Reform impacts can be planned, coordinated, monitored and successfully implemented.***

Action 3

5. Governance and Control

Overall Governance Arrangements

5.01 A revised service structure has been in place since 1 April 2011, which reduced the number of Council service divisions.

5.02 There have been no other significant changes to the overall governance arrangements operating at the Council during 2011/12. Following the local elections in May 2012, new committee members have been established to reflect the current political landscape within the Council.

5.03 The Council's internal audit function continues to be provided in house and governance is a key item on internal audit's agenda. Internal audit is involved in overseeing risk management arrangements and reviewing the system of internal control. It has also supported the corporate management team in the preparation of the annual governance statement within the annual accounts as well as in providing input to relevant policy matters, such as those concerning to anti-money laundering and the prevention of fraud, theft, bribery and corruption.

Statement of Governance and Internal Control

5.04 The Council is required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: 'Delivering Good Governance in Local Government'.

5.05 We reviewed the Statement to consider whether it complied with the CIPFA / SOLACE framework and whether it was misleading or inconsistent with other information known to us from our audit work. Based on our normal audit procedures, we **do not disagree** with the disclosures contained in the Statement.

Accounting Systems and Systems of Internal Control

5.06 It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements and our review of the annual governance statement.

5.07 The results of our work on systems of internal control were communicated to the Risk and Audit Scrutiny Forum in our Interim Management Letter dated March 2012. The report contained eight recommendations to improve controls, one of which was graded as higher risk relating to identifying efficiencies for 2012/13 and 2014/15. Management has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion.

Follow up of outstanding recommendations

5.08 Our interim management letter was issued in March 2012. At the time of our interim visit in February 2012 the implementation date for previous auditor recommendations had not passed. We will follow up the internal controls recommendations raised in our interim management letter and progress with previous audit recommendations during our interim audit for the audit cycle 2012/13, which is scheduled for February 2013.

Prevention of Fraud and Corruption arrangements

5.09 As reported in our Interim Management Letter, we have considered the Council's arrangements for the prevention and detection of fraud and corruption. This was performed through discussion of key risk areas with senior management and review of selected controls and documentation. We do not believe that the control weaknesses identified in the Councils arrangements during our fieldwork have directly contributed to any

fraudulent activity that has been uncovered. We nevertheless recommend that the agreed actions are undertaken to further reduce the opportunity and likelihood of fraudulent or corrupt activity.

5.10 The National Fraud Initiative (NFI) brings together data from health bodies, councils, police and fire rescue 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.

5.11 The Council must complete the next NFI exercise by March 2013, investigating and concluding on its matches. The Council continues to demonstrate a commitment to the NFI process and has taken steps to review its NFI arrangements.

Internal Audit

5.12 As recommended by the International Standards on Auditing Standard (ISA) 610, "Using the Work of Internal Auditors", we have liaised with Internal Audit during our interim audit visit to review their programme of work for the current financial year to establish progress against the internal audit plan and review a summary of their completed reports to determine the main issues being reported.

5.13 We relied on the work of Internal Audit in our audit of the Bus Service Operators grant claim and Housing Benefit grant claim.

National Performance Audits

5.14 At the request of Audit Scotland, we were required to perform targeted follow up work on their National Performance Reports: *Maintaining Scotland's Roads – A follow-up Report* (published February 2011).

Maintaining Scotland's Roads

5.15 The findings from our work will be reported to management in a separate letter. Overall, the Council was able to demonstrate it had considered the report at the appropriate level and had taken the original recommendations into account.

Local Impact Returns

5.16 Local Impact Return questionnaires provide a template to assist auditors in making an assessment as to how the Council has responded to National Performance Reports from Audit Scotland. During the year the following Returns were submitted to Audit Scotland:

- Modernising the Planning System
- Scotland's Finances 2 – Addressing the Challenges
- Transport for Health & Social Care
- A Review of Community Health Partnerships

Performance Management

5.17 The Council's existing Corporate Plan 2009-2013 brings together the Council's commitments under the Single Outcome Agreement (SOA) and sets out its strategies for achieving local and national priorities, which include a forward looking financial strategy, workforce plan and the prioritisation of projects. The Service Development Group is responsible for overseeing the implementation of the Corporate Plan. The Council has developed a new Service Planning Framework as a means of delivering the strategic vision and ensuring consistency in performance. Service Plans will use inputs such as the PSIF and performance indicators to identify service objectives and plan the resources required to deliver on those objectives.

5.18 A Performance Management Framework is also in place within the Council. Based on Scottish Government's system of performance management, the framework is designed to focus on improving quality of life in the community. Monitoring takes the form of regular reports to the Community Planning Partnership and the

Audit and Performance Review Committee on how the Council has delivered the local and national priorities set out in the SOA. Quarterly SOA monitoring statements are provided to committees for scrutiny.

5.19 The Council also reports on a range of mandatory Statutory Performance Indicators (SPIs) which are used by Audit Scotland to compare the performance of all authorities in Scotland. In addition to this, councils are encouraged to identify supplementary key performance measures in addition to the statutory measures to provide more tailored performance information.

Standards of Conduct

5.20 The Council has a Code of Conduct for Employees. The code sets out the minimum standards expected of all employees and covers areas such as fair and reasonable treatment at work, gifts and hospitality and corruption. Linked to the Code of Conduct the Council also has other policies in place including Whistleblowing, Equal Opportunities and Theft and Declarations.

