

North Ayrshire Council

Annual report on the 2011/12 audit



Prepared for Members of North Ayrshire Council and the Controller of Audit
October 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

2011/12 audit findings

This report summarises the findings from our 2011/12 audit of North Ayrshire Council. As part of the audit we assessed the key financial and strategic risks being faced by the council. We audited the financial statements and reviewed the council's financial position and aspects of governance, best value, the use of resources and performance. This report sets out our key findings.

We have given an unqualified opinion that the financial statements of North Ayrshire Council for 2011/12 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

The financial management arrangements have operated effectively during the year. The financial position is more favourable than was anticipated when the original 2011/12 budget was set by the council, with an increase in total usable reserves of £4.985 million reported.

The explanatory foreword in the accounts explains that, prior to transfers to reserves; a general fund revenue account surplus of £10.868 million was achieved in the year compared to a budgeted surplus of £0.449 million. The main reasons for the £10.419 million underspend are due to the council realising efficiencies earlier than anticipated and savings in employee costs and loan fund debt charges. The efficiencies attained to date puts the council in a relatively stable position when addressing the current to medium term financial challenges.

The general fund recorded a net surplus for 2011/12 of £4.507 million, increasing the balance to £29.102 million as at 31 March 2012. This balance includes earmarked commitments of £23.073 million and an unallocated general fund balance of £6.029 million. The balances held by the council are discussed by members as part of the regular budget monitoring processes. The use of balances for earmarked purposes has been agreed with the members. The unallocated general fund balance of £6.029 million is in line with the council's reserves strategy to retain 1.5% of budgeted gross expenditure for the year.

The council approved a four year capital plan of £122.455 million from 2012/13. Work is in progress to develop a 10 year view of the council's capital investment plans. Major investment is aligned to the council's corporate priorities.

Capital budgets for 2011/12 of £61.418 million, which included carry forwards from 2010/11 and additional funding awarded during the year, were re-profiled downwards to £45.107 million during the year. This was due to rescheduling of some major projects such as Montrose House, Bridgegate House, the window replacement programme and other elements of the housing improvement programme. Capital expenditure of £43.524 million in 2011/12, represented 96.5% of the final capital budget (£45.107 million).

The capital programme and assets group, which was formed in 2010, is beginning to make progress in identifying and reviewing reasons for slippage; and identifying projects to be brought forward. The recent combination of asset management and capital monitoring functions within the same service should improve capital performance. The council have also taken steps to improve their asset management arrangements.

Overall, we are satisfied with the council's governance arrangements and internal controls have operated effectively during the year.

The council has implemented most of the actions raised in the 2011 Best Value report. Three remaining outstanding actions are planned for completion by December 2012. The council is continuing to develop its approach to performance management and approved a strategy for 2012 to 2015 with the aim that "by 2014, the Council will have a sector- leading performance management system and a supporting culture in place". The strategy also highlights how required improvements to self-evaluation will be addressed.

The council's latest annual performance report, produced in September 2012, demonstrated progress against 155 performance indicators. The analysis showed that 78% met or exceeded target, 14% were slightly adrift and 8% were significantly adrift of target.

Outlook

Scotland's public bodies continue to face reduced funding as well as increasing demand and cost pressures for their services and this is likely to continue in the future. An ageing population, the effects of the recession and the heightened expectations of the public, all increase the demand for public services. These, together with cost pressures and existing financial commitments, place an additional burden on the capacity of public bodies to provide the same level and quality of services at a time when budgets are reducing.

The council moves forward from a sound financial base in terms of reserves and a clear picture of their medium term financial position. The council is aware of the need to assess its priorities in the longer term, and a 10 year financial strategy is currently being developed that will help shape plans for the future.

The council approved a revenue budget of £346.827 million for 2012/13, with savings of £5.064 million required to achieve a balanced budget. Looking further ahead, the council has identified a funding gap of £22.168 million for 2013/14 to 2015/16. Options to address this gap are currently being determined and will be presented to members in due course.

The Welfare Reform Act 2012 will bring about the biggest reform of the UK welfare system for 60 years. Within this, the introduction of the Universal Credit will have a significant impact on councils' strategies and plans in areas such as housing, asset management, finance, ICT and customer service. The council has established a welfare reform working group and an action plan has been developed that focuses on assessing the impact on the community and the council, providing support in the community, raising awareness, developing a training strategy, and ensuring the council's IT systems are fit for purpose. It is essential that the working group overseeing this ensures that all issues in the action plan are addressed.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of North Ayrshire Council. The nature and scope of the audit were outlined in the Audit Plan presented to the Scrutiny Committee on 12 March 2012 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of governance and performance arrangements within the council.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that North Ayrshire Council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to the members and the Controller of Audit and should form a key part of discussions with audit committees, as soon as possible after the formal completion of the audit of the financial statements. This report should also be available to other stakeholders and the public. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
6. The management of North Ayrshire Council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword by the corporate director (finance and infrastructure), annual governance statement, and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of North Ayrshire Council for 2011/12 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2012 and of the income and expenditure for the year then ended.

