

South Ayrshire Council

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



October 2008



South Ayrshire Council

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

Contents

Key Messages	1	Significant trading operations	14
Introduction	1	Financial outlook	15
Financial Statements	1	Pension liabilities	20
Financial Position	1	Governance	21
Governance	2	Introduction	21
Performance	3	Overview of arrangements in 2007/08	21
Outlook for future audits	3	Systems of internal control	23
Introduction	4	Prevention and detection of fraud and irregularities	24
Financial statements	5	NFI in Scotland	24
Introduction	5	Governance outlook	26
Overall conclusion	5	Performance	28
Accounting practice	6	Introduction	28
Legality	7	Corporate objectives and priorities	28
Financial reporting outlook	8	Overview of performance in 2007/08	29
Financial position	9	Performance outlook – opportunities and risks	32
Introduction	9	National studies	37
Council tax and the general fund	9	Final Remarks	41
Housing Revenue Account	12	Appendix A: Action Plan	42
Group balances and going concern	12	Key risk areas and planned management action	42
Spending on assets and long-term borrowing	13		
Borrowing and temporary investments	14		
Debt restructuring	14		



Key Messages

Introduction

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

Financial Statements

We have given an unqualified opinion on the financial statements for South Ayrshire Council for 2007/08 and there were no unadjusted misstatements. The un-audited statements were submitted to the controller of audit prior to the deadline of the 30 June. The council dealt well with the significant changes to the format of the financial statements. The working papers were of a high standard which enabled the audit to progress smoothly with the issue of the unqualified opinion on 25 September.

The 'explanatory foreword by the assistant chief executive,' which is intended to provide an overview of the financial performance of the council during the year 2007/08, may confuse readers with reference to a 'contingency balance' as part of the general fund. In our view the scope of this section should be on reporting the movement on the general fund balances and reserves.

Financial Position

The council faces severe financial pressures. The council's net operating expenditure of £219.5 million exceeded its total income from government grants and local taxation of £214.5 million resulting in a deficit of £5 million as at 31 March 2008. After the necessary accounting adjustments were made, the balance on the general fund to be carried forward at 31 March 2008 amounted to £2.7 million. This equates to 1.25% of the net operating expenditure and this is the lowest level of general fund reserves compared to all the other Scottish councils.

We are concerned that the general fund reserves are insufficient to meet unanticipated inflationary pressures and service demands in the immediate future. Service departments had originally requested £2.975 million be earmarked to meet commitments in 2008/09, this was later reduced to £2.6 million to bring the earmarked amount within the general fund reserve of £2.7 million. Unallocated general fund reserves at April 2008 were therefore £0.1 million (less than 0.1% of the net operating expenditure).

With almost no general fund reserves, this council is facing additional risks in achieving its objectives for 2008-09 onwards especially when there are significant cost pressures arising from higher than expected



inflation on all forms of energy, fuel, food, staff costs and services. There are also other commitments that will need to be funded including the charges arising from the long term schools PPP contract.

The council aims to achieve a £2 million uncommitted general fund balance by 31 March 2010 but this is an ambitious target given the current circumstances. The council is running a high risk strategy that will require achieving further additional savings.

The council achieved planned savings of £9.8 million in 2007/08. The council's budget requires a further £3.3 million savings in 2008/09 with an additional £7.1 million in 2009/10 and £1.7 million in 2010/11. The council has also assumed further savings of £2 million each year from managing vacancies. These financial targets may be very difficult to achieve given the level of savings and cuts already made in recent years and there is a real risk that local services will be adversely affected.

The council has not yet implemented a single status pay agreement. The council has limited its financial risk from equal pay claims by offering specific groups of employees' compensation packages. Whilst this helps to reduce risk to some extent, risks remain while existing pay and reward structures are in place. The council hopes to reach agreement with trade unions and implement single status retrospectively with effect from 1 October 2007. Until single status is implemented additional financial risk remains for the council in a period of limited resources and severe budget pressures.

There has been considerable slippage against the capital programmes with 26% for the general fund services and 31% in the housing programme. The council is failing to deliver the improvements in services that these programmes are intended to achieve. At present the council does not have a long term capital plan.

The council faces serious and difficult challenges in ensuring that the quality of council services and expectations are managed with very limited resources. This will be a significant challenge for both members and officers. The success of the financial recovery strategy will depend on both difficult decisions being taken and close monitoring of council budgets.

Governance

Since the May 2007 elections, South Ayrshire Council has had a Conservative minority administration. The council revised its political management structures following the May 2007 elections to a "cabinet" style model. This replaced the previous traditional committee structure. The council has undergone a significant amount of change with fifteen new members. In addition, there have been changes at senior officer level with a new chief executive and a new director of social work housing and health joining the council from April 2008.

The council has a local code of corporate governance and an annual compliance statement is included within the 2007/08 accounts and is signed by both the leader of the council and the chief executive. A fundamental review is required to move the local code to the new CIPFA and Solace framework on



“delivering good governance in local government”. Progress in taking this review forward has been delayed due to the supporting guidance not being available until May 2008.

The council has generally good governance systems in place that operated well within a sound control environment; however, reductions in the workforce have seen instances where a lack of segregation of duties is increasing the level of risk of fraud.

Performance

In December 2007, the leaders of the Conservative, Labour and Scottish National party groups agreed a new vision for the council. This vision is not yet fully supported by a corporate plan and detailed service plans. The council's vision does not exactly align with the community plan and this will require review to achieve alignment.

In addition, risk management, performance management, workforce management and asset management require significant development within the council. Whilst work has been continuing and progressing in these areas over the last year, the council acknowledges that considerable effort still requires to be directed to these areas.

Outlook for future audits

A best value and community planning audit of the council commenced in September 2008 with the best value audit report expected to be presented to the Accounts Commission in March 2009. This report briefly touches on a number of areas which will be covered during the best value audit process and are therefore not covered in detail in this report. These areas are highlighted where applicable, throughout this report.

Following the submission of our report on the 2006/07 audit, the controller of audit wrote to the acting chief executive to note her concern about the range of issues identified as key risks for the council. This report has covered those risks carried forward and the best value audit report will explore a number of these issues in greater depth.

The council currently has investments in Landsbanki amounting to £5 million, which are now at risk due to the financial state of the bank.

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



Introduction

1. This report summarises the findings from our 2007/08 audit of South Ayrshire Council, the second year of a five year appointment. Findings are set out in four sections: financial statements; financial position; governance and performance. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the council going forward.
2. The scope of the audit is set out in our annual audit plan (AAP), which was submitted to the council in March 2008. The AAP summarises the specific governance and other risks that could affect the council's financial statements. It describes the work we planned to carry out in response to these risks.
3. As part of the planned work we also submitted a strategic audit risk analysis (SARA) to the council in March 2008. Under the following strategic themes, the SARA set out our views on the key business risks facing the council and described the work we planned to carry out as part of the annual audit:
 - Managing performance to achieve best value.
 - Ensuring the future affordability and sustainability of services.
 - Good governance and real accountability.
 - Community planning and effective partnership working.
 - Securing the efficient use of resources.
4. Overall conclusions about the council's management of key risks are discussed throughout this report. Appendix A sets out the key risks highlighted in this report which we wish to draw to the attention of members and the action planned by management to address them.



Financial statements

Introduction

5. In this section we summarise key outcomes from our audit of the council's financial statements for 2007/08. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.
6. We audit the financial statements and give an opinion on:
 - whether they present fairly the financial position of the council and its expenditure and income for the year
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - We also review the statement on the system of internal financial control by considering the adequacy of the process put in place by the council to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the council.

Overall conclusion

7. We have given an **unqualified** opinion on the financial statements of South Ayrshire Council for 2007/08 and concluded that the "annual accounts" present fairly the financial position for the period to 31 March 2008.
8. The council's unaudited financial statements were submitted to the controller of audit prior to the deadline of 30 June 2008. Final accounts preparation processes and working papers were good which enabled the audit to progress smoothly. Officers in the finance department were very knowledgeable and extremely helpful throughout the audit process. Audited accounts were finalised prior to the target date of 30 September 2007 and are now available for presentation to the council and publication. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.



Accounting practice

9. Local authorities in Scotland are required to follow the *code of practice on local authority accounting in the United Kingdom – a statement of recommended practice* (the 'SORP'). The 2007 SORP required a number of significant changes to be made to the 2007/08 financial statements to make them more consistent with the accounts of other public and private sector entities. The major changes include:
 - accounting for financial instruments based on FRS25, FRS 26 and FRS 29
 - replacement of the fixed asset restatement account and capital financing account by a revaluation reserve and capital adjustment account
 - provision for penalties under the landfill allowance schemes.
10. Overall, we were satisfied that the council had prepared the accounts in accordance with the revised SORP. Major changes noted above resulted in a prior period adjustment in respect of the offsetting of debtor and creditor balances at 31 March 2007. The new reserves had no effect on total net worth.
11. The council adjusted the financial statements to reflect our audit findings. Details of significant accounting issues arising in the course of our audit are summarised below.

Identification and valuation of common good assets

12. There have been a number of Scottish parliamentary petitions concerning the proper recording, auditing and safeguarding of common good assets and this area continues to produce a significant amount of correspondence and complaints. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The paper recognises the legislative distinction of the common good as a managed fund, which requires disclosure within the local authority financial statements this year, with common good asset registers in place by March 2009. South Ayrshire Council complied with the guidance in 2007/08.

Explanatory Foreword

13. The 'explanatory foreword by the assistant chief executive' which is intended to provide an overview of the financial performance of the council during the year 2007/08 may confuse readers with reference to a 'contingency balance' as part of the general fund. For example, it talks about the "contingency balance" having a year end deficit of £1.4 million. Officers have amended the wording of the explanatory foreword and have agreed to review it again in 2008/09.
14. The foreword also discusses the general fund balance as a whole. The general fund had a balance of £2.7 million at 31 March 2008. The foreword tries to explain the impact of future commitments on this



balance. The un-audited accounts included an explanation that departments had requested £2.9 million be earmarked from the 2007/08 outturn to be spent on specific projects during 2008/09. The requests from departments therefore exceeded the £2.7 million general fund balance at 31 March 2008. Management reviewed the requests and the audited accounts contain an amended explanation with reduced departmental requests of £2.6 million to be earmarked from the general fund balance.

Investments

15. The council owns 74,000 ordinary shares in Freeport (Scotland) Ltd. Historically these have been included on the council's balance sheet at cost (£40,000). The 2007 SORP states that investments such as this should be classified as an "available for sale financial instrument" and revalued to fair value irrespective of whether the council plans to sell these assets in the future. It has proved difficult to establish a fair value for these shares as they are not traded on an active market. Officers have agreed to review this situation during 2008/09 and will attempt to obtain an independent valuation for these shares.

Fixed assets

16. The council carried out an extensive review of fixed assets both in the asset register and ledger during 2007/08. This resulted in a net charge to the capital adjustment account of £775,000. A number of issues identified during this asset review require to be entered onto the asset register. Officers have committed to ensuring the asset register is brought fully up to date during 2008/09.

School PPP

17. The council paid the first unitary charge payments for new schools and an annex constructed under a PPP project in 2007/08. Part of the accounting entries requires the existing school buildings to be removed from the council's balance sheet and a new long term debtor to be put in place and built up over the thirty year term of the PPP project. The long term debtor has been set up but the school buildings demolished as part of the PPP project were found to be still on the council asset register and balance sheet. Officers have amended fixed asset entries to ensure fixed assets are correctly shown on the audited accounts.