Appendices

Appendix 1 – Action Plan

	Paragraph Reference	Recommendation	Response
1	3.04	**Designing Better Services - Efficiency Savings** Recurring savings of £4.48million were achieved in 2011/12, below the Scottish Government target of 3%. The Council have acknowledged that significant savings are required, however, substantial savings have not been identified for 2012/13, increasing pressure on future years. As part of its 2013/14 budget process the Council should agree the additional efficiency savings required for 2013/14 and 2014/15.	**Management Response:** The total efficiency savings report to Members in August 2012 fell short of this target, however it was acknowledged that the Council has many competing priorities and time spent on recording and measuring efficiency gains has to be weighed against many of these other priorities. It is therefore recognised that not all savings made through efficiencies will have been captured and quantified. In particular, savings which arise as the result of new duties being absorbed by staff or of unit costs reducing due to increasing workload have not been captured due to the inherent difficulties of measuring these savings The Council has acknowledged that it will require £30 million savings over the next four financial years. The Council is currently undertaking a public consultation on how these savings should be implemented. Work by the Administration and Senior Officers is current reviewing how the Council can achieve the required savings It is also important to note that successive governments have set annual efficiency targets for councils for many years. Whilst we continue to strive to become ever more efficient it is questionable whether an additional 3% gain each year is achievable or reasonable.

			Responsible Officer: CMT/Head of Financial Services **Implementation Date:** June 2013
2	3.06	**Capital Investment - Flood Alleviation Scheme** The Council is investing £30.8million of capital expenditure in Flood Alleviation Schemes. Expenditure of £8million was budgeted for 2011/12 has been carried forward to 2012/13. At the end of the first quarter of 2012/13 only £2.3million of expenditure had been incurred. Management should actively manage capital spend to ensure benefits are realised at the soonest opportunity and any potential underspends in 2012/13 are minimised.	**Management Response:** The total amount including carry forward is £38.8 million. Arrangements are in place and figures reported to Committee every two months. Forecast spend profiles exist but such projects are inherently risky. The forecast expenditure is £25.4 million (2012/13). The main factor is delay in approvals for high cost utility diversions, and treating contaminated land. Furthermore, £0.5 million savings are identified. The delay issues are resolved or close to resolution. Active risk management processes are in place **Responsible Officer:** Consultancy Manager **Implementation Date:** Implemented
3	4.14	**Welfare Reforms** In February 2011, the Westminster Government published the Welfare Reform Bill which set out plans to fundamentally overhaul the benefits system. The stated overarching objectives of the Bill were to simplify the benefits system, achieve savings and increase incentives for unemployed people to work. The Welfare Reform Act was given Royal Assent on 8 March 2012. The Council should put specific arrangements in place to ensure that Welfare Reform impacts can be planned, coordinated, monitored and successfully implemented.	**Management Response:** The Council has set up a Corporate Working Group with service representatives from Benefits, Environmental Services and Housing. Those officers are preparing an action plan detailing the key issues, risk and mitigation actions. A progress report providing an update on the actions of the key issues affecting Moray, was submitted to the October P&R Committee and to the Community Planning Partnership Board. Councillors have also received a briefing presentation on the Reforms and how they will affect the Moray Community.

			The Corporate Group will meet regularly and report to CMT/ Members on progress on the implementation of this reforms. **Responsible Officer:**Head of Financial Services **Implementation Date:** Full transfer and implementation of reforms will be April 2017

Appendix 2 - Audit reports issued in 2011/12

Report Name	Report Date
Annual Audit Plan 2011/12	February 2012
Interim Management Letter 2011/12	May 2012
Maintaining Scotland's Roads – A Follow Up Report	August 2012
ISA 260 presentation to Members of the Moray Council	September 2012
Annual Report to Members and the Controller of Audit	October 2012

Appendix 3 – ISA 260 Communications to those charged with governance

Communication Required under ISA 260	Reference/Comment
Engagement Letters	✓ Signed Engagement Letter with Audit Scotland at the start of our 5 year appointment and updated annually.
Independence	✓ We confirm that, in our professional judgement, as at the date of this document, we are independent auditors with respect to the Council and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.
Audit Approach and Scope	✓ Set out within the Annual Audit Plan (reported to Audit and Performance Review Committee 1 February 2012). There were no changes the audit approach set out within our audit plan.
Materiality	✓ Annual Audit Plan (reported to Audit and Performance Review Committee 1 February 2012).
Form and Timing of Communications	✓ Annual Audit Plan (reported to Audit and Performance Review Committee 1 February 2012) ✓ Interim Management Letter (reported to Audit and Performance Review Committee 20 June 2012) ✓ ISA 260 (reported to Full Council 19 September 2012) ✓ Annual Report to Members (reported to Full Council 14 November 2012)
Accounting Policies/Estimates/Disclosures	✓ Significant matters are included within this report
Correspondence with management on significant matters	✓ Discussed and resolved matters arising with management throughout audit process.
Letter of Representation	✓ Signed by the Head of Financial Services on 26 September 2012.
Other matters significant to the oversight of financial reporting process and material Uncertainties relating to Going Concern	✓ None identified.
Related Parties	✓ Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.
Fraud	✓ Discussed fraud arrangements with the Audit and Performance Review Committee and management

	throughout audit process.
Material Weaknesses in Internal Controls	✔ Internal Controls findings reported separately in our 'Interim Management Letter 2011/12' and 'Follow up of Prior Year recommendations 2011/12' reports.