Legality

11. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Corporate Director (Finance and Infrastructure) 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 relevant legislation and regulations.
12. When the accounts are presented for audit, they are also advertised as available for public inspection. As part of this process, we received an objection to the accounts under section 101(2) (a) of the Local Government (Scotland) Act 1973. Having considered the objection raised we concluded that the issues raised were not material to the opinion on the financial statements and did not merit delay of the completion of the audit.
13. However as part of the inspection process the objector has requested access to some documents that were not provided by the council during the inspection period. S101 of the Local Government (Scotland) Act 1973 states that "At each audit under this Part of this Act of a local authority's accounts, any persons interested may inspect the accounts to be audited and all books, deeds, contracts, bills, vouchers and receipts relating thereto and make copies of all or any part of the accounts and those other documents". The council subsequently provided the objector with an opportunity to inspect the information requested. However, this

was after the statutory period for raising an objection to the 2011/12 annual accounts had ended. The council have not therefore fully adhered to the 1973 Act. Other issues identified in relation to this objection are reported in the common good fund section of this report.

Refer to Action Plan No. 1

Annual governance statement

14. In accordance with good practice the council presented an annual governance statement as part of its financial statements. We are satisfied with the disclosures made in the annual governance statement; however we have noted that the council does not have a formal process in place for obtaining management assurances at the year end. We would encourage senior officers to complete and sign declarations as a means of demonstrating ownership of the governance arrangements in place in their services throughout the year.

Refer Action Plan No. 2

Remuneration report

15. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2011/12 financial statements include all eligible remuneration for the relevant council officers and elected members.

Accounting issues

16. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code). We are satisfied that the council prepared the 2011/12 financial statements in accordance with the Code.

Accounts submission

17. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. A comprehensive working papers package was also available by this date. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2012. The financial statements are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited accounts

18. Any adjustments required as a result of the audit process have been reflected in the accounts and therefore there are no unadjusted misstatements to bring to your attention. The adjustments that were processed as a result of our audit had the effect of reducing the general fund balance by £1.306 million and increasing the uncommitted general fund balance by £0.587 million. The most significant of these adjustments was a £2.000 million transfer from the earmarked element of the general fund to the capital fund.

19. In addition, there were a few presentational adjustments required to the unaudited accounts that the council have now amended. These were mainly minor adjustments that form part of the normal audit process.

Prior year adjustments

20. For the first time in 2011/12 the Code required local authorities to account for tangible heritage assets in accordance with Financial Reporting Standard 30: Heritage assets. Heritage assets are those that are intended to be preserved in trust for future generations and are held and maintained principally for their contribution to knowledge and culture. This change has resulted in the net asset position of the council increasing by £2.006 million.

Pension costs

21. North Ayrshire Council is a member of Strathclyde Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation at 31 March 2012 provided by the scheme's actuaries increased the council's share of the deficit from £44.063 million last year to £109.115 million this year.
22. The additional liability in 2011/12 does not have any immediate impact on the council's financing requirements. The council will continue to make annual contributions to Strathclyde Pension Fund in accordance with triennial valuations carried out by the actuaries. The volatility over recent years is highlighted in Exhibit 1 and is due to factors outwith the council's control such as changes in assumptions used by the Actuary regarding discount factors, life expectancy etc and due to future liabilities from 2010/11 being uprated on the basis of inflation using CPI rather than RPI.

Exhibit 1: Movement in pension liability

Balance sheet as at	Asset/(liability) £ million	Increase/(decrease) %
31 March 2012	(109.115)	148
31 March 2011	(44.063)	(73)
31 March 2010	(160.519)	242
31 March 2009	(46.955)	747
31 March 2008	7.257	(119)

Source: North Ayrshire Council 2011/12 financial statements

Equal Pay Provision

23. The Equal Pay Act 1970 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.

24. The ultimate cost to the council remains uncertain and it is likely that resolution of the issue will take some time. As the tribunal process unfolds the extent of the council's eventual liability will become clearer.
25. The council has earmarked £3.8 million of the general fund balance to reflect the potential obligation in respect of the second wave of equal pay claims. These claims are predominantly pay protection claims resulting from pay preservation schemes. The existing claims are currently sitting with the employment tribunal. Actual settlements are subject to the outcome of several national test legal cases.

