

# North Ayrshire Council

## Annual Report to Council Members and the Controller of Audit

2005/06 Audit



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The Controller of Audit  
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29 September 2006

Our ref: CDR/RB

Ladies and Gentlemen

### **Annual Report 2005/06**

We have completed our audit of North Ayrshire Council (the "Council") and its financial statements for the year ended 31 March 2006 and are pleased to enclose our Annual Report for the year.

The Annual Report is primarily designed to direct your attention to matters of significance that have arisen out of the 2005/06 audit process and to confirm what action (Appendix 1) is planned by management to address the more significant matters identified for improvement. The key points we would draw to Members attention are:

- Our audit opinion for the year ended 31 March 2006 is unqualified (section 1);
- Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of their significant trading operations so that income is not less than expenditure over each three year period. The Council failed to comply with this statutory requirement for the three year period ending 31 March 2006 in respect of the Catering and Building Cleaning Statutory Trading Operations. Our audit opinion makes reference to this failure to comply with the statutory requirement (section 2);
- At the start of the 2005/06 financial year, the Council forecast a deficit for the year (to be funded from balances) of £0.98 million. However, the actual outturn for the year ended 31 March 2006 was an in-year deficit of £5.2 million (section 2);

- The Financial Statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided and internal review process undertaken by Management were of a good standard. However, the Council should review the process for updating draft accounts with audit adjustments to ensure that final accounts are produced more timeously in future years. Overall, we believe an effective audit process was achieved for the audit of the Financial Statements and an open working relationship exists with your Officers (section 3).
- As reported in prior years, the bad debt provision for Housing Rents, Council Tax and Non Domestic Rates Property and Statutory Additions continues to be calculated on a methodology developed some years ago. As a number of assumptions used in the calculation are based on historical data established some time ago, we strongly recommend that consideration is given to reviewing this methodology for future years to ensure that an appropriate provision continues to be held.
- Our audit work of the Council's Information Technology general computer controls identified five high priority recommendations that should be a matter for urgent management action. Members should seek regular updates from Management that appropriate action is being progressed in these areas (section 6).