Legality

18. Each year we request written confirmation from the assistant chief executive that the council's financial transactions accord with relevant legislation and regulations. Significant legality requirements are also included in audit programmes. The assistant chief executive has confirmed that, to the best of her knowledge and belief and having made appropriate enquiries of the council's



management team, the financial transactions of the council were in accordance with the relevant legislation and regulations governing its activities.

19. We reported last year that local authorities with registered charitable bodies (ie registered trust funds) are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund, although the date of full implementation has been deferred by the Scottish Charity Regulator. The Office of the Scottish Charities Regulator (OSCR) has indicated that the interim measures introduced in 2006/07, can again be used in 2007/08 and reliance placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.
20. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

IFRS adoption

21. Central government and NHS bodies are to move from UK generally accepted accounting principles to international financial reporting standards (IFRS) with effect from 2009/10. The government also announced its intention to publish whole of government accounts on an IFRS basis from 2009/10. The intention is that local government will adopt IFRS for 2010/11, although there is a possibility that early adoption may be required in some areas and this might include PPP.



Financial position

Introduction

22. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2008, providing an outlook on future financial prospects, including our views on potential financial risks. Our findings and key messages are set out in this section, highlighting the significant challenges being faced by the council in managing ongoing financial pressures in funding existing service delivery and future improvement.

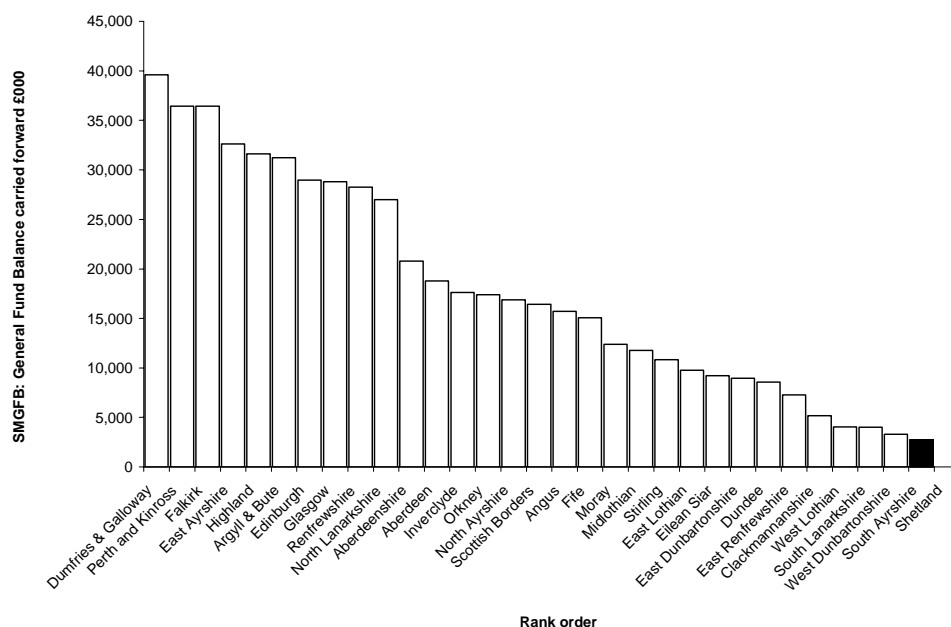
Council tax and the general fund

Operating performance 2007/08

23. The council faces severe financial pressures. The council's net operating expenditure in 2007/08 was £219.5 million. This was met by government grants and local taxation of £214.5 million, resulting in an income and expenditure account deficit of £5 million (2.3% of the net operating expenditure for the year). The budget set for 2007/08 was based on a Band D council tax level of £1,154.
24. The £5 million deficit when adjusted for amounts required by statute and non-statutory proper practice to be credited to the general fund, results in an increase on the general fund for the year of £3.2 million. When added to the £0.5 million general fund deficit brought forward from 2006/07, this results in a closing general fund balance of £2.7 million at 31 March 2008. This equates to 1.2% of the council's net annual expenditure and is the lowest level of general fund reserves compared to all the other Scottish councils (exhibit 1).



Exhibit 1: Local authority general fund balances carried forward 31 March 2008



Source: Audit Scotland's unaudited accounts database

Funds and balances

25. Table 1 shows the balance in the council's funds at 31 March 2008 compared to the previous year. At 31 March 2008, the council had total cash backed funds of £26.6 million, an increase of £6.9 million on the previous year.

Table 1: Funds and balances

Description	31 March 2007 £ Million	31 March 2008 £ Million
General fund	(0.5)	2.7
Housing revenue account	17.7	19.7
Repair and renewal fund	0.1	0.1
Capital fund	1.8	3.7
Insurance fund	0.6	0.4
Total	£19.7m	£26.6m



26. We are concerned that the general fund reserves are insufficient to meet unanticipated inflationary pressures and service demands in the immediate future. As previously mentioned service departments had originally requested £2.9 million be earmarked to meet commitments in 2008/09, this was later reduced to £2.6 million to bring the earmarked amount within the general fund reserve of £2.7 million. Unallocated general fund reserves at April 2008 were therefore £0.1million (less than 0.1% of the net operating expenditure).
27. Given the low level of reserves, the council faces difficult choices to ensure that unforeseen inflationary pressures on energy, fuel and staff costs can be contained within the revenue budget. Social work, housing and health have identified significant pressures in relation to residential school costs. We have been advised that alternative savings options are being prepared by directors to ensure that expenditure is within budget at 31 March 2009. The council aims to achieve a £2 million uncommitted general fund balance by 31 March 2010 but this is an ambitious target given the current circumstances and the potential impact of external events out with the council's control. Therefore, the council is running a high risk strategy that could require further additional savings.
28. The council achieved planned savings of £9.8 million in 2007/08. There is a real risk that future savings/cuts may have an adverse impact upon local services.
29. The recovery strategy is therefore risky in that the council's financial position depends upon no significant unforeseen events occurring within the next 3 years. It is important that elected members and officers are fully aware of the need for the recovery strategy to be successfully implemented and of the lack of funds to cope with any unforeseen events.

Key risk area 1

30. The capital fund will be used over a thirty year period to finance debt charges thereby releasing resources to finance annual unitary charge payments for the school PPP project. No funds were used from this reserve during 2007/08. The repair and renewal fund can be used to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. No funds were used from this reserve during 2007/08.
31. The insurance fund is used to defray any uninsured losses and for paying excesses on insurance policies. The council has recently carried out a review of the insurance fund which resulted in there being a decision taken that the estimated insurance fund requirements were £425,000. As a result of the review, £0.195 million was transferred out of the insurance fund to general services at 31 March 2008.

Key risk area 2



Housing Revenue Account

32. The HRA income and expenditure account records a deficit for the year on HRA services of £2.1million. After the necessary accounting adjustments were made, the increase in the HRA balance at 31 March 2008 amounted to £1.9 million. This is £1.9 million more than budgeted mainly due to savings on property expenditure of £0.1 million, financing costs of £0.6 million and an under-spend on the capital programme which removed the need for £0.9 million of revenue contribution towards capital expenditure.
33. The accumulated surplus in the HRA balance was £19.7 million at 31 March 2008. The council has agreed that £0.6m should be held in the reserve for weather emergencies and that £11.8 million should be used to fund capital and revenue expenditure in future years. This leaves an uncommitted balance of £7.3 million of which an element will be required for future capital investment. The remainder will be considered as part of the annual review of the thirty year housing business plan during 2008/09.
34. The thirty year business plan is in place to maintain and upgrade the housing stock as appropriate. At present the council is predicting that upgrades required to bring the housing stock up to the Scottish Housing Quality Standard (SQHS) will be completed by 2015 and will require an estimated £57.1 million capital expenditure. Officers have agreed that plans require to be reviewed in light of the current economic climate and credit crunch as capital receipts may be lower than anticipated and raw materials and financing costs if applicable higher.

Key risk area 3

Group balances and going concern

35. The widening diversity of service delivery vehicles used by local authorities means that group accounts are required to present fairly all the activities of councils. The overall effect of inclusion of all of the council's subsidiaries, associates and joint ventures on the group balance sheet is to reduce net assets by £131.4 million, substantially as a result of pension liabilities. All group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.
36. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. Strathclyde Police Joint Board and The Board of Strathclyde Fire and Rescue had an excess of liabilities over assets at 31 March 2008 due to the accrual of pension liabilities. In total these deficits amounted to £3,538.3 million, with the council's group share being £152.8 million.



Spending on assets and long-term borrowing

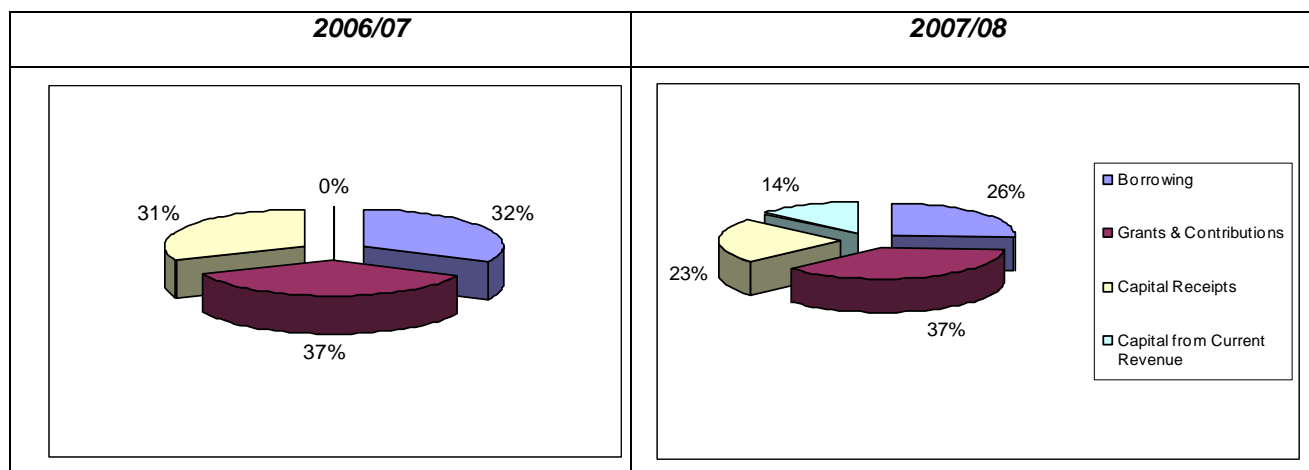
Capital performance 2007/08

37. Since the introduction of the prudential code in April 2004, the council can decide locally on a capital investment strategy which meets best value requirements as well as being affordable. The council's prudential indicators for 2007/08 were approved by the leadership panel in July 2007.
38. General services capital expenditure in 2007/08 totalled £15.2 million, rising from £7.1 million in 2006/07. There was a significant slippage (26%) on the general services capital programme for 2007/08. The original approved 2007/08 general services capital programme was £10.5 million which included an over-programming figure of £0.5 million and a £3.9 million carry forward from 2006/07. The programme was regularly updated throughout the year to reflect additional grants and virements. Expenditure totalled £15.2 million against a final, adjusted budget of £20.6 million resulting in an under-spend of £5.4 million. Four specific projects account for the majority (£4.6 million) of this slippage.
39. The housing capital investment programme also suffered significant slippage (31%) during 2007/08. Actual expenditure amounted to £8.5 million against a budget of £12.3 million. The £3.8 million slippage is spread across a number of housing projects.

Key risk area 4

40. Capital investment in the last two years was funded as shown in chart 1. As the council has increased its capital spending in 2007/08 the value of the capital programme funded by grants, capital receipts, capital funded from revenue and borrowing has also increased.