Refer to Action Plan No. 3

Charitable Trusts

26. North Ayrshire Council has 85 charitable trusts. The council has agreed to amalgamate the existing trust funds into 8 town trust funds and a North Ayrshire Council trust fund to simplify the administration of the funds, and to create opportunities for more of the community to benefit financially or in kind from the trusts. Trusts with very specific purposes will be excluded from this exercise.
27. Registered charities are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006, meaning a full set of financial statements is required for each trust fund. However the Office of the Scottish Charities Regulator (OSCR) has deferred full implementation until 2013/14, allowing the council to rely on its existing disclosures for trust funds in the council's financial statements, supplemented with additional working papers.
28. OSCR assessed the Scottish local authorities 2010/11 disclosures in terms of their compliance with the regulations. North Ayrshire Council is one of 12 councils whose 2010/11 submission was judged to be 'above average'. This is an improvement on the council's 2009/10 submission, which was assessed as 'average'.

Outlook

Common good fund

29. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The guidance says that the common good fund should be disclosed within the financial statements and a separate common good asset register should be in place. The guidance note states that local authorities should take reasonable steps to ensure that common good fixed asset registers support the assets shown in the common good balance sheet.
30. An asset register has been prepared by the council that agrees with the values in the common good balance sheet at this time. Currently the council's approach is to confirm ownership/ title of any property whenever there is a major change in the use of an asset. There is a risk with

this approach that the council's asset registers may not be accurate. We have accepted this approach on the grounds that the council's approach to identifying common good assets constitutes 'reasonable steps' in accordance with the guidance note. We are satisfied that the implications of this approach to accounting for fixed assets, are not material to the opinion on the financial statements.

31. Going forward, to provide additional assurance on assets, the council is planning a review of title deeds. This will be carried out to ascertain that ownership has been correctly recorded and accounted for. The council will commence this review during 2012/13. This will provide additional assurance regarding the common good fund accounts in future years. In carrying out the review of ownership of assets the council should demonstrate that it has considered the contents of the LASAAC publication in determining ownership of the assets.

Refer to Action Plan No. 4

Financial position

32. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
33. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
34. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

35. In 2011/12, North Ayrshire Council spent £473.889 million on the provision of public services, resulting in an income and expenditure account surplus on provision of services of £15.058 million. However, this includes certain elements of income and expenditure that are accounted for to comply with the Code of Practice on Local Authority Accounting, which are then adjusted to show their impact on statutory council reserves. Following these adjustments there is an increase in usable reserves of £4.985 million. The original budget set did not rely on any use of the general fund balance to finance expenditure.

Budgetary control

36. The annual budget is a key tool in delivering the council's priorities while simultaneously establishing a financial position which provides a sound basis for future years. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines the level of services provided. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management. Overspends against the annual budget may indicate that the current level of services is not sustainable into the future. Underspent budgets could indicate sub optimal allocation of resources and this could have an impact on the quality of service delivery.
37. The financial management arrangements have operated effectively during the year. The financial outturn is more favourable than was anticipated at the time the original 2011/12 budget was set by the council.
38. The explanatory foreword reported a general fund revenue account surplus of £10.868 million in the year against a budgeted surplus of £0.449 million, an underspend of £10.419 million.

After transfers to reserves, the general fund reported a surplus for the year of £4.507 million. The underspend arose mainly due to the following:

- Education & Skills reported a net underspend of £1.238 million primarily due to savings in employee costs and pension contributions for teachers
 - Finance & Infrastructure reported a net underspend of £2.179 million through the early realisation of efficiencies for facilities management and employee cost savings within Infrastructure & Design administrative support
 - Debt charges were £1.807 million lower than expected due to delays in borrowing and on-going slippage in the capital programme
 - The cost of settling job evaluation appeals and the impact of general inflation were less than anticipated resulting in savings of £0.680 million, and following the success of court outcomes £0.850 million budgeted for Icelandic Bank impairments was not required
 - Other efficiencies generated in 2011/12 of £4.107 million. These will be carried forward into future years' budgets via earmarked reserves.
39. The underspend on budget continues a trend from 2010/11. Last year the council achieved an underspend against budget of £9.332 million. This was also due to improved efficiencies, the impact of pay restraint, and early implementation of the approved 2011/12 savings. The reasons for the underspend have been examined and reflected in the budget setting process for future years.