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

Yours faithfully

PricewaterhouseCoopers LLP

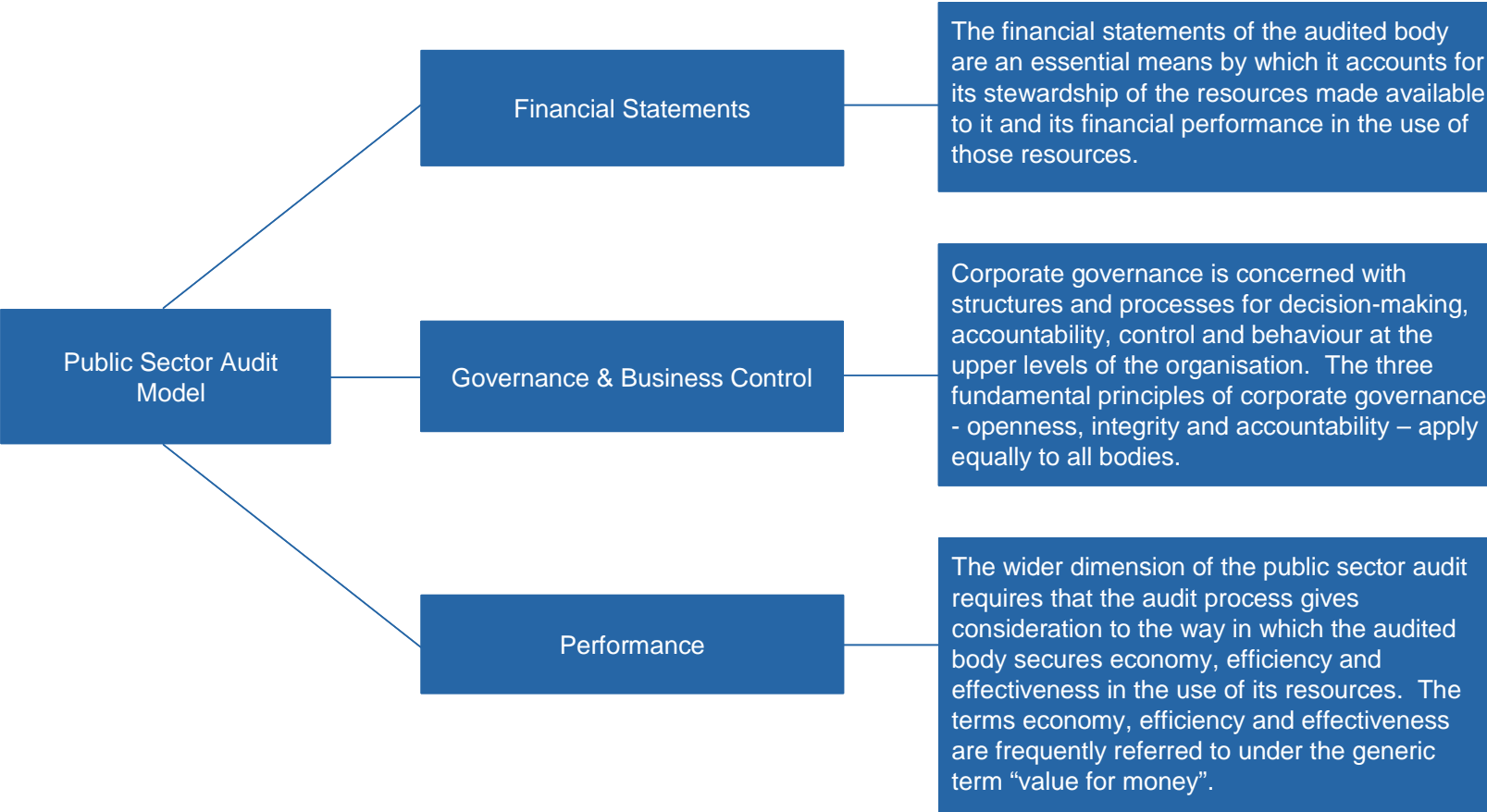
# Our Report Structure

Our report structure reflects our wider public sector audit responsibilities as set out in Audit Scotland’s Code of Audit Practice.

**The Model**

**Areas of Responsibility**

**Explanation**



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# 1. Audit Opinion

## Our Audit Opinion

- 1.1 The Local Government (Scotland) Act 1973 requires that, following the completion of an audit, the auditors shall place on the abstract of accounts a certificate which sets out the basis on which they have formed their audit opinion. Our opinion on the accounts states:
- that the audit has been conducted in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Code of Audit Practice;
  - the respective responsibility of management and auditors in relation to the accounts; and
  - whether, in the auditors' opinion, the accounts present fairly the financial position of the Council as at 31 March 2006.
- 1.2 Our audit opinion for the year ended 31 March 2006, which is in the format prescribed by the Accounts Commission, is **unqualified**.
- 1.3 Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of their significant trading operations so that income is not less than expenditure over each three year period. The Council failed to comply with this statutory requirement for the three year period ending 31 March 2006 in respect of the Catering and Building Cleaning Statutory Trading Operations.
- 1.4 Within page 12 of the financial statements, the Council has drawn attention to the fact that *“during the year 2005/06 provision was made for payments to employees in Catering (£1.206m) and Building Cleaning (£1.146m) as a result of equal pay claims. The effect of these transactions was to produce a deficit for the year and for the three year rolling period.”*
- 1.5 Our audit opinion which is set out in Appendix 4 also makes reference to this failure to comply with the statutory requirement.

## 2. Financial Performance and Position

### Revenue Performance 2005/06

2.1 The figures which follow have been extracted in agreement with management from various reports, supporting papers and other available documentation.

	£m	£m
Gross Expenditure	(415.7)	
Total Income	<u>146.8</u>	
<b>Net Cost of Services</b>		<b>(268.9)</b>
Other activities including Trading Operations, Asset Management Revenue Account, Interest on Revenue Balances		<u>1.5</u>
<b>Net Operating Expenditure</b>		<b>(267.4)</b>
Transfer to various funds and reserves including Insurance, Repairs and Renewals and Capital Funds		<u>10.3</u>
<b>Amounts to be met from Government Grants and Local Taxation</b>		<b>(257.1)</b>
Revenue Support Grant	149.9	
Non-Domestic Rate Income	50.7	
Council Tax	<u>51.3</u>	<u>251.9</u>
<b>Net General Fund Deficit for the Year</b>		<b>(5.2)</b>
Balance on General Fund Brought Forward		<u>7.9</u>
<b>Surplus on General Fund Carried Forward</b>		<b><u>2.7</u></b>

### Achievement of 2005/06 Financial Position

- 2.2 At the start of the 2005/06 financial year, the Council forecasted an overall general fund breakeven position. However, the actual out-turn for the year ended 31 March 2006 was an in-year deficit of £5.2 million. This deficit arose primarily due to:

	<b>£m</b>
Forecast position as at 1 April 2005	1.0
Equal pay costs not included in original budget	7.5
Additional income received in respect of council tax	(1.0)
Transfer to specific reserve	1.0
Departmental underspend in 2005/06	(3.3)
<b>Outturn deficit for year</b>	<b><u>(5.2)</u></b>

### Capital Performance 2005/06

- 2.3 The Council's capital programme was set at £48.5 million. Actual capital expenditure in year was:

	<b>£m</b>
General Fund	25.9
Housing Revenue Account	18.7
	<b><u>44.6</u></b>

- 2.4 The capital underspend in year was £3.9 million. Through the development of the integrated Service Planning and Budgeting process the preparation of the Capital Plan has become more robust, essentially matching priorities against affordability. The Capital Plan goes beyond one particular year and with the introduction of the Prudential Framework, flexibility in spend is more apparent. The existing programme is challenging and the underspend in 2005/06 reflects a variety of circumstances, e.g. delays in site acquisition, formation of Urban Regeneration Company, Strategic reviews of Services, traditional slippage in completion of projects.
- 2.5 Regular capital monitoring reports were presented to Members advising them of reasons for underspends and this procedure will continue in the future.



2.6 The Council's major capital investments during 2005/06 included:

- Expenditure on educational services – the most significant projects being the replacement of Dalry Primary School (£4.6 million), extension of Abbey Hall and Nursery (£1.9 million), Dalry Nursery (£1 million), Glencairn Primary School Replacement of Building (£0.5 million) and Schools PPP Development costs (£0.5 million).
- Corporate Services capital spend on a review of the Council's Contact Centre (£0.7 million), Corporate Personal Computer Replacement Programme (£0.45 million) and Disability Discrimination Act compliance expenditure (£0.5 million).
- Roads expenditure on improvement/reconstruction (£0.3 million), traffic calming/safety (£0.5 million) and public transport (£1.4 million).
- Social Services expenditure on new children's unit (£0.7 million).