Chart1: Sources of finance for capital expenditure 2007/08





Borrowing and temporary investments

41. In recent years, some councils have held significant amounts of cash and temporary investments to take advantage of favourable interest rates for planned capital programmes. In these circumstances, the early borrowing must be justified in its own right as representing the best time for borrowing the amount required. This should be assessed without regard to temporary investment possibilities, otherwise the action may be judged to be unlawful or to have subjected public money to unnecessary speculation risk.
42. As at 31 March 2008, South Ayrshire Council held cash and temporary investments totalling £46.9 million. We have requested and received a specific representation from the assistant chief executive that all borrowing in advance of immediate requirements has been made for a legitimate purpose in accordance with legislation and has been on-lent in the interests of prudent cash management. In the assistant chief executive's assessment any early borrowing is justified in its own right as representing the best time for borrowing the amounts required, without regard to temporary investment possibilities and the 'profit' that might arise from these.
43. Almost 89% of long-term borrowing at the year-end matures after more than 10 years. The council has actively managed its exposure to variable interest rate movements with a small proportion of debt (9.9%) exposed to variable rate risk.

Debt restructuring

44. In 2007/08 the council borrowed £10 million of which £3.9 million was to part fund capital projects and £6.1 million was used to replace maturing debt. The council also restructured £27.1 million of PWLB debt during 2007/08 when market conditions allowed for the repayment of higher rate loans without attracting any costs (premiums) to do so. This re-financing at lower rates and the discount received has resulted in savings of around £700,000 being achieved.

Significant trading operations

45. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period.
46. The council previously maintained statutory trading accounts for seven activities. As part of a review of departmental structures in December 2005, it was concluded that, with effect from April 2006, the only statutory trading account to be maintained should be that of property and design trading. During 2007/08 the council undertook another review of services to identify if there were any other STOs. The



conclusion of this review was that Property and Design Trading remained the only STO within the council.

47. The property and design STO reported a surplus of £164,000 for 2007/08 with a cumulative surplus of £502,000 for the three years to 31 March 2008.

Financial outlook

48. The council is party to the concordat between the Scottish government and COSLA. The financial features of this include an agreement to freeze council tax levels for three years in return for some additional funding and the removal of some ring-fencing. Consequently, the 2008/09 budget assumes efficiency measures of £3.3 million plus an additional £2 million vacancy management target. These savings are in addition to £9.8 million savings in 2007/08 and £7.7 million in 2006/07 along with a £2 million vacancy management saving for both years. In addition, further savings of £7.1 million in 2009/10 and £1.7 million in 2010/11 are required. Difficult decisions will be required to achieve these levels of savings especially as significant cuts have already been made. There is a real risk that council services are adversely affected as further deletions in posts may not be sustainable.
49. The council is also committed to delivering the general fund recovery strategy to achieve a £2 million uncommitted general fund balance by 31 March 2010. The general fund was in deficit by £0.5m at the end of 2006/07. Whilst there was a small general fund balance of £2.7m at the end of 2007/08, as previously mentioned, £2.6m is earmarked for spending in 2008/09. Any unexpected expenditure could cause the council to have serious problems. Both elected members and officers need to be aware that this will require difficult decisions to be taken over the next few years.

Key risk areas 1 & 5

50. As with all other councils, South Ayrshire Council is exposed to financial risk in the current financial climate because of its investments held in banks. The council will have to keep themselves up to date with developments in the financial markets to safeguard their investments and protect themselves against the rising costs of and uncertainties around borrowing. The council currently has investments in Landsbanki amounting to £5 million, which is now at risk due to the financial state of this bank. The council should continue in their actions to secure full repayment of these investments.



Efficient Government

51. The Scottish Government expect public sector organisations to apply the principles of the efficient government initiative in their day-to day operations. The principles of the efficient government initiative encourage the delivery of services for lower unit cost without compromising the quality of the service provided.
52. During 2006, councils across Scotland recognised that as part of their partnership arrangements with the Scottish government, they had a responsibility to report efficiencies on the five key operational themes as set out in the government's "building a better Scotland" (procurement, absence management, asset management, shared service and streamlining bureaucracy).
53. Elected members in South Ayrshire support the efficient government initiative. However, to date the focus has been on budget cuts rather than efficiency savings guided by a corporate efficiency plan. A significant proportion of the cuts are made through the deletion of posts but similarly there is no workforce plan to guide where posts can be deleted. No risk assessment of the impact of these cuts has been carried out, which is a significant weakness given previous cuts may have had a negative impact on the quality of service delivery. The council has not been effectively monitoring the wider effects of these cuts and payroll management targets, for example, the impact on sickness absence. The council has made little or no progress in relation to efficiency savings in procurement, shared services and asset management.
54. An efficient government plan detailing how the council will contribute to the national efficient government initiative is not yet in place. An officer group have been in the process of drawing up an efficient government plan for over a year. The efficient government agenda was not adequately addressed during 2007/08. It is now being progressed by the corporate management team (CMT).



55. The council's efficiency statement for 2007/08 has been submitted to COSLA. Efficiency savings of £4.7 million have been reported. This is an improvement on the £2.9 million of efficiencies achieved in 2006/07. The 2007/08 efficiencies are summarised in table 3 below:

Table 3: 2007/08 efficiency savings

Efficient Government theme	Cashable efficiency	Non cashable efficiency	Total efficiencies
	£ million	£ million	£ million
Streamlining bureaucracy	3.1	0	3.1
Asset management	0.7	0	0.7
Other	0.9	0	0.9
TOTAL	4.7	0	4.7

56. The efficiencies reported for 2007/08 have been achieved through a review of management structures and service delivery mechanisms. This resulted in a reduction of 146.1 FTE posts across the council achieving savings of £3.1 million. A review of accommodation requirements in 2007/08 realised £0.7 million savings. The £0.9 million of "other savings" came from an increase in the uptake of planning and building standards services and savings resulting from treasury management refinancing deals.

Key risk area 5

Equal pay

57. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an employment tribunal. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2005/06.

58. As detailed in our 2006/07 report, the council offered compensation to specific groups of employees to try to limit its exposure to the financial risk associated with equal pay claims. In 2005/06, the council made a provision in the financial statements of £5.3 million followed by another £1.2 million in 2006/07 in respect of an additional year's equal pay compensation to employees. In 2007/08 a further provision of £0.7 million was made. Compensation payments made to employees up to 31 March



2008 total £5.1 million leaving a provision of £2.1 million on the balance sheet at 31 March 2008. These provisions are required as single status has yet to be agreed and implemented. Whilst settlement has been reached with most employees, the council continues to face potential additional equal pay claims from further groups of employees as well as from employees who rejected the settlement offered to them and take their case to employment tribunals.

Key risk area 6

Single status

59. In 1999 a single status agreement was reached between Scottish local authorities and trade unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). There was a presumption that single status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.
60. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004.
61. South Ayrshire Council has not yet implemented single status. A pay and grading model was presented to trade unions several months ago. Negotiations continue to try to reach agreement including resolution of emerging issues from legal cases in England. The aim is to introduce single status retrospectively with effect from 1 October 2007. Its implementation should resolve the issue of equal pay. The 2007/08 accounts include provision for equal pay costs up to 30 September 2007 plus provision for the cost of implementing single status from 1 October 2007. Whilst work has been done in terms of job evaluation, until single status is implemented, the initial and continuing costs to the council cannot be reliably estimated, representing a continuing risk.

Key risk area 6

Future capital programme

62. At present the council does not have a long term capital plan. Officers have advised that they intend to put a 3-5 year plan in place once the asset management strategy and plans and have been established to ensure long term capital plans adequately address the priorities of the council. The council is currently undertaking a priority led budget exercise for 2009/10 which will also inform medium and long term capital planning. Capital planning requires to be managed over a medium to long period to help overcome the problems of slippage that have been experienced in recent years. Longer term planning should allow for the re-prioritisation of projects when slippage occurs.



63. Despite the significant amount of slippage on the £20.6 million general services capital programme during 2007/08, the council has agreed a £21.1 million general service capital programme for 2008/09. This expenditure is expected to be funded from £12.8 million of borrowing and £8.3million of grants and contributions.
64. The housing capital investment programme for 2008/09 has also increased to £15.1 million from the £12.3 million in 2007/08 despite significant slippage in the 2007/08 programme. The 2008/09 programme is expected to be funded from £1 million of borrowing, £6.4 million from revenue income and £7.7 million from grants and contributions.
65. The levels of slippage and carry forward experienced in both capital programmes during 2007/08 raise concerns about the realistic scale of the programmes and the council's capacity to deliver its plans. Officers have undertaken a fundamental review of the general services capital programme to ensure that planned expenditure is incurred by 31 March 2009. A similar exercise will be undertaken in respect of the housing programme. The council will require to closely monitor both capital programmes to ensure the expected outcomes from planned capital investment are achieved. The council does not profile capital budgets in the same way as revenue budgets. The housing investment capital monitoring reports are not as well developed as for the general services programme. The council have recognised the need to review capital monitoring arrangements. A review is being undertaken by the corporate management team to ensure the capital programme links to the asset management strategy. The assistant chief executive is also in the process of outlining proposals for the future management and co-ordination of the capital programme. Changes have also been made to the reporting format which will ensure slippage is clearly identified.

Key risk area 4

EC landfill directive

66. The EC Landfill Directive sets limits on the disposal of biodegradable waste to landfill and requires the pre-treatment of waste prior to landfill. There are technical and financial challenges facing the council in delivering solutions and the implications of landfill penalties could be significant. The Scottish minister for the environment has the power to waive penalties in certain circumstances, and he has advised COSLA that he may be prepared to do this, for local authorities who have made genuine efforts to maximise landfill diversion, and had not met targets due to circumstances outwith their control. From 2008/09 onwards, Scottish councils will be allowed to trade landfill allowances. If one council performs better than its targets, it can sell its excess allowances to other councils.
67. South Ayrshire Council have been performing well on recycling and landfill performance indicators with year on year improvements on the percentage of waste sent to landfill sites. Officers do not see this as a significant risk for the council at this time.



Pension liabilities

68. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. In accounting for pensions, financial reporting standard 17 (retirement benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement can result in very large future liabilities being recognised in the annual accounts.
69. The council's estimated pension assets at 31 March 2008 exceeded its share of the liabilities in the Strathclyde Pension Fund by £1.9 million. In 2006/07 the council's estimated pension liabilities exceeded its share of the assets by £40.9 million.
70. The employers' contribution rate is determined by the pension fund's actuary based upon triennial actuarial valuations which determine whether employers are contributing sufficiently to maintain the fund's solvency. The most recent formal valuation was carried out as at 31 March 2008. Budgeted contributions are expected to rise from 270% of employee contributions in 2007/08 to 280% by 2008/09, reflecting the reduction in the funding level as at 31 March 2008.
71. Recent changes to the local government pension scheme regulations are expected to release some future financial benefits, while providing additional flexibility to future pensioners. The 2008 actuarial valuation includes the financial impact of the assumption that 25% of pension fund members retiring after 31st March 2008 will elect to take an additional tax-free lump sum in lieu of part their pension.
72. Recent changes to the local government pension scheme include the introduction of tiered employee contributions with effect from 1 April 2009. This will require the council payroll system to be able to accurately calculate different pension contribution rates depending on employee earnings. The council's Cyborg payroll system cannot currently apply different pension contribution rates to individual members of staff. The council is currently in discussions with the software provider in order to resolve this issue.

Key risk area 7



Governance

Introduction

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

Overview of arrangements in 2007/08

74. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. The council has systems in place to identify and monitor progress made with governance issues.
75. The council has a local code of corporate governance. An annual compliance statement is included within the 2007/08 accounts and is signed by both the leader of the council and the chief executive. The compliance statement reports progress made during the year in taking forward issues to be addressed to comply with the local code. Improvement actions requiring to be completed have been identified along with details of the lead officer and target dates for completion. Progress reports are submitted to both the (CMT) and the standards and governance panel.
76. A fundamental review is required to move the local code to the new CIPFA and Solace framework on "delivering good governance in local government". Progress in taking this review forward has been delayed due to the supporting guidance not being available until May 2008. The council do not currently have the capacity to undertake the review of corporate governance arrangements. Officers have confirmed that this position will be re-assessed towards the end of 2008.