Financial position

40. The general fund reported a net surplus for 2011/12 of £4.507 million, increasing the general fund balance to £29.102 million as at 31 March 2012. This balance is made up of earmarked commitments of £23.073 million leaving an unallocated general fund balance of £6.029 million, which is in line with the council's reserves strategy to retain 1.5% of budgeted gross expenditure for the year.
41. Exhibit 2 shows the balances in the council's funds at 31 March 2012 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing assets. The council's funds at 31 March 2012 totalled £57.697 million, an increase of £4.985 million on the previous year. As stated above, £23.073 million (or 79%) of the total general fund balance has been earmarked for future use.

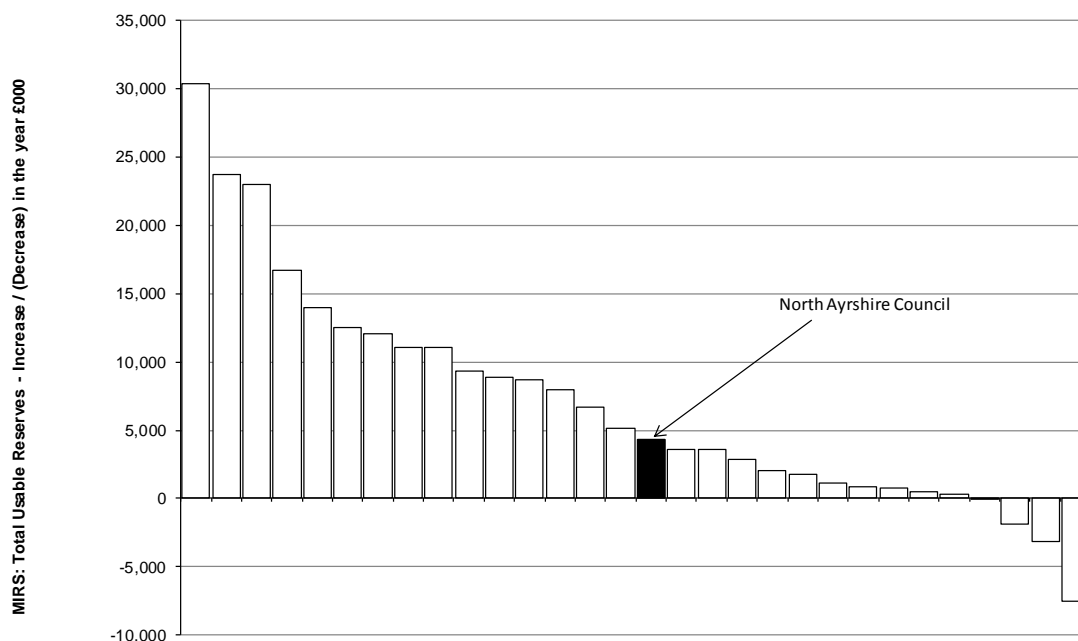
Exhibit 2: Reserves

Description	31 March 2011	31 March 2012
	£ million	£ million
General Fund	24.595	29.102
Housing Revenue Account	7.811	8.230
Capital Fund	8.619	9.091
Repairs and Renewals	8.348	7.943
Insurance Fund	3.339	3.331
Total Usable Reserves	52.712	57.697

Source: North Ayrshire Council 2011/12 financial statements

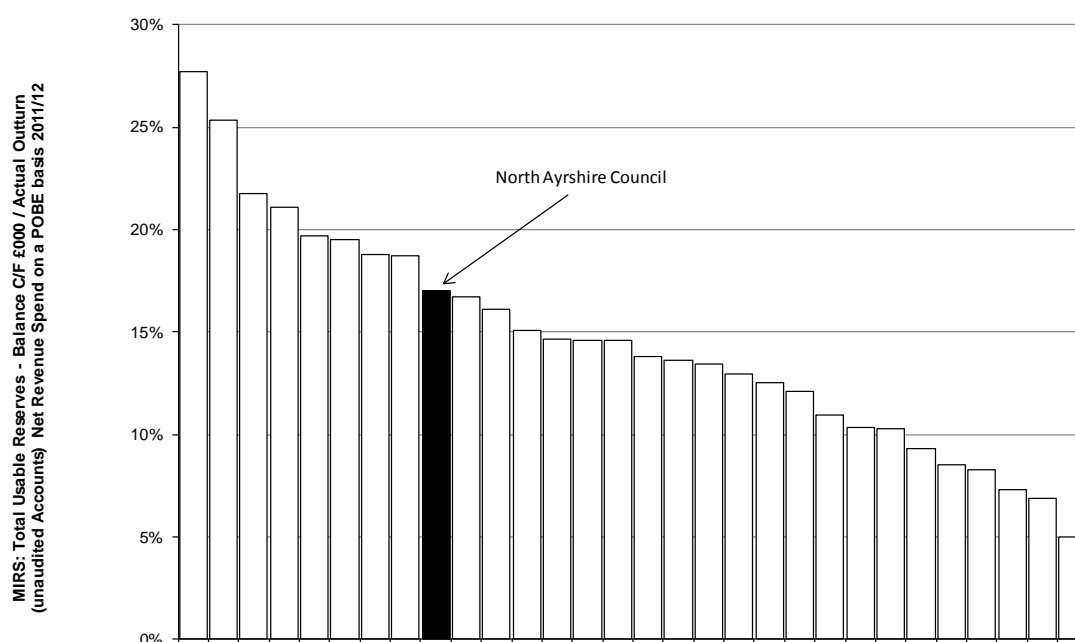
42. The overall increase in total usable reserves in 2011/12 is consistent with the picture across the majority of Scottish local authorities, as demonstrated in Exhibit 3 below. North Ayrshire Council's usable reserves have increased by 9.5% on the previous year, which lies around the median for all Scottish local authorities. This upward movement in usable reserves is a pattern being seen by the majority of Scottish local authorities as reported in their unaudited accounts. This indicates a stable financial position going forward into 2012/13. The balances held by the council are discussed by members as part of the regular budget monitoring processes. The use of balances for earmarked purposes has been agreed with members.