#### **Revenue Forecast 2006/07**

2.7 As at period ending 31 August 2006, the Council was reporting a general fund surplus at the end of 2006/07 of £2.9 million compared with an original budgeted surplus of £1.4 million.

#### **Capital Forecast 2006/07 and beyond**

2.8 The Council has in place a General Fund capital programme for the years 2006/07 to 2009/10 amounting to £127 million. This was approved by the Corporate Policy Committee in February 2006. Included for 2006/07 are budgets for Educational Services (£20.5 million), Property Services (£8.3 million), Corporate Services (£8.4 million) and Social Services (£2.2 million).

#### **Pension Fund**

- 2.9 The Council participates in the Local Government (Scotland) Superannuation Scheme, administered by Glasgow City Council through the Strathclyde Pensions Fund. This is for administrative and manual staff, and is a funded defined benefits scheme, with both employer and employee making contributions, intended to balance the pension liabilities with investment assets.
- 2.10 Pension liabilities are valued on an actuarial basis which assesses the future liabilities of the fund. The valuation undertaken by Hymans Robertson, the independent actuaries of the Pension Fund, is based on a valuation as at 31 March 2005. The Net Pension Liability as at 31 March 2006 is £77.8 million compared with £92.4 million as at 31 March 2005. This decrease is primarily due to an actuarial gain of £16.6 million during 2005/06.
- 2.11 The Council, in conjunction with the appointed Actuary should continue to monitor closely this Pension Fund deficit. In particular, budgets should be set to ensure that any future increases in the Council's contributions, to reduce the net liability, can be met.

**Action Point 1**

# 3. The Financial Statements Audit Process and Accounting Issues

## **Audit Process**

- 3.1 The Financial Statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided and internal review process undertaken by Management were of a good standard. However, the Council should review the process for updating draft accounts with audit adjustments to ensure that final accounts are produced more timeously in future years. Overall, we believe an effective audit process was achieved for the audit of the Financial Statements and an open working relationship exists with your Officers.
- 3.2 The Council achieved the deadline for lodging accounts with the Controller of Audit by 30 June 2006 and co-operation between ourselves as external auditors and the Council has ensured the timely completion of the audit by the due date of 30 September 2006.

## **Audit Adjustments**

- 3.3 A number of adjustments to the format of and figures within draft financial statements have been made as a result of our audit work. These have been agreed and processed by the Assistant Chief Executive (Finance) through the final set of financial statements. These adjustments did not alter the deficit for the year of £5.2 million.
- 3.4 During the course of our audit we identified a number of issues that we are required to report. Following the introduction of ISA 260 "Communication of audit matters to those charged with governance", we are required to report all unadjusted differences to management and invite them to adjust the accounts as required.
- 3.5 The most significant made, and those not adjusted by Management are summarised within this section of the report and proposed recommendations are included in Appendix 1. A separate Final Management Letter will be produced which will detail a number of additional, less significant issues that need to be addressed by Management.

## **Statutory Trading Operations**

- 3.6 During 2005/06 the Council operated five statutory trading operations, which under the requirements of the Local Government Scotland Act 2003 (section 10) have a duty to conduct themselves so that income is not less than expenditure over each three year period. This three year breakeven measure covered the period 2003/04, 2004/05 and 2005/06. Over this period, the Council's Catering and Building Cleaning trading operations failed to breakeven returning deficits of £0.846 million and £0.721 million respectively. These deficits were affected by the inclusion of equal pay claims to employees. These amounts were £1.206 million for Catering and £1.146 million for Building Cleaning.

3.7 An explanatory paragraph referring to this matter has been included within our audit opinion.

#### **Treatment of Deferred Income in Year**

3.8 The Council has included within its financial statements a creditor of £1.4 million in respect of deferred income. This relates to Revenue Support Grant income received during 2005/06 but not spent by the Council in 2005/06. We have been informed that this income is “ringfenced” in that it can only be used to fund specific projects such as those relating to working for families, anti social behaviour and better neighbourhood services.

3.9 The accounting treatment undertaken by the Council is in line with current local authority accounting guidelines. However, we understand that these guidelines are currently being reviewed by Audit Scotland and the Scottish Executive.

3.10 From 2006/07 it is recommended that the Council revisits its accounting treatment for deferred income and appropriate action is taken in light of any additional guidance issued by Audit Scotland.

**Action Point 2**

#### **Calculation of Bad Debt Provision**

3.11 As reported in prior years, the bad debt provision for Housing Rents, Council Tax and Non Domestic Rates Property and Statutory Additions continues to be calculated on a methodology developed some years ago. As a number of assumptions used in the calculation are based on historical data established some time ago. We strongly recommend that consideration is given to reviewing this methodology for future years to ensure an appropriate provision continues to be held.

**Action Point 3**

#### **Accounting Treatment of Premiums Incurred on the Early Repayment of Debt**

3.12 The Council's balance sheet at 31 March 2006 includes a balance of £17.5 million in respect of premiums paid by the Council. These premiums were incurred as the Council repaid certain debt earlier than scheduled. This debt rescheduling was undertaken as part of a number of Council-wide debt re-profiling exercises. Of the £17.5 million, £10.6 million relates to the replacement of a fixed rate interest loan with a Lender Option Borrower Option (“LOBO”) agreement. This agreement has a fixed interest for an initial predetermined period determined by the lender. After this initial period the lender has the option to renegotiate the rate of interest payable. If the rate of interest is not acceptable to the Council (the borrower), the Council has the right to break from the loan agreement.