Key risk area 8

Political Governance

77. The political context for councils changed significantly in 2007, with a new Scottish government and a shift to more coalition and minority administrations in local government. Since the May 2007 elections, South Ayrshire Council has had a Conservative minority administration. Half of the councillors elected in May 2007 were new to the council. All thirty councillors have a roll description and personal development plan.
78. The creation of multi-member wards has required new ways of working to support efficient representation and sharing of the workload. The introduction of multi-member wards following the



2007 elections appears to be working well. However, multi-member wards are still fairly new in Scotland and the practical issues will become clearer as the new arrangements mature.

Audit Committee

79. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda. During 2007/08, members in South Ayrshire Council had the opportunity to challenge service activities and performance through the operation of a range of scrutiny panels and call-in procedures.
80. Following the elections, the membership of the council's audit committee (resource and performance and corporate/strategic/community planning standing scrutiny panel) changed. The chair is an experienced councillor with significant knowledge and skills in carrying out scrutiny. Whilst the members of the panel have received training, the level of challenge within the panel is not always as rigorous as would be expected. We have seen some improvement in questioning of officers by panel members over the last 6 months however, further training and development may help to make further sustained improvements. Officers have advised that additional training is planned for panel members in November/December 2008.
81. Agenda papers do not contain external audit reports in full. A summary of the key issues raised in external audit reports is presented to members. Full reports are available for members on the council intranet. The agenda papers do not contain any internal audit reports. However elected members do have access to these reports electronically. Members have advised that they are satisfied with these arrangements however there is a risk that members are not fully aware of all significant risks identified by audit reports.

Key risk area 9

82. The resource and performance and corporate/strategic/community planning standing scrutiny panel when acting as an audit committee has a remit to monitor the performance of internal audit, including productivity, effectiveness and customer satisfaction. We suggested in the SARA that the panel may wish to consider co-opting an external member with substantial expertise in discharging the role of an audit committee member to assist with the scrutiny function and the review of the effectiveness and quality of internal audit. Scrutiny is an area that will be covered in more detail in the forthcoming best value audit report.

Internal Audit

83. Internal audit provides an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the council's



internal audit arrangements against CIPFA's revised code of practice for internal audit in local government 2006. We found that the function operated under the previous 2003 CIPFA code of practice but they had undertaken an initial review of the 2006 code to determine the extent of compliance. Internal audit agreed that a review would be carried out in order to identify any areas which require to be addressed. This will be followed up in our annual assessment of internal audit as part of the 2008/09 audit.

84. Due to the council's risk registers being under developed, the internal audit section were unable to use the key risks in risk registers as a base for the annual audit plan. This was also the case when the section drew up the 2008/09 internal audit plan.

Key risk area 10

85. The internal audit section continues to deliver work with sound documentation of conclusions reached. This has allowed us to place reliance upon aspects of internal audit work. All work on which we planned to place reliance was satisfactorily completed and the relevant assurances obtained.

Systems of internal control

86. A statement on the system of internal financial control for the council and its group was included within the financial statements. In accordance with the code of practice on local authority accounting, the statement reflects the internal control environment for the group position. Following receipt of a range of assurances across the council, the assistant chief executive concluded that she was satisfied that reasonable assurance could be placed on the adequacy and effectiveness of the systems of internal financial control operated by the council and its group.

87. In the audit services/programme review manager's annual statement on internal controls for 2007/08, it was concluded that based on the work undertaken by internal audit, reasonable assurance can be given that adequate controls were in place and operating throughout 2007/08 with one exception. Risk registers and the embedding of risk management processes within the council were highlighted by the audit services/programme review manager as an area where improvement is required.

Key risk area 10

88. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the council's main financial systems. We assessed key controls operating in all the financial systems within the council and found these controls to be generally operating to a satisfactory level. We have identified a lack of segregation of duties within key financial systems for example mail opening, payroll input, debtors, non domestic rates and area housing offices. There is also a lack of independent checking of input to systems across council departments. Segregation of duties is an essential part of internal control and lack of



segregation of duties could have a significant impact on the financial statements as it increases the risk of fraud and error. We have been advised that limited staff resources within departments are the main cause of a lack of segregation of duties. Officers have reviewed the issues and introduced checks to ensure that the risk of fraud and error is minimised.

Key risk area 11

Prevention and detection of fraud and irregularities

89. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include a whistle blowing policy, codes of conduct for elected members and staff, and defined remits for relevant scrutiny panels.

NFI in Scotland

90. During 2007/08, we continued to monitor the council's participation in the 2006/07 national fraud Initiative (NFI). This exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£9.7 million from the 2006/07 exercise and £37 million including previous exercises). Where fraud or overpayments are not identified in a body, assurances can usually be taken about internal arrangements for preventing and detecting fraud.
91. In our 2006/07 report to members, we reported that the council had made significant progress towards following up referrals although it had concentrated on high priority matches and intended to consider the likely benefits and costs of the exercise before examining lower priority matches. We noted that the council might well conclude that further work was not cost effective.
92. The council has, as expected, taken the decision to curtail the examination of matches on the grounds that the costs of pursuing the exercise further would outweigh any likely benefits. As a result, the council has not fully examined all matches. All high priority matches have been investigated as well as some medium priority matches.
93. In May 2008, Audit Scotland issued a report on the progress of the 2006/07 NFI exercise (national fraud initiative in Scotland 2006/07). There is no criticism of South Ayrshire Council in that report.
94. One of the key messages of this report is that savings are less than the earlier exercise in 2004/05 possibly demonstrating that the initiative has a deterrent effect.



95. There will be a further exercise in 2008/09. The council has considered the risk-assessed matches that are included alongside the mandatory ones and has decided to address all such matches. We will continue to take an interest in progress.
96. Between the 2006/07 and 2008/09 exercises, councils have had the opportunity to pursue an interim set of matches concentrating on information available from the electoral register and the council tax systems (e.g. addresses with two or more registered voters where a single person council tax discount is allowed). Due to legal concerns, the council has not yet participated in this exercise. These concerns have now been alleviated and the council will now undertake the examination of these matches.

Key risk area 12

Housing and council tax benefit

97. From April 2008, Audit Scotland took over responsibility for inspecting housing and council tax benefit functions from the Department for Work and Pensions. We are carrying out risk based inspections on a cyclical basis and all councils will be inspected during an 18 month period. South Ayrshire Council has yet to receive a housing and council tax benefits inspection.

Data handling and security

98. Data handling and security has received increased public and media attention recently as a result of a number of national incidents relating to lost data. The council shares data with a number of organisations such as the department for work and pensions and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil and criminal litigation. Despite the wide publicity about various data handling incidents some staff when asked about data immediately referred us to information and communications technology (ICT) as they are considered as the people who deal with data. This perception is mistaken as individual departments across the council, possibly in consultation with ICT, have a duty to protect the data they hold. Neither a formal system for classifying information nor an information asset register is in place. The council does not have an information and knowledge strategy. The council does not record all information that is transferred routinely as well as informally to third parties regardless of the types of media involved. These issues should be addressed to improve the council's data handling.

Key risk area 13



Payment card standards

99. The payment card industry data security standard (PCI/DSS) was developed by major credit card companies as a guideline to assist organisations that process card payments to prevent credit card fraud, hacking and various other security threats. Any organisation processing, storing or transmitting payment card data must be PCI/DSS compliant or risk losing their ability to process credit card payments. The council does not currently fully comply with this standard. Payments transacted on the internet or 24 hour telephone service are fully managed by a third party, Capita. We have been advised that the council is PCI/DSS compliant for these transaction types via Capita's accreditation. The council is currently reviewing how best to achieve this standard for processing card transactions in house.

Governance outlook

Single outcome agreements

100. The concordat between the Scottish Government and COSLA sets out the terms of a new relationship between the Scottish government and local government. It underpins the funding to be provided to local government over the period 2008/09 to 2010/11. Central to the concordat is the single outcome agreement (SOA) between each council and the government. The SOA sets out the council's contribution to the government's 15 key national outcomes as set out in the concordat. It also reflects established corporate and community planning commitments. In this way progress at a national level is supported by outcomes at a local level.

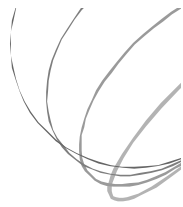
101. South Ayrshire Council agreed its first SOA in June 2008. The SOA has not been developed jointly with partners, reflecting the fact that there is no current agreed vision/set of priorities for South Ayrshire. At present partnership working is not sufficiently mature enough to support an SOA. The community planning partnership (CPP) has recently undertaken a self assessment exercise and is implementing an improvement plan. The council considered that to develop a SOA for 2008/09 in conjunction with the CPP improvement programme would have been very challenging.

102. Due to the SOA having not been developed in partnership, there are gaps in the 2008/09 targets reflecting the fact that the council can not deliver on areas requiring significant input from partners. Feedback from the Scottish government stated that the council required to address these gaps in targets and therefore "direction of travel" targets aiming for improvements or reductions in certain areas but without a scale of the desired change were included. The council is not confident that it will be able to measure change against these direction of travel indicators. In future SOA's will be used to engage partners and to monitor performance. It is important therefore that the council develops robust governance arrangements for the development and monitoring of this key document.



103. There does not appear to be comprehensive links between the council's vision and the SOA. It is unclear how the achievement of some corporate priorities will be demonstrated through the SOA as local indicators are not in place.
104. Data for the majority of SOA indicators is highlighted as coming from external sources and being produced annually. However, a number of the baselines for indicators date back to 2005 and therefore are possibly well out of date. Certain indicators rely on the use of external data when internal and more up to date/real time data is available. For example the number of applicants on the council house waiting list and homeless persons re-housed relies on Scottish government data with a baseline of March 2006.
105. At least some local targets appear to be arbitrary. For example, all targets relating to educational attainment aim for a 1% improvement and this seems to conflict with performance trends in educational attainment in recent years.
106. The SOA states that there will be regular (3 monthly) reports to both the leadership panel and community planning board on progress in delivering the outcomes within the agreement. However, it is unclear how 3 monthly reporting will be effective given that the SOA states almost all the data is annual. In reality, the process for regular reporting against the SOA has not been established. Reporting progress against the SOA may be via a separate report but is more likely to be integrated with the monitoring of service plans. This would require service plans to have clear links to the delivery of outcomes/local indicators.

Key risk area 14



Performance

Introduction

107. In this section we summarise key aspects of the council's reported performance during 2007/08 and provide an outlook on future performance. We also comment on areas to be covered as part of the best value audit and the findings of Audit Scotland's national performance studies, relating them to the council's situation.

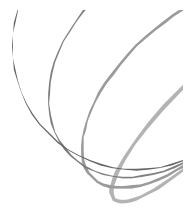
Corporate objectives and priorities

108. Following the May 2007 elections, the former Conservative administration of South Ayrshire Council was replaced by a minority Conservative administration with Councillor Hugh Hunter as leader of the council. The elections returned 12 Conservative, 9 Labour, 8 Scottish National Party and 1 Independent councillors. During the spring of 2008, two of the Labour Group members including the leader of the Labour Group decided to become Independent members. This change resulted in Councillor John McDowall being appointed as leader of the labour group.

109. During the review of the council's business plan in 2006, the CMT identified there was a need to address a range of key strategic and management issues. In response a strategy entitled "taking the council forward-a strategy for success" was approved. The key issues identified in this strategy were as follows:

- Establishing a new vision for South Ayrshire.
- Developing our leadership capacity to deliver that vision.
- Ensuring that our planning arrangements flow cohesively from that vision.
- Ensuring our resource management reflects that vision and optimises their utilisation.
- Revitalising our review process to ensure policies and services are delivered effectively.
- Developing our performance management arrangements to evaluate our effectiveness.

110. The original strategy contained sixteen actions, one of which was to undertake a best value self assessment exercise. This piece of work was undertaken collectively by the CMT and heads of service. It validated and refined the original sixteen actions as well as identifying an additional nine tasks that were considered necessary although of secondary importance to the original sixteen tasks. Reports continue to be submitted to the Leadership Panel on progress made in implementing these vital tasks. The last report to the leadership panel was in May 2008. Whilst progress reports identify



that a considerable amount of work has been carried out this year, progress in implementing the strategy as a whole has been slower than expected.

Key risk area 15

111. As part of the delivery of “strategy for success” a new council vision was agreed in December 2007 by the Leaders of the Conservative, Labour and Scottish National Party groups. The vision is to “establish South Ayrshire as the most dynamic, inclusive and sustainable community in Scotland”. It organises the council’s priorities around four main themes:

- Prosperous, learning and achieving.
- Healthy, safe and caring.
- Clean, attractive and sustainable.
- Ambitious, forward-looking and responsive.

112. It is important that the vision is translated into a corporate plan which is supported by detailed service plans.

Key risk area 16

Overview of performance in 2007/08

Performance reporting

113. It is vital for members, management and stakeholders to be able to assess the council against corporate priorities and to be able to easily identify if service outcomes are improving or declining. The Scottish Government sees this being of prime importance. Single outcome agreements have been put in place for councils across Scotland. As previously mentioned, South Ayrshire Council finalised their single outcome agreement at the end of June 2008. Performance monitoring systems which measure and monitor outcomes therefore require to be in place.

Key risk area 14

114. It is not easy to establish if strategic and service plan objectives have been achieved in South Ayrshire Council. The only overall performance assessment reported to members is based on the statutory performance indicators. The balanced scorecard performance evaluation methodology has been piloted in one council department. However roll out to other departments is unlikely in the near future. Performance management and reporting is an area which will be covered in more detail in the best value audit report.

Key risk area 17

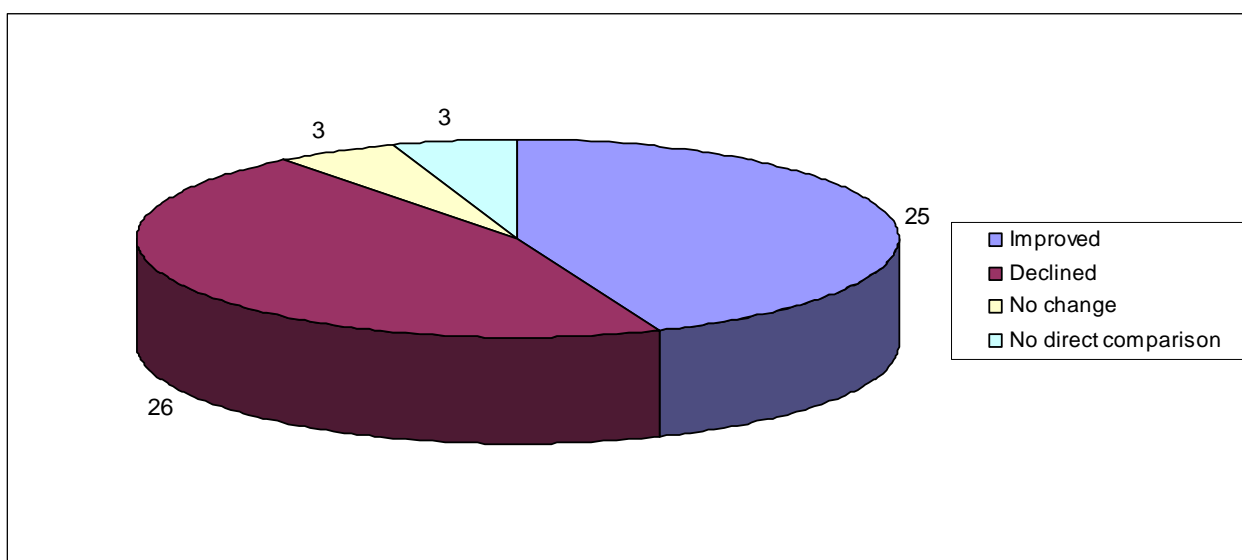


Statutory performance indicators

115. One of the ways of measuring a council's performance is through the statutory performance indicators (SPIs). The SPIs allow councils to measure comparative performance against both the previous year's performance and the performance of other Scottish local authorities. Within South Ayrshire Council, SPIs are the only comprehensive, across the board performance information currently reported to elected members.

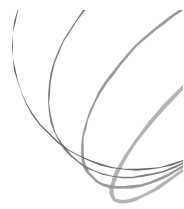
116. With regard to 2007/08, a total of 57 SPIs were required. These were published by 30 September 2008. In overall terms, the following chart confirms that the council has made improvement in some areas but equally performance has declined in a significant number of SPIs.

Chart 2: Improvements demonstrated by SPIs (Total 57 indicators)



117. As reported to the leadership panel in August 2008, when comparing the component parts of the SPI's performance over a two year period from 2005/06, the council's performance deteriorated by 5% or more in twenty one indicators and performance improved by 5% or more in thirty five indicators. Significant improvement (15% or more) was reported in the following indicators:

- The percentage of rent loss due to voids.
- The average time to re-let houses that are not low demand.
- Current tenant arrears as a percentage of the net amount of rent due in the year.
- The percentage of current tenants owing more than 13 weeks rent at the year end, excluding those owing less than £250.
- The average number of weeks rent owed by tenants leaving in arrears.
- The percentage of former tenant arrears written off or collected during the year.



- The percentage of cases reassessed as homeless or potentially homeless within 12 months of previous case being completed.
- The percentage of qualified care staff in residential homes for children, care homes for older people and care homes for other adults. The total overnight respite nights provided per 1,000 population aged 0-17.
- The total daytime respite hours provided per 1,000 population aged 0-17 and total daytime respite hours provided per 1,000 population aged over 65.
- The percentage of residential places occupied by other adults that have en-suite facilities.
- Carriageway condition- the percentage of the network that should be considered for maintenance treatment.
- The percentage of council and private bridges assessed that failed to meet the European standard of 40 tonnes.
- Use of libraries- the number of visits to libraries per 1,000 population.
- The percentage of waste collected that was recycled.
- The average time to process new benefit claims.
- The number of litigation claims per 10,000 population.
- The cost of collecting council tax.

118. Performance has declined by 15% or more since 2005/06 in the following SPIs:

- The percentage of working days lost through sickness absence for chief officials and local government employees.
- The proportion of tenants giving up their tenancy during the year who were in rent arrears.
- The percentage of sales completed within 26 weeks.
- The average time between presentation and completion of the duty by the council for those cases assessed as homeless or potentially homeless.
- The percentage of secondary schools in which the ratio of pupils to available places is between 61% and 100%.
- The percentage of daytime respite hours provided not in a day centre.
- The use of libraries- the number of borrowers as a percentage of the resident population.
- The net cost of refuse collection.
- Refuse collection-The number of complaints per 1,000 households.



119. Each year we review the reliability of the council's arrangements to prepare SPIs. Overall, the quality of working papers provided to support the SPIs was variable. In some areas working papers were excellent but in other areas working papers required a significant amount of additional work to allow verification to the performance information reported. We will continue to work with the council to improve the overall arrangements. Our audit approach is to test in detail a sample of SPIs each year with a view to covering all SPIs at least once every 3 years. This year twenty seven SPIs were tested. Eleven SPIs from the original SPI return submitted to Audit Scotland were found to contain errors which required amendments. One SPI was found to be unreliable. Officers were unable to provide supporting documentation for this unreliable SPI. Data collection, retention and care of interpretation of data requires to be improved with regards to SPI returns to prevent unreliable and inaccurate performance being reported. This is especially important as this is the only comprehensive council wide performance reported to elected members. Eleven out of twenty seven SPIs being incorrectly reported does not give confidence that the remaining SPIs are accurate.

Key risk area 18

Performance outlook – opportunities and risks

Introduction

120. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of best value based on a full review by a specialist team. These audits were initially set up to be done every 3 years.
121. The best value audit of South Ayrshire Council commenced in June 2008 and the findings are due to be published in March 2009. A number of the areas to be covered by the best value audit have been briefly mentioned in this report and will be covered in more detail in the best value report.
122. In the course of our audit work we identified some of the strategic risks facing South Ayrshire Council in the delivery of its stated objectives and priorities for the years ahead. These risks were set out in our strategic audit risk analysis (SARA) and grouped into five risk themes. In the following paragraphs, we comment on the progress made by the council during the year and the current position in addressing these key risks. The forthcoming best value audit will cover these areas in more detail.
123. Risk exists in all organisations which are committed to continuous improvements and, inevitably, is higher in those undergoing significant change. The objective is to be 'risk aware', and have sound processes of risk management, rather than 'risk averse'. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.



Managing performance to achieve best value

124. In order to achieve council priorities and objectives, corporate strategies supported by service, asset, workforce, information and communications technology (ICT) and financial plans require to be in place. In addition a robust performance management system is required to monitor and report on performance to allow appropriate actions to be taken. The council must be able to demonstrate whether performance has improved, been maintained or deteriorated and also whether efficiencies have been achieved. With the development of the SOA, the council must also be able to effectively measure and monitor outcomes.

125. Our SARA identified that service plans were not linked to the corporate vision. Officers have advised that work has been undertaken on service plans which will ensure they are aligned with the vision by the autumn of 2008. Once this is done, the service plans are to be revised to ensure they are all of a similar format and style. The target completion date for this is April 2009.

Key risk area 16

126. The SARA also identified issues with regards to monitoring of performance as baseline performance data is patchy across departments. The council recognised the shortcomings with performance management and have agreed an approach which links the revised service plans to the corporate vision. An external consultant is currently assisting the council with performance management and service planning with the outcomes of this work expected over the next few months.

Key risk area 17

127. Public performance reporting has been patchy over the last eighteen months and not in adherence to the council public performance reporting strategy. The CMT have agreed that public performance reporting requires to be reviewed. In the meantime, an "Update" newsletter will be issued in October 2008 as well as another council calendar in December 2008.

Key risk area 19

128. Adequate ICT systems are essential for all organisations. The ICT strategy was approved in February 2008. A steering group are now overseeing the implementation of this strategy. A business continuity strategy was approved in January 2008. Work is progressing to implement this strategy with an expected completion date of December 2009.

Key risk area 20 & 21

Ensuring the future affordability and sustainability of services

129. The budget setting process has proved to be very challenging for the council over the past few years. There are problems in trying to meet expectations with very limited resources. The council continues to face significant financial pressures from areas such as residential school costs, the provision of



care packages and waste management costs. The council is currently undertaking a priority led budget review to address the significant funding shortfalls in financial years 2009/10 and 2010/2011. The exercise has been underway since spring of 2008 and allows members to review departmental budgets and understand how expenditure relates to council priorities. This is a key piece of work given the level of savings and cuts already implemented within the last few years. There is a risk that further cuts in posts may not be sustainable.