3.13 The 2005 SORP allows premiums on the early repayment of debt to be amortised to revenue over the period of the replacement loans when the repurchase is coupled with a restructuring or refinancing of borrowing and the overall economic effect is substantially the same. This treatment is an exception to the standard accounting treatment set out in FRS4 which requires immediate recognition of the premium. The SORP itself does not provide a definition of the term ‘overall economic effect’, and the SORP guidance notes provide the only extant working definition, i.e.:

- The size of the authority's overall loan portfolio remains approximately the same, or
- Overall finance cost should remain approximately the same.

- 3.14 The Council has relied upon this definition and concluded that, on this basis, LOBOs have substantially the same overall economic effect as a fixed interest rate loan. The Council has therefore followed the exception allowed by the SORP and is amortising the premium over the life of the replacement loans.
- 3.15 Notwithstanding the definition in the SORP guidance notes, there are strong arguments for concluding that the overall economic effect of fixed rate loan is different from that of a LOBO. However, there is a lack of reliable evidence to conclusively support this view and therefore there is no impact on our opinion on the 2005/06 accounts.
- 3.16 This will continue to be matter for discussion in future years and the adoption of new accounting standards by the SORP from 2007/08 will mean that, in the majority of cases, the option to amortise premiums may be removed. It is however intended that regulations or statutory guidance will come into force that will mitigate the impact of this change on council tax levels.

#### **Audit Adjustments**

- 3.17 Various audit adjustments were noted, agreed with management and amended in the accounts as part of our year end audit. Most of these adjustments related to disclosure and group accounting matters.

# 4. Arrangements to Prevent and Detect Fraud and Irregularities

## **Fraud and Corruption Reviews**

- 4.1 As part of our rotational plan to review the key mechanisms for the prevention and detection of fraud and corruption, we have reviewed the Council's overall fraud and corruption arrangements which focus on areas including internal regulations and controls, members and staff conduct. In addition, we completed specific checklists in relation to the arrangements for budgetary control, council tax, creditors, debtors, housing benefit, housing rents, non domestic rates, payroll and superannuation.
- 4.2 Five medium risk issues were identified and reported in our Interim Management Letter and the Council has agreed to address these issues in a formal action plan.

## **Fraud Guidance**

- 4.3 We have reviewed the fraud and irregularities guidance issued by Audit Scotland during 2005/06 (Technical Bulletins 2006/3, 2006/2, 2006/1 and 2005/4, Notes for Guidance and relevant Urgent Issues Notes), and undertaken work accordingly. There are no specific matters to report to the Council from this work.

## **Fraud Submission**

- 4.4 A fraud return has been made to Audit Scotland of all the reported frauds that have occurred within the Council during the year. Fifteen first tier frauds (in excess of £5,000) and two second tier frauds (less than £5,000) were reported. The Council has established a framework to take appropriate action against individuals who have undertaken fraudulent activity.

## **National Fraud Initiative 2005/06**

- 4.5 National Fraud Initiative ("NFI") is a data matching exercise that helps detect fraudulent and erroneous payments from the public purse. It runs every two years, assisting participants across the UK from Local Government, Central Government and the NHS to identify fraud and error. In total, around 1,500 organisations supply almost 3,500 sets of data in areas such as housing benefits, payroll and occupational pensions. The NFI then cross-matches all of this data to identify inaccuracies or potential fraud and sends matches back to each organisation for investigation where appropriate.
- 4.6 Each organisation is required to submit returns to the Audit Commission during the exercise to show what work has been carried out with the information supplied.

- 4.7 During 2005/06 the Council submitted detailed returns to the Audit Commission outlining its overall approach to NFI and the actions and data matches arising. From the list of potential matches advised to the Council a number of cases were investigated and as a result, certain individuals have been subject to prosecution, administrative penalty or official caution.
- 4.8 We have been informed that the NFI 2006/07 has commenced and we recommend that Management continue to ensure that they provide the Audit Commission with the required extracted information from all the relevant systems, in particular Council Tax, Housing Benefits and Creditors data in accordance with the prescribed NFI timescales.

**Action Point 4**

# 5. Standards of Conduct, Integrity and Openness

## Legality Work

- 5.1 We plan and perform our audit procedures recognising that non-compliance by the Council with statute or regulations may materially affect the financial statements. As part of our normal audit process we consider the Council's assessment of the legality of certain significant transactions and events with a financial consequence. We also consider the arrangements put in place by the Council with reference to legality. Our work has not highlighted any matters which we require to bring to your attention.

## Electors Objections

- 5.2 We have received objections to the accounts from one elector who has raised a number of issues, the majority of which were raised in previous years. The objector has met with us in accordance with Section 101 of the Local Government (Scotland) Act 1973.
- 5.3 We have completed our examination of the objections to the accounts and have no issues to report.

## Landfill Development: Shewalton Area 2

- 5.4 During the course of the year, Audit Scotland received a number of complaints and correspondence from North Ayrshire residents regarding the Council's landfill development at Shewalton 2. Our review highlighted that most of the reasons to support the decision to use Shewalton as a landfill site were made in 1978 by Cunninghame District Council. We highlighted that no written evidence of the reasons for the original decision could be located. As we were unable to conclude on the reasonableness of the decision making process at that time, Council management agreed to commission specialist consultants to address *“that the decision to use Shewalton is in line with the Council's policy on waste strategy, and that it represents ‘value for money’. It has been agreed with the Council that the decision should also be reviewed against the budget of the National Waste Strategy, the local Area Waste Plan, and Planning Guidance, in order to set the matter in both a local and national context.”*
- 5.5 This independent review concluded that the *“Council's decision to proceed with the development of Area 2 at Shewalton is compliant with Council policy and is based on sound planning, regulatory and financial reasons.”*

## Post Balance Sheet Events

- 5.6 No significant post balance sheet events were identified by us or brought to our attention. Management has formally confirmed this fact.

# 6. System of Internal Control Including the Council's Statement of Internal Financial Control

## Statement on the System of Internal Financial Control

- 6.1 The "Code of Practice on Local Authority Accounting in Great Britain, a Statement of Recommended Practice" (the "SORP" for 2002) introduced the requirement for local authorities to include within their financial statements a Statement on the System of Internal Financial Control ("SSIFC").
- 6.2 Our responsibility is to provide an external audit view, as opposed to an audit opinion, on whether:
- the format of the SSIFC complies with the requirements of the SORP; and
  - the information contained therein is consistent with our knowledge of the Council.
- 6.3 Based on our normal audit procedures, we do not disagree with the Council's disclosures contained in the Statement on the System of Internal Financial Control. The statement is in the format required by the SORP.

## Follow Up Report of Previous Control Matters

- 6.4 As part of our 2005/06 audit work we have undertaken a follow up review to report on the implementation of the agreed audit recommendations arising from our prior year audits. This follow up report relates to recommendations contained within the reports as detailed in the table below.
- 6.5 Of the agreed recommendations made in the reports followed up, the following table summarises progress at the time of our audit. There are 21 recommendations where the implementation date has not yet passed. Of the remaining 85 recommendations where the implemented date has passed, 56 have been fully implemented, 8 are partially implemented, 14 are no longer applicable and there are 7 that are not yet implemented.



Status	Number										
	Final Management Letter 2004/05	ARM 2004/05	IML 2004/05	ARM 2003/04	IML 2003/04	Overall Management Arrangements 2002/03	Annual Report to Members (ARM) 2002/03	Interim Management Letter (IML) 2002/03	Previous Auditors' Reports	Total	%
Fully implemented	4	8	12	10	4	0	1	13	4	56	66%
Partially implemented	0	1	3	0	2	0	0	2	0	8	9%
Not yet implemented	1	0	1	0	4	0	1	0	0	7	8%
No longer applicable	0	1	3	1	0	1	0	1	7	14	17%
<b>SUB TOTAL</b>	<b>5</b>	<b>10</b>	<b>19</b>	<b>11</b>	<b>10</b>	<b>1</b>	<b>2</b>	<b>16</b>	<b>11</b>	<b>85</b>	<b>100%</b>
Implementation date not yet passed	6	9	1	0	2	1	1	1	0	21	N/A
<b>TOTAL</b>	<b>11</b>	<b>19</b>	<b>20</b>	<b>11</b>	<b>12</b>	<b>2</b>	<b>3</b>	<b>17</b>	<b>11</b>	<b>106</b>	<b>-</b>

6.6 Overall Council management have made good progress and have introduced a number of measures to implement 66% of the recommendations made over the last three years. As detailed within the table, a number of recommendations remain partially or not yet implemented. The Council should ensure that appropriate action is taken to complete and implement all of these remaining recommendations.

#### Financial Systems and our 2005/06 Interim Management Letter

6.7 An Interim Management Letter was issued to the Council in March 2006. The Council has completed an action plan detailing the individuals responsible for implementing our recommendations and the timetable for completion. Five new recommendations were raised in our report, of which none of the matters identified were considered business critical in nature.

## Information Technology General Control Matters

6.8 As part of our 2005/06 audit work we have undertaken a review of the controls operating within the general IT environment within the Council's main financial system, covering the following areas:

- IT Management/Governance;
- Information Security;
- Computer Operations; and
- Development and Implementation

6.9 The following table details the risk associated with the 12 recommendations made in our report.

Risk Assessment	Definition	Number
High	Those that can seriously compromise the system of internal control and data integrity and should therefore be addressed as soon as possible.	5
Medium	Those that may not represent best practice and may reflect on the system of internal control by reducing data integrity and/or provide opportunities for process improvement. They should be addressed reasonably promptly.	6
Low	Those where we suggest improvements for situations that may or may not directly affect internal control.	1
	<b>Total Recommendations</b>	<b>12</b>

6.10 The 5 high priority recommendations should be a matter for urgent management action and relate to the following points:

- A number of staff members have excessive access rights to the financial system increasing the risk of staff being able to access and amend data that should require more senior approval;
- All 16 members of the non-domestic rates team have administration privileges (i.e. giving the ability to access and amend data). The ability to produce an activity log, which details changes made, has been switched off increasing the risk that unauthorised changes may go unnoticed;
- The Council has a number of servers which are stored in an unlocked communications room. This increases the risk that the servers may be tampered with either intentionally or in error resulting in possible loss of data or unplanned system downtime;

- IT developers make amendments directly into the live environment using generic log ins and migrate the changes made into the live environment, this increases the risk that developers may be able to make unauthorised changes to standing data; and
- The Council is currently not generating system activity logs and monitoring these for any unusual transactions. The absence of this control increases the risk that attempted unauthorised access may go unnoticed or staff may be accessing data without appropriate authorisation.