Key risk area 22

130. The council has entered into a thirty year public private partnership (PPP) project to build an annex to an existing secondary school as well as two new secondary and three new primary schools. In addition to the construction, the contractor will provide a range of hard and soft facilities management services. Two primary schools and the secondary school annex became operational during 2007/08. It is anticipated that the last school in the programme will become operational before the end of 2009. In 2005/06 the council set up a capital fund to be used to finance debt charges thereby releasing revenue resources to finance annual unitary charge payments under the PPP. The capital fund has been built up mainly from capital receipts. In 2007/08 £1.773 million of capital receipts plus £0.107 million of interest were added to the capital fund. The council will require to closely monitor the PPP funding requirements when setting budgets to ensure sufficient funds will be available to meet future unitary charge payments as these costs will be an increasing strain on budget resources.

Key risk area 23

Good governance and real accountability

131. The council revised its political management structures following the May 2007 elections to a “cabinet” style model. This replaced the previous traditional committee structure. Earlier this year, two of the standing scrutiny panels were merged. The council is currently reviewing the decision making structure and call in procedures. Surveys of elected members and officers have been carried out. The results of these surveys will be considered and the review of the decision making structures taken forward by the overview and scrutiny management panel. This is an area which will be reviewed as part of the best value audit process.

Key risk area 24

132. The council has undergone a significant amount of change over the last eighteen months. Fifteen new members were elected and the political make up of the council has changed. In addition, there have been changes at senior officer level with a new chief executive and a new director of social work housing and health joining the council earlier this year. Also, a human resource strategist started work in the chief executive’s department in December 2007. To ensure council priorities continue to be addressed during this period of change, it is important that both officers and members work corporately and collaboratively. Again this is an area the best value audit will cover.



133. The council introduced role profiles and personal development plans for elected members following the May 2007 elections. Officers have advised that during 2007/08 elected members received a training needs assessment and personal development plans were drawn up and put in place for members. Elected member training and development will be covered in more detail by the best value audit.

134. Risk management is an essential component of governance in any well managed organisation. In times of significant change councils require to be “risk aware” and have processes in place to identify and manage risk. The corporate risk register was set up in 2007. Departmental risk registers were not initially in place however officers have advised that departmental risk registers have recently been completed and the corporate risk register has been reviewed during the last few months. This will be covered in more detail by the best value audit.

Key risk area 10

Community planning and effective partnership working

135. As previously mentioned the council vision does not exactly align with the community plan. A review has been undertaken. There are plans in place and discussions have started to review the community plan and vision during 2008/09 and 2009/10 as part of the process of developing a single outcome agreement for the partnership.

Key risk area 25

136. Our SARA identified that the community engagement strategy was being progressed with officers in consultation with CPP partners. The CPP board agreed that a community engagement network should be set up to help co-ordinate and monitor engagement exercises with the public. At present a review of community engagement is being undertaken. Thereafter the outcomes of this review will require to be implemented and actioned as appropriate.

137. Community planning and partnership working is an area which the best value audit process will cover with regards to the CPP and its improvement plan, relationships between CPP partners and CPP governance arrangements.

138. The SARA identified that the CPP did not have a permanent CPP co-ordinator. This issue has been resolved with the appointment of a full time permanent CPP co-ordinator in the spring of 2008.

Securing the efficient use of resources

139. The efficient use of resources is essential for all councils in the current climate of restrictive resources. It is also central to the achievement of best values and to addressing the efficient government programme.



140. The council's financial position and efficiency savings have already been covered in this report along with revenue and capital planning and monitoring.

141. The council's workforce is a key resource. Our SARA identified that a workforce strategy was not in place to address key areas such as succession planning, performance management, absence management and employee communication. A high level workforce strategy detailing the various components to be included in the final workforce strategy was approved in April 2008. Following this a supporting strategic action plan providing key outcomes to be achieved in the introduction of the workforce strategy along with specific times scales was agreed in June 2008. This is an area which requires a significant amount of work and will be reviewed in more detail as part of the best value audit.

142. A senior officer appraisal scheme was introduced at the end of 2007. The performance development reviews for the CMT and heads of service were completed by end June 2008. A corporate wide appraisal scheme has still to be developed. This is being taken forward as part of the development and implementation of the workforce strategy.

Key risk area 26

143. Asset management is an area the council has been starting to address over the last year. A document detailing the structure and processes required to progress asset management asset was approved in December 2007. A two page high level asset management strategy was approved in May 2008. This strategy is an important step in the detailed council asset management plan which is now being developed. Asset management is an area which requires to be further developed and will be covered by the best value audit.

Key risk area 27

144. Procurement is one of the efficient government programme work streams as it is an area where perceived efficiencies may lie. The council has a procurement strategy in place. A procurement forum has been set up to improve and standardise procurement processes and generate efficiencies through contract compliance and monitoring, improving practices and the removal of duplication.

145. The council have joined Scotland Excel with the hope that the benefit of greater collaboration and improved contract terms may also lead to efficiency savings. The council are currently developing the i-procurement module of the Oracle eFinancials system. A pilot exercise is planned prior to the roll out of i-procurement across the council. Some delays have been experienced with the roll out of this pilot project. This will be covered in the best value audit.

Key risk areas 28 & 29

146. The council have been in the process of implementing modules of the Oracle eFinancials system since 2003 with the latest expected completion date of April 2008. Progress has continued throughout



2007/08 with a further module relating to the processing of one off payments being developed and is now ready to be rolled out across the council. In addition the module relating to the processing of non purchase order invoices is currently being progressed. The council requires to ensure sufficient resources are allocated to the Oracle eFinancials rollout to ensure the full planned implementation is completed as efficiently and effectively and as soon as possible.

Key risk area 29

National studies

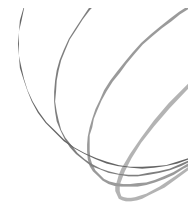
147. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the auditor general for Scotland. Reports published in the last year of direct interest to the council are described below. Further information on these studies and copies of the reports can be obtained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

Sustainable waste management

148. Collecting household waste is a vital and universal service. In recent years significant new investment has been made to reduce the amount of waste sent to landfill. Our national report on sustainable waste management, published in September 2007, highlighted that:

- Significant progress has been made in meeting interim recycling targets, but the rate varies considerably between councils. The percentage of municipal waste recycled and composted increased from 7% in 2001/2 to 25% in 2005/06. Co-mingled collections appear to achieve higher recycling rates.
- There has been slow progress in developing facilities to treat residual waste and there is a significant risk that EC landfill directive targets might not be met.
- Increased recycling has led to increased costs for councils.
- All parties need to work more effectively together to make progress in waste minimisation, recycling and waste treatment.

149. South Ayrshire Council has been making good progress with recycling with the percentage of waste being sent to landfill reducing over recent years. The council reported that 63.1% of waste was sent to landfill in 2005/06. This improved to 56.9% in 2007/08. The percentage of waste being composted or recycled has risen steadily from 36.9% in 2005/06 to 43.2% in 2007/08. South Ayrshire Council ranked second in Scotland in 2006/07 for recycling.



Free personal and nursing care

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

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

151. South Ayrshire Council interpreted the legislation regarding food preparation as to meaning that the council should not charge for food preparation assistance. Any charges made prior to this interpretation in 2005 have been refunded as appropriate.

152. The council have experienced financial pressures in providing free personal care since its introduction in 2002. Care home residents who previously funded their own care now qualify for free personal care and the council funds their care fees. The number of these previous “self funding” residents has risen in South Ayrshire from 284 people in 2002/03 to 359 residents in 2007/08. This rise equates to costs of £2.27 million in 2002/03 to £3.82 million in 2007/08. Government funding for these residents was only £3.115 million in 2007/08 with the short fall being met by the council.

153. South Ayrshire Council has also seen a rise in the number of homecare hours being required in the area. A total of 9,800 hours of care was provided in 2003/04 but this has risen to 12,900 hours in 2007/08. Again this has a financial implication with the cost of this care rising from £6.4 million in 2003/04 to £11.1 million in 2007/08.

Scotland’s school estate

154. A major programme of school building renewal started at the end of the 1990s and is continuing. The programme aims to create a school estate that achieves the government’s vision for 21st century schools that are well designed, well built and well managed. Our national study reviewed what has been achieved so far, how much it is costing, how effective the improvements are and how well the Scottish government and councils are working together to manage improvements to the schools estate. One of the main conclusions of our report, published in March 2008, is that the current rate of



progress will take up to 20 years to remove all schools from poor or bad condition. The report recommends actions for the Scottish government and councils to help improve arrangements and support future achievements. These include:

- Better planning by councils and the Scottish government to set specific, measurable and meaningful targets for the school estate strategy.
- Greater use of the Scottish government guidance by councils to make sure future school design strikes a good balance for the comfort of everyone who uses the building.
- Making environmental sustainability a key element of school design.
- Doing more to identify and share good (and bad) practice in school design and estate management.
- Estimating pupil rolls for at least ten years ahead with a minimum annual review.

155. South Ayrshire Council has retained virtually all the educational establishments that were inherited from the predecessor council. The council has not taken the opportunity of falling school rolls to rationalise provision or to improve the quality of school buildings. The building stock is generally in a poor condition. Following an extensive community engagement exercise during 2006/07, area proposals for the fundamental review of the school estate were drawn up in December 2007. Schools were placed into 2 categories. Category 1 schools were to be the subject of examination and community consultation and category 2 schools were included in a technical exercise and assessed for modernisation.

Key risk area 30

156. The council recently took a significant step forward in developing the school estate when it commenced the building of a £74 million PPP programme for school buildings. At the end of financial year 2007/08 a new annex at Kyle Academy was complete as was a new primary school in Monkton. Phase 1 of the new Barassie Primary School had also been completed.

Overview of sport in Scotland

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

- The provision of sports facilities and other services is fragmented, with no clear links between the government's national strategy for sport and councils' investment. The development of single outcome agreements is an opportunity to clarify and align the links between national and local strategies.



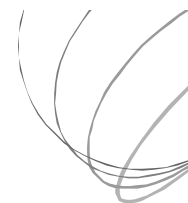
- The level of participation and funding in sport has been declining and participation by younger people falls short of targets.
- Sportscotland estimates that an additional £110 million a year is needed for the next 25 years to bring sports facilities up to an acceptable standard.
- Arrangements to deliver the 2014 Commonwealth Games are still being developed. These will be critical in ensuring the success of the games and safeguarding the large sums of public money that will be invested.

158. The council's 2008/09 single outcome agreement does not include any indicators under "Healthier Scotland" objectives relating to the provision and use of sports facilities. The SPI information on the usage levels of swimming pools and indoor sports facilities shows a 6% increase from 2006/07 however when comparing the information from 2004/05, there was a 5% fall between 2004/05 and 2005/06 followed by an increase of 2.8% in 2006/07. Use of indoor sports facilities fell by 3.3% in 2007/08 and when comparing 2007/08 results with usage levels in 2004/05 there is an 11% fall.



Final Remarks

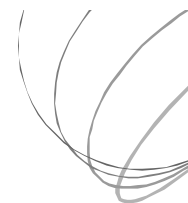
159. We have raised a number of risks in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate. Some of these will be further considered in our best value and community planning audit report which will be published in the spring of 2009.
160. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issues and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks.
161. Appropriate mechanisms should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2008/09 audit.
162. The co-operation and assistance given to us by South Ayrshire Council members and staff is gratefully acknowledged.