6.11 Members should seek regular updates from Management that appropriate action is being progressed in these areas.

# 7. Use of Resources and Business Issues

## Efficient Government

- 7.1 The Efficient Government Initiative is a five year programme with the aim of attacking “waste, bureaucracy and duplication in Scotland’s public sector”. A key feature of the initiative is that it focuses on the public sector as a whole, rather than individual organisations, with the intention of realising efficiencies through joining up – in purchasing, in accommodation and in support services. The primary objective is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money.
- 7.2 The Efficient Government Plan sets targets to achieve £745 million (rising to £900 million) of cash-releasing savings, and £300 million (rising to £600 million) of time-releasing savings, by 2007-08.
- 7.3 In addition, Audit Scotland required all auditors to submit, together with their audited bodies, an “Efficient Government Diagnostic” – a self assessment tool covering the key themes of the Efficient Government agenda. The diagnostic outlines the themes as: -
- Asset Management;
  - Managing Absence;
  - Procurement;
  - Shared Support Services; and
  - Streamlining Bureaucracy.
- 7.4 Council management completed the Diagnostic and we met with Senior Council officers to discuss the information presented before submitting the returns to Audit Scotland:
- In December 2005, the Corporate Management Team agreed how an Efficient Government programme would be established, implemented and governed. This involved: raising awareness with senior managers, identifying potential projects, agreeing potential top priority projects with the Corporate Management Team, undertaking initial analysis of the prioritised projects, reporting back to the CMT on feasibility and then undertaking more detailed analysis to identify “as is” and “to be” states and potential savings.
  - A programme office is being established, with membership from Finance, Chief Executive’s and the IT Department. The programme office will liaise with workstream sponsors (procurement, asset management etc.) to collate data for generation of monitoring reports. These reports will be discussed with the CMT (as Project Board) and Elected Members going forward.

## 7.5 The key findings can be summarised as follows:-

### *Asset Management*

- Although no asset management strategy is in place, certain moves have already taken place to rationalise property used by the Council. An Office accommodation group is currently reviewing the use of office accommodation throughout all Council services. There has already been a move from one rented office unit to a Council owned unit. Further proposals include the ongoing maximisation of space within the Council's main office headquarters with consultants advising on "open plan" accommodation. Proposals for archiving of data rather than the use of expensive storage facilities are being considered. A customer contact strategy including a local office strategy is in place and this will not only improve the service to the public, but will also assist in the rationalisation of current office use at a local level.
- Discussions are currently underway between the Council and the Health Board on the sharing of office accommodation within a new development funded mainly by the Health Board. Various funding streams are being considered to support the Health Board's financing of the project including the sharing of land and the construction of a car park by the Council. Ultimately this facility will provide customer contact for the majority of Council and Health services in the Largs area.

### *Managing Absence*

- The Council's staff absence rate for 2004/05 was 5.4%. Estimating savings is very difficult as sickness patterns throughout the workforce will vary from year to year; thus affecting costings. Also, replacement costs will vary depending on who is absent. The Council's target is to reduce the levels of sickness absence by around 0.5-1% (on the reported figure) over the period to 31 March 2008.

### *Procurement*

- Analysis of the Council's creditor system identified total spend of £150 million. This does not include payments to voluntary organisations but it does include payments to Police, Fire and Ambulance Joint Boards (£30 million). The Council has been unable to split this expenditure into supplies, services, capital, or other as definitive purchase descriptions are not available on this system. We have been advised that the system does not classify type of purchase into these groups (see action point 5).

### *Shared Support Services*

- Meetings have taken place between Leaders and Chief Executives of the three Ayrshire Councils to consider which shared services could be taken forward on an Ayrshire wide basis. Currently, a range of services are being considered including Finance, Personnel, Regulatory and other services.
- Proposals for the automatic processing of Benefit application forms are being investigated with the DWP and South Ayrshire Council. The Council is also a member of the Clyde Valley consortium looking at shared Non Domestic Rates collection. The Council also participates in joint training with the other two Ayrshire Councils on training for the Benefits service.

### *Streamlining Savings*

- As part of the Council's Customer Contact Strategy, a call centre has been established to improve the response time and simplify the methods of contact previously in existence. Another strand of the Customer Contact Strategy is the development of an improved local office network, including the sharing of facilities with other bodies. Earlier projects include the adoption of the Land and Property Gazetteer to hold data on addresses for all properties rather than separate systems holding the same information. A Citizens Account, linked to the Customer Relationship Management system, is also being developed in line with the national Customer First programme.

7.6 As part of the Efficient Government agenda, the Council should continue its programme of Best Value reviews to review services to identify opportunities for delivering improved efficiency and plan for efficiency gains every year while continuing to improve and make best use of resources in the longer term. This requires an approach which allows for easy or quick wins while simultaneously developing and delivering a strategy for the future. Underpinning this is a need for good baseline information on costs and service outputs and outcomes.