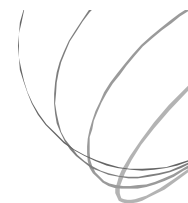
Appendix A: Action Plan

Key risk areas and planned management action

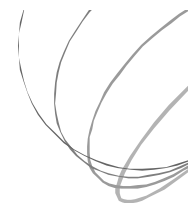
Key Risk	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	29 & 49	<p>General fund</p> <p>A general fund recovery strategy is in place which aims to achieve a £2 million uncommitted general fund balance by March 2010.</p> <p>Risk: there is a risk that £2 million uncommitted funds will be insufficient to meet future demands.</p> <p>There is also the risk that an unforeseen event occurs before 2010 with the result that the recovery strategy does not achieve its objective.</p>	<p>A recovery strategy is in place to have an uncommitted balance of £2m by the end of 2009/10.</p> <p>The Council recognise that an uncommitted balance of £2m is insufficient and will endeavour to raise the level as part of the budget setting process.</p> <p><i>(Refer to action plan point 6 in the 2006/07 report to members and the controller of audit.)</i> <i>(Refer to strategic audit risk analysis (SARA) risk 8.)</i></p>	Assistant Chief Executive	February 2009
2.	31	<p>Insurance fund</p> <p>The insurance fund was reviewed during 2007/08 when it was estimated that a balance of £0.425 million would be sufficient to meet demands on this fund.</p> <p>Risk: the current balance may be insufficient to meet future insurance costs requiring to be met from this fund.</p>	<p>The review of the Insurance Fund was considered by the Leadership Panel in June 2008 and appropriate funding included in the 2008/09 budget.</p> <p>The balance on the Insurance Fund will be regularly reviewed to ensure that there are sufficient funds to meet demands.</p> <p>A full review of the operation of the Insurance Fund will be undertaken by 31 March 2010.</p> <p><i>(Refer to strategic audit risk analysis (SARA) risk 21.)</i></p>	Corporate Safety Manager	<p>February 2009</p> <p>March 2010</p>



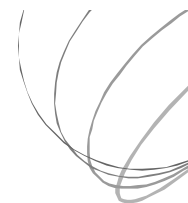
Key Risk	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3.	34	<p>Housing revenue account</p> <p>At present the council is predicting that the housing stock will meet SQHS standards by 2015.</p> <p>Risk: the current economic climate could put the council's plans to meet the SQHS by 2015 into jeopardy.</p>	<p>The assumptions contained within the 30 year business plan will be reviewed in light of the current economic climate as part of the rent setting process.</p>	<p>Head of Housing and Regeneration</p>	<p>January 2009</p>
4.	39 & 65	<p>Capital programmes</p> <p>The council does not have medium or long term capital plans in place.</p> <p>Despite both the general services and housing investment capital programmes suffering significant slippage during both 2006/07 and 2007/08, the 2008/09 budgets have increased significantly</p> <p>Risk: there is a risk that unrealistic capital budgets are set. There is also a risk that due to a lack of medium/long term budgeting, projects cannot be brought forward when unavoidable slippage occurs.</p>	<p>An exercise has already been undertaken to review the 2008/09 general services programme and approve amendments to the programme to ensure that expenditure is incurred by 31 March 2009. Regular updates on progress will be provided to the Leadership Panel.</p> <p>Revised monitoring arrangements will be introduced as part of the recently approved revisions to the management structure.</p> <p>A similar exercise will be undertaken in respect of the housing capital programme.</p> <p><i>(Refer to action plan point 13 in the 2006/07 report to members and the controller of audit.)</i> <i>(Refer to strategic audit risk analysis (SARA) risk 4.)</i></p>	<p>Assistant Chief Executive/ Director of Social Work, Housing and Health</p> <p>Head of Housing and Regeneration</p>	<p>31 March 2009</p> <p>31 March 2009</p> <p>21 January 2009</p>



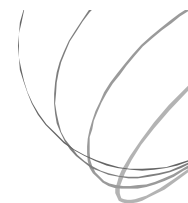
Key Risk	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5.	49 & 56	<p>Efficiency savings</p> <p>The council programmed £10 million of savings into the 2007/08 budget on top of £7.7 million in 2006/07. Another 3.2 million is included in 2008/09 budgets. Financial year 2009/10 requires a further £7 million of efficiency savings.</p> <p>Risk: there is a risk that budgets cuts of this level cannot continue without a significant impact upon the delivery of council services.</p>	<p>Members recognise the requirement to achieve significant budget reductions in 2009/10 and that this will require a review of the services provided and the delivery methods employed. The first stage of this process is the departmental restructuring approved by Council on 30 October 2008. The achievement of savings is being undertaken by the Corporate Management Team and the cross party budget working group.</p> <p><i>(Refer to action plan point 5 in the 2006/07 report to members and the controller of audit.)</i> <i>(Refer to strategic audit risk analysis (SARA) risks 9 & 22.)</i></p>	Assistant Chief Executive	February 2009
6.	58 & 61	<p>Single status & equal pay</p> <p>Single status has not been implemented. Provision is included in the accounts for single status and equal pay costs based on the assumption that agreement can be reached with trade unions and single status implemented with effect from 1 October 2007.</p> <p>Risk: there is a risk that additional equal pay claims from other employees who have not been offered compensation.</p> <p>There could be financial implications in relation to employees who rejected settlements offered to them and who then take their cases to industrial tribunals.</p>	<p>Negotiations with trade unions are reaching a conclusion – final proposals on both job evaluation and conditions of service have been submitted for consideration. Full provision for the costs of the proposed pay model are included in the revenue budget. Recent court decisions in relation to preservation require to be considered and full risk assessment of potential options has to be undertaken. This will undoubtedly mean a delay in the process.</p> <p>Provision for potential equal pay claims has been included within 2007/08 accounts based on the best estimate of the likely liability.</p> <p><i>(Refer to action plan point 15 in the 2006/07 report to members and the controller of audit.)</i> <i>(Refer to strategic audit risk analysis (SARA) risk 10.)</i></p>	HR Strategist	1 April 2009



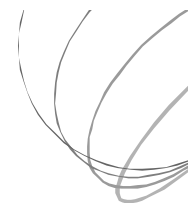
Key Risk	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
7.	72	<p>Pension changes</p> <p>Recent changes to the local government pension Scheme includes the introduction of tiered employee contributions from April 2009. At present the council's payroll system is unable to apply different contribution rates to individual employees.</p> <p>Risk: pension contributions are incorrectly calculated possibly affecting future pension benefits for employees.</p>	<p>The Council is currently working with the software provider, Strathclyde Pension Fund and other local authorities to ensure that the payroll system can apply the appropriate contribution rates.</p>	<p>Chief Accounting Officer</p>	<p>31 March 2009</p>
8.	76	<p>Local code of corporate governance</p> <p>A review of the local code is required to ensure it is aligned with the new CIPFA and SOLACE framework on "delivering good governance in local government".</p> <p>Risk: there is a risk the council is unable to carry out this review due to limited resources and therefore does not comply with the accepted governance standards.</p>	<p>The Council is committed to the highest standards of corporate governance and will continue to report on existing arrangements, whilst at the same time moving towards compliance with the new Code by a process of self assessment and improvement. Because of this full adoption will take some time.</p>	<p>Senior Strategic Planning and Performance Management Officer</p>	<p>March 2010</p>
9.	81	<p>Scrutiny and challenge</p> <p>The level of challenge and scrutiny of reports submitted to scrutiny panels is not always as rigorous as would be expected. Elected members have decided they are happy for full audit reports not to be included in agenda papers but to be available separately.</p> <p>Risk: elected members may not be carrying out effectively scrutiny.</p>	<p>Decision-making and scrutiny arrangements have recently been reviewed and adjusted by the Council. These changes will now be supported by the development of guidance for the operation of newly adopted Panel arrangements.</p> <p>Full copies of all internal and external audit reports are made available to all elected members via the Wire and all members receive a summary of the key issues from external audit reports.</p> <p><i>(Refer to strategic audit risk analysis (SARA) risk 14.)</i></p>	<p>Chief Executive/ Performance and Change Management Manager</p>	<p>31 March 2009</p>



Key Risk	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
10.	84 & 87 & 134	<p>Risk management</p> <p>The council risk strategy covers the period 2006/07.</p> <p>In 2007/08 internal audit have concluded that risk registers and the embedding of risk management required improvements. Due to risk registers being insufficiently developed, the internal audit section have been unable to use risk registers as a base for drawing up risk based audit plans.</p> <p>Risk: there is a risk that the council has not adequately identified risks and is therefore not taking appropriate action to manage risks.</p> <p>High risk areas may not receive adequate attention from internal audit.</p>	<p>A review of the corporate risk register has been undertaken and departmental risk registers are now in place. A further review will be undertaken to ensure alignment between revised corporate risk register and departmental risk registers.</p> <p>It is intended to review the council risk strategy further following the outcome of the best value audit.</p> <p><i>(Refer to action plan point 9 in the 2006/07 report to members and the controller of audit.)</i> <i>(Refer to strategic audit risk analysis (SARA) risk 11.)</i></p>	Depute Chief Executive and Director of Development Safety and Regulation	31 March 2009 Post April 2009
11.	88	<p>Segregation of duties</p> <p>There is a lack of segregation of duties within key financial systems, for example mail opening, payroll input, debtors, non domestic rates and area housing offices. There is also a lack of independent checking of input to systems across council departments.</p> <p>Risk: there is a risk of both errors and fraudulent activity remaining undetected.</p>	Officers have reviewed the issues raised by External Audit and introduced checks to ensure that the risk of fraud and error is minimised.	Various	31 December 2008



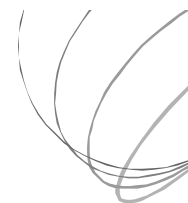
Key Risk	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
12.	96	<p>NFI</p> <p>The council has taken a decision to curtail the processing of matches at a relatively early stage in the exercise.</p> <p>Risk: the full potential savings may not be achieved and the possible deterrent effect may be allowed to dissipate.</p> <p>The council has decided to participate in the interim NFI exercise which concentrates on information from the electoral register and the council tax systems.</p> <p>Risk: that the interim exercise will not achieve the full potential savings that might have arisen had the exercise gone ahead earlier.</p>	<p>The Council concentrated on high risk matches as the level of return has been small in relation to the effort required. This approach has been approved by the Leadership Panel for the 2008/09 exercise.</p> <p>The Council did not agree to participate in the electoral register/council tax systems until the legality of participation was confirmed.</p> <p>The Council will conduct a review of Council Tax single person discount eligibility during 2009/10.</p>	<p>Assistant Chief Executive</p> <p>Revenues & Benefits manager</p>	<p>March 2010</p>
13.	98	<p>Data handling and security</p> <p>The council does not have an information and knowledge strategy. In addition, a formal system for classifying information is not in place nor is an information asset register in place.</p> <p>Risk: the council may be at risk from data loss</p>	<p>The issues raised in the data handling and security audit was considered by the Audit Committee in November 2008.</p> <p>Findings from a review of compliance against ISO27001 (an internal standard in information security management systems) will be presented to elected members.</p>	<p>Various</p> <p>ICT Strategy Officer</p>	<p>31 December 2008</p> <p>31 January 2009</p>