### **Action Point 5**

### **Priorities and Risks Framework**

7.7 To assess the effectiveness by which Local Government bodies are implementing reforms, Audit Scotland developed with PricewaterhouseCoopers and other partners a "Priorities and Risks Framework" ("PRF") which is designed to identify key business challenges and the main risks which could prevent their achievement.

7.8 As part of our 2005/06 audit, we consulted with numerous officers and reviewed selected documentation within the Council to assess the Council's status in addressing the seven key areas of the PRF, namely:

- Role and Development of Members;
- Strategy for Housing;
- Working Together for Communities and Users;
- Performance Management and Improvement;
- Financial Strategy;
- Workforce Planning; and
- Strategic Planning in Social Services.

- 7.9 As part of the 2005/06 audit process a PRF summary return template was developed for each PRF topic. These enabled auditors to provide summary returns based on the outcome of their own PRF meetings with each Council, using a consistent format. The purpose was to capture contextual information and audit views about the key issues and risks faced in each area.
- 7.10 We followed up the recommendations made in our 2005 PRF Report and updated the Council's progress and position regarding each area. This information was used to complete the returns as part of our 2005/06 audit work and submitted them to Audit Scotland in March 2006. Audit Scotland collated all this information and used it to identify good practice models, emerging issues and information to inform their programme of national performance audit studies.

# 8. Performance Audit

## In year performance audit reviews

- 8.1 As part of our responsibilities under the Local Government (Scotland) Act 1973, we consider the overall arrangements that have been made by the Council for securing value for money (i.e. Economy, Efficiency, and Effectiveness). In terms of this responsibility, we have completed and reported our findings in relation to the following studies:
- Performance Indicators;
  - Best Value Transitional Arrangements Follow up Review;
  - Following the Public Pound Follow Up.
- 8.2 Separate reports and agreed management action plans have been issued for these reviews. Detailed in the following paragraphs is a summary of the work undertaken and our key findings:

## Performance Indicators

- 8.3 It is the responsibility of the Council to ensure that, as far as practicable, the information which is published is complete and accurate. There are 56 Performance Indicators (“PIs”) in total, all of which have to be graded as either ‘A’, ‘X’, ‘FTR’, or ‘N/S’ as follows:
- A:** The data appears to be reliable in material respects.  
**X:** The lack of available systems, and/or reliable data, and/or decision rules has resulted in the Council producing information which, in the auditor’s view is unreliable.  
**FTR:** The Council has not returned any figures for the indicator as no accurate inventory is maintained. This is classified as a ‘Failure to Report’.  
**N/S:** No service provided by the Council and therefore not applicable.
- 8.4 **We are pleased to report that all performance indicators were graded “A”; the data appears to be reliable in material respects.**
- 8.5 Overall, the quality of systems used for data collection and analysis, and supporting documentation provided to us was of a good standard, for which Council Management should be commended.



### **Best Value Arrangements Follow Up Review**

- 8.6 A full Best Value audit was completed by Audit Scotland in December 2004, with a final report being issued in February 2006. This report concluded that *“overall the Council has made a start to address Best Value and Community Planning. However, there is a need to ensure that progress is made more rapidly. It also needs to ensure that it is consulting with its local people and that service delivery addresses the needs of the local people.”*
- 8.7 The Council responded positively to the Audit Scotland report and developed an Improvement Action Plan (“the Plan”). As part of our 2005/06 audit, we assessed performance against the 50 agreed action points. We are pleased to report that the Council is making good progress in relation to the Plan and the Council can demonstrate that 68% of actions have progressed as planned and 32% where progress is less than intended. There are now no actions where there has been insufficient progress to date. We acknowledge that the Council has completed a number of the actions agreed in February 2005; but would highlight that ongoing action in these areas is fundamental to the development of the Council. Members should recognise that even if an improvement action has been progressed as planned, ongoing work will be required to allow for continuous improvement. To assist in the achievement of Best Value, the Council has developed the original improvement plan into a new Corporate Plan which will be used to monitor the achievement of priority areas. The performance monitoring of the targets set out in this Council document will be used to inform local people about the Council’s performance through public performance reporting.

### **Following the Public Pound Follow Up**

- 8.8 The previous years Following the Public Pound performance study involved two main activities:
- Mapping how much the Council spent on external organisations in the year ended 31 March 2006; and
  - Reviewing the Council's level of compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound (published by COSLA and the Accounts Commission).
- 8.9 The key recommendations from the local review are noted below:
- The format of the central grants register should be updated to include further information of the resource support being provided by the Council e.g. how it links with the Council’s strategy, background information on the type organisation being funded etc;
  - All awards should be notified to the Chief Executive’s office so that the central grants can be kept up to date;
  - Members should be provided with a report on the overall position on external support provided at least twice annually;
  - The conditions of award should be explicitly specified in the agreements with external organisations;
  - An appropriate risk assessment process for awarding funding should be introduced;

- The guidance notes supporting all application forms should be updated to include the administrative expectations the Council has in regard to external organisations e.g. the monitoring arrangements the organisation will be subject to; the minimum standard of management arrangements; the information required to support the application etc; and
- Specific training on responsibilities, and procedures regarding the funding of external organisations should be provided to Officers and Members.

8.10 Council management have taken action in relation to the recommendations made in our report, however, ongoing action is required. A separate status report detailing the progress being made for each action will be issued separately.

# Appendix 1: Action Plan

Report Reference	Issue/Agreed Action	Responsible for Implementation	Due Date
Action Point 1	<p><b>Pension Fund</b></p> <p>The Council, in conjunction with the appointed Actuary should continue to monitor closely this Pension Fund deficit. In particular, budgets should be set to ensure that any future increases in the Council's contributions, to reduce the net liability, can be met.</p>	Assistant Chief Executives (Finance and Personnel)	This will be done at the next actuarial valuation and appropriate action will be taken at that time.
Action Point 2	<p><b>Deferred Income</b></p> <p>The accounting treatment of deferred income should be reviewed during 2006/07 to take account of the SORP and guidance received from Audit Scotland. Consideration should be given to recognise deferred income in the Revenue Account where necessary.</p>	Assistant Chief Executive (Finance)	Appropriate action will be taken on receipt of guidance.
Action Point 3	<p><b>Bad Debt Provision</b></p> <p>The Council should review the methodology used for creating the bad debt provision for Housing Rents, Council Tax and Non Domestic Rates Property and Statutory Additions to ensure the provision represents a best estimate of the amount of unrecoverable debt.</p>	Assistant Chief Executive (Finance)	31 March 2007
Action Point 4	<p><b>National Fraud Initiative</b></p> <p>Management should continue to ensure that they provide the Audit Commission with the required extracted information from all relevant systems, in particular Council Tax, Housing Benefit and Creditors data in accordance with the prescribed National Fraud Initiative timescales.</p>	Assistant Chief Executive (Finance)	Information will be provided in accordance with Audit Commission timescales.
Action Point 5	<p><b>Efficient Government</b></p> <p>As part of the Efficient Government agenda, the Council should continue its programme of Best Value reviews to review services to identify opportunities for delivering improved efficiency and plan for efficiency gains every year while continuing to improve and make best use of resources in the longer term. This requires an approach which allows for easy or quick wins while simultaneously developing and delivering a strategy for the future. Underpinning this is a need for good baseline information on costs and service outputs and outcomes.</p>	Assistant Chief Executive (Finance)	Findings and actions will be reported at the completion of Best Value Reviews.

## Appendix 2: Other formal reports submitted during the 2005/06 process (in addition to this Annual Report)

Output	Date	Financial Statements	Governance and Business Control	Performance
Annual Service Plan	January 2006	✓	✓	✓
Follow up report prior year recommendations	March 2006	✓	✓	✓
Interim Management Letter	April 2006	✓	✓	-
Best Value Transitional Arrangements Follow Up Report	July 2006	-	✓	✓
Fraud Returns	June 2006	-	✓	-
Following the Public Pound Follow Up	November 2006	-	✓	✓
Efficient Government Returns	May 2006	-	✓	-
Priority and Risk Framework Data Returns	February 2006	-	✓	-
Information Technology General Controls Report	August 2006	✓	✓	-
Final Management Letter	November 2006	✓	✓	-

# Appendix 3: Responsibilities of External Audit

The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within the Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of the Council and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility we evaluate significant financial systems and associated internal controls and where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist the Council regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with the Council and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to the Council or any other person.

The prime responsibility for the prevention and detection of fraud and irregularities rests with the Council. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach we consider these arrangements, but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of the Council and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

It is the responsibility of the Council to put in place proper arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness in practice. As external auditors we have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;
- Systems of internal financial control; and
- Standards of financial conduct, and the prevention and detection of fraud and corruption.

It is the responsibility of the Council to put in place proper arrangements to manage its performance, to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that the Council has put in place to secure economy, efficiency and effectiveness in its use of resources.

We also have a responsibility to undertake reviews arising from national studies commissioned by Audit Scotland where these have been designated as mandatory studies.

For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to the Council during the year and as listed at **Appendix 2**.

# Appendix 4: Audit Opinion

## **Independent auditor's report to the members of North Ayrshire Council and the Accounts Commission for Scotland**

We certify that we have audited the financial statements of North Ayrshire Council [and its group] for the year ended 31 March 2006 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Consolidated Revenue Account, the Housing Revenue Account, the Council Tax Income Account, the Non-Domestic Rates Income Account, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, and Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and the Code of Audit Practice approved by the Accounts Commission and for no other purpose as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## **Respective responsibilities of the Chief Finance Officer and auditor**

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2005 - A Statement of Recommended Practice (the 2005 SORP) are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

We report our opinion as to whether the financial statements present fairly the financial position of the local authority in accordance with applicable laws and regulations and the 2005 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. We also report if, in our opinion, the Foreword is not consistent with the financial statements, if the local authority has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the Statement on the System of Internal Financial Control reflects the authority's compliance with the SORP. We report if, in our opinion, it does not comply with the SORP or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risk and controls. Neither are we required to form an opinion on the effectiveness of the local authority's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only Introduction, Explanatory Foreword by Assistant Chief Executive (Finance) and Statement of Responsibilities for the Statement of Accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Chief Finance Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the local authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion

- the financial statements present fairly, in accordance with applicable laws and regulations and the 2005 SORP, the financial position of the local authority [and its group] as at 31 March 2006 and its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.



### **Failure to comply with a statutory requirement**

It has not been necessary to qualify our opinion in respect of the following matter.

Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of their significant trading operations so that income is not less than expenditure over each three year period. The authority failed to comply with this statutory requirement for the three year period ending 31 March 2006 in respect of the Catering and Building Cleaning Statutory Trading Operations.

PricewaterhouseCoopers LLP  
Glasgow

29 September 2006

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