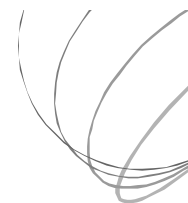
Key Risk	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
14.	106 & 113	<p>Single outcome agreement</p> <p>The council agreed its first SOA in June 2008. It was not developed jointly with partners and there does not appear to be comprehensive links with the council's vision. Some baseline data appears to be out of date. And at least some of targets appear to be arbitrary.</p> <p>It is unclear how the planned 3 monthly reporting will be effective given that most data in the SOA originates from annual data sources.</p> <p>Risk: the SOA does not align with the council's priorities and the priorities of council partners.</p> <p>Risk: data within the SOA may be meaningless due to being out of date.</p> <p>Risk: Targets may not challenge services to make improvements.</p> <p>Risk: Stakeholders will not be able to monitor performance against targets set.</p>	<p>The development of SOA is an evolving process. We have put in place a comprehensive process of engagement with partners to produce a draft SOA for the period 2009 -12 by the end February 2009 in line with the recently issued guidance. This will be based on the Council's Vision, which partners have agreed as a starting position on the understanding that both the vision and Community plan will be reviewed into one document during 2009/10.</p> <p>The South Ayrshire Community Planning SOA will build on the lessons learnt from developing our first SOA in 2008.</p> <p><i>(Refer to strategic audit risk analysis (SARA) risk 2.)</i></p>	Performance & Change Management Manager	End Feb 09 for draft SOA, final version by end May 09
15.	110	<p>Best value improvement plan</p> <p>The council improvement plan still requires a significant amount of commitment to ensure all priority areas are fully implemented.</p> <p>Risk: key strategic and management issues are not properly addressed with the result that council cannot demonstrate best value principles.</p>	<p>Following the Best Value Audit the Council is committed to reviewing and revising its Improvement Plan as part of its wider agenda to introduce a clear corporate management framework. A realistic and prioritised Improvement Plan is currently being prepared for approval by Elected Members.</p> <p><i>(Refer to action plan point 2 in the 2006/07 report to members and the controller of audit.)</i></p>	Performance & Change Management Manager	March 2009



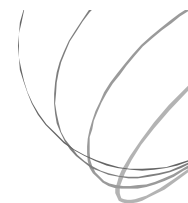
Key Risk	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
16.	112 & 125	<p>Council vision</p> <p>The council vision is not yet fully supported by a corporate plan and detailed service plans. All service plans are not yet of a similar style and format.</p> <p>Risk: the council is unable to achieve its vision</p>	<p>The format and content of service plans is currently being reviewed with the assistance of external support from SOLACE Associates. Departmental service plans in an agreed format and linked to the Council's Vision will be in place for the start of the new financial year as previously committed to.</p> <p><i>(Refer to action plan point 1 in the 2006/07 report to members and the controller of audit.)</i> <i>(Refer to strategic audit risk analysis (SARA) risk 1.)</i></p>	Performance & Change Management Manager	April 2009
17.	114 & 126	<p>Performance management</p> <p>Performance management and performance reporting require to be developed. Baseline performance data is patchy across departments.</p> <p>Risk: the council is unaware if it is meeting its corporate objectives. Areas of poor performance are not identified to allow corrective action to be taken.</p>	<p>The development of performance management and reporting arrangements will be a priority within the Council's Improvement Plan. However, it is acknowledged that introducing and embedding comprehensive arrangements that link Vision priorities to the performance of individuals within the Council will take time.</p> <p><i>(Refer to action plan point 3 in the 2006/07 report to members and the controller of audit.)</i> <i>(Refer to strategic audit risk analysis (SARA) risk 3.)</i></p>	Performance & Change Management Manager	March 2010



Key Risk	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
18.	119	<p>Statutory performance indicators (SPIs)</p> <p>The only comprehensive council wide performance reported to elected members is the SPIs. Eleven out of twenty seven SPI returns submitted for audit contained errors which required to be amended. Supporting documentation was unavailable for one SPI.</p> <p>Risk: stakeholders are not receiving accurate performance information and the council is unable to demonstrate continuous improvement.</p>	<p>The Council's Internal Auditor will be reporting to the CMT on the 2007/08 SPI's by December 2008. As a result departments will be required to ensure that robust arrangements for SPI data gathering are in place for 2008/09 reporting.</p>	Chief Executive	March 2009
19.	127	<p>Public performance reporting</p> <p>Public performance reporting has been patchy over the last eighteen months and not in adherence with the council's public performance reporting strategy.</p> <p>Risk: the public are unaware of the council's performance.</p>	<p>The next issue of Update and the Calendar for 2009 will both be published by early December 2008 in line with the current public performance reporting commitment. Thereafter, we will review arrangements for 2009 and beyond.</p> <p><i>(Refer to action plan point 4 in the 2006/07 report to members and the controller of audit.)</i> <i>(Refer to strategic audit risk analysis (SARA) risk 5.)</i></p>	Performance & Change Management Manager	June 2009
20.	128	<p>ICT strategy</p> <p>Additional work is required to ensure this strategy is fully implemented.</p> <p>Risk: systems may not be working together to ensure efficient use of resources as well as working together to meet corporate objectives.</p>	<p>Finalisation of the ICT Strategy will be undertaken following review of departmental service plans.</p> <p><i>(Refer to action plan point 16 in the 2006/07 report to members and the controller of audit.)</i> <i>(Refer to strategic audit risk analysis (SARA) risk 7.)</i></p>	ICT Strategy Officer	31 December 2009



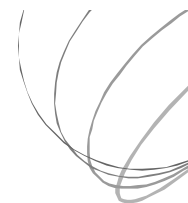
Key Risk	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
21.	128	<p>Business continuity strategy</p> <p>Additional work is required to ensure the business continuity strategy is fully implemented.</p> <p>Risk: frontline services may be disrupted.</p>	<p>The implementation of the strategy is continuing with an expected completion date of December 2009.</p> <p><i>(Refer to action plan point 16 in the 2006/07 report to members and the controller of audit.)</i></p> <p><i>(Refer to strategic audit risk analysis (SARA) risk 7.)</i></p>	Corporate Safety Manager	31 December 2009
22.	129	<p>Budget setting process</p> <p>A priority led budget review is underway to address funding shortfalls in finances for years 2009/10 and 2010/11.</p> <p>Risk: the council is unable to sustain services due to financial constraints.</p>	<p>Members recognise the need to review the services provided and the delivery methods employed. This is being progressed by the Corporate Management Team and the cross party budget working group.</p> <p><i>(Refer to strategic audit risk analysis (SARA) risk 9.)</i></p>	CMT/Budget Working Group	February 2009
23.	130	<p>School PPP project</p> <p>The council has set up a capital fund to retain capital receipts to help fund debt charges thereby releasing resources to finance unitary charge payments</p> <p>Risk: the level of capital receipts added to the capital fund may be insufficient to meet PPP costs.</p>	<p>Funding of the PPP project is reviewed annually as part of the budget setting process. The Council recognise that the 30 year commitment to PPP must be met and this may require difficult decisions in relation to other budgets.</p>	Assistant Chief Executive	February 2009



Key Risk	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
24.	131	<p>Political structure</p> <p>The council revised its political management structures following the May 2007 elections. The council is currently reviewing the decision making structure and call in procedures.</p> <p>Risk: the current decision making structure and call in procedure may not be the most effective for the council.</p>	<p>See Key Risk 9</p> <p><i>(Refer to strategic audit risk analysis (SARA) risk 12.)</i></p>	Chief Executive/ Performance and Change Management Manager	31 March 2009
25.	135	<p>Community planning</p> <p>The council vision does not fully align with the community plan.</p> <p>The community planning board has agreed that a community engagement network should be set up to help monitor and coordinate engagement exercises with the public.</p> <p>Risk: the council and community planning partnership objectives are inconsistent.</p> <p>Community engagement is not as effective as it could be.</p>	<p>The Community Plan covers the period to 2010. The review of the Community Plan and the Council's Vision document will be started in late 2009 to deliver a single Community Plan based vision for South Ayrshire during 2010. The progress of the community engagement network will be monitored and reviewed as necessary by the Community Planning Board.</p> <p><i>(Refer to strategic audit risk analysis (SARA) risk 15.)</i></p> <p><i>(Refer to strategic audit risk analysis (SARA) risk 16.)</i></p>	Community Planning Co-ordinator	2010
26.	142	<p>Workforce strategy</p> <p>A high level workforce strategy and a strategic action plan are in place. A significant amount of work is required to ensure the action plan is fully implemented.</p> <p>A senior officer appraisal scheme was introduced at the end of 2007. However, a corporate wide appraisal scheme has still to be developed.</p> <p>Risk: the council does not have adequate staff with relevant training in place to deliver corporate priorities.</p>	<p>Although PDR is undertaken in some areas, the competence based Corporate PDR system has been developed and is currently being rolled out on a phased basis across the council - priority for this is where no PDR system exists). Training will be completed by Mar 09 and system will be implemented. There will be a transition period where old and new systems will run in parallel. All employees trained and using new competence based system by April 2010.</p>	Human Resource Strategist	April 2010



Key Risk	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			<p>Learning and development will be clearly linked to key objectives emanating from service plans, council plans and vision.</p> <p><i>(Refer to action plan points 8 & 11 in the 2006/07 report to members and the controller of audit.)</i></p> <p><i>(Refer to strategic audit risk analysis (SARA) risk 17 & 18.)</i></p>		
27.	143	<p>Asset Management</p> <p>A high level asset management plan is in place. However a significant amount of work is required to ensure the plan is fully implemented.</p> <p>Risk: the council is not using assets efficiently and effectively.</p>	<p>We are making progress on our approach to asset management but recognise that more needs to be done. The Corporate management Team have recently establish a work stream to progress some specifics of asset management more rigorously whilst at the same time acknowledge work on more details asset planning is also required.</p> <p><i>(Refer to action plan point 7 in the 2006/07 report to members and the controller of audit.)</i></p> <p><i>(Refer to strategic audit risk analysis (SARA) risk 20.)</i></p>	Corporate Management Team	March 2009 & beyond
28.	145	<p>Procurement</p> <p>The council have joined Scotland Excel and hope to receive the benefit of procurement efficiency savings from improved contract terms and collaboration. The Oracle i-procurement pilot has been delayed.</p> <p>Risk: the anticipated level of efficiency savings from procurement may not be achieved adding to the council's financial pressures.</p>	<p>The establishment of a procurement forum has improved and standardised procurement processes across the council.</p> <p>The full benefit from membership of Scotland Excel has yet to be realised.</p> <p>Procurement and commissioning arrangements are being reviewed in light of the output from the shared services support diagnostic.</p> <p>I-procurement will be introduced in Chief Executive's department by April 2009 and rolled out to other departments thereafter.</p>	Assistant Chief Executive	30 Sept 2009



Key Risk	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
29.	145 & 146	<p>Oracle eFinancials</p> <p>The council has been in the process of implementing modules of the Oracle eFinancials system since 2003.</p> <p>Risk: sufficient resources are not allocated to ensure the system is implemented.</p>	<p>The reliance on the previous financial system (CFACS) is being reduced in a planned way.</p> <p>Financial monitoring and reporting and the payment of invoices is now undertaken via Oracle financials.</p> <p><i>(Refer to action plan point 12 in the 2006/07 report to members and the controller of audit.)</i></p> <p><i>(Refer to strategic audit risk analysis (SARA) risk 23.)</i></p>	Assistant Chief Executive	April 2009
30.	155	<p>Schools estate</p> <p>A review of the schools estate is underway with schools paced into 2 categories. One category relating to schools being assessed for modernisation and another category for those schools subject to examination and community consultation. The review requires to be progressed.</p> <p>Risk: schools buildings are not in a fit state to deliver education in the 21st century.</p>	<p>A number of reviews under category 1 are well underway and the Council's Leadership Panel was updated on their progress in June 2008. (see Leadership Panel report 24 June 2008).</p> <p>88% of schools have now been educationally assessed under category 2 using the Council's agreed benchmark schools for a primary and secondary school (see technical exercise programme). 7 schools are currently being assessed by the Council's Property and Design Services to determine the feasibility of any proposed adaptations/extensions. This information will be available by January 2009.</p> <p>The 2009-14 capital programme will reflect progress made in the Fundamental Review and will contribute to improving the condition and suitability ratings.</p> <p>A further progress report will be submitted to the Leadership Panel at the beginning of 2009.</p>	Director of Education, Culture & Lifelong Learning	<p>Jan 2009</p> <p>Feb 2009</p>