Exhibit 3: Movement in usable reserves in 2011/12



43. Exhibit 4 below presents the council's usable reserves position in relation to net revenue spend for the year in comparison to other Scottish local authorities. The graph demonstrates that North Ayrshire Council lies above the median in relation to this financial ratio, indicating that the council has made budgetary provision for future years' expenditure. A proportion of the earmarked reserves are aligned with the council's capital investment programme. The council will need to ensure that the use of earmarked funds is kept under review and if it is identified that they are not needed for their earmarked purpose, their use is reconsidered in future budgets, in the context of the councils service priorities. The council also needs to ensure that the level of its reserves strike a reasonable balance between meeting current obligations and preparing for future commitments or reductions in funding. Paragraph 40 notes that the un-earmarked reserves are currently broadly in line with the council's strategy of retaining 1.5% of budgeted expenditure.

Exhibit 4: Total usable reserves carried forward as a proportion of net revenue spend



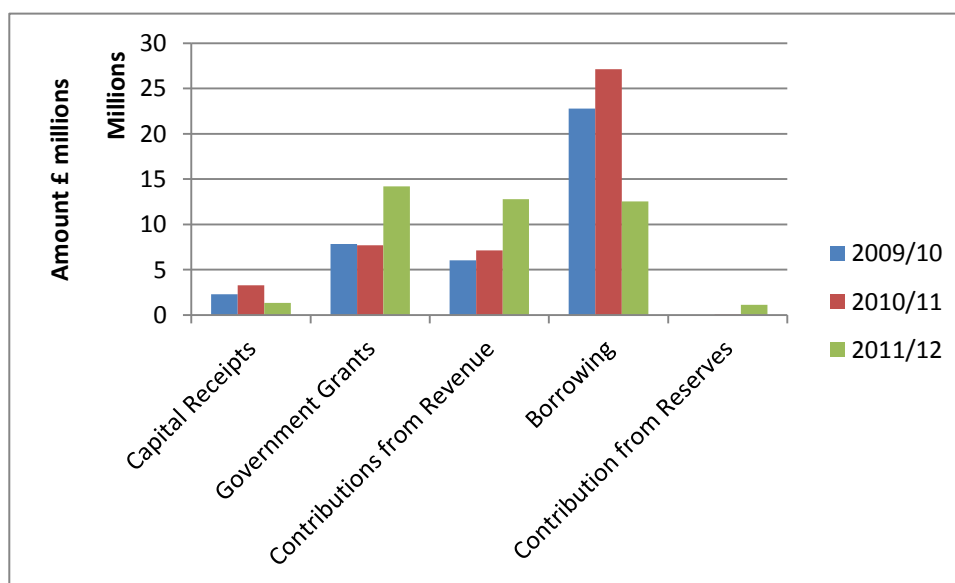
Note: total usable reserves include earmarked, uncommitted and capital funds.

Capital investment and performance 2011/12

44. The 2011/12 financial statements detail capital expenditure of £43.524 million split between the housing revenue account (£23.639 million) and the general services programme (£19.885 million). The housing revenue account includes areas such as new house building, external upgrading, energy efficiency and meeting the Scottish housing quality standard. The general services programme includes investments on improving primary and secondary schools, development of leisure facilities and on-going investment in infrastructure.

45. The planned general services capital expenditure for 2011/12 was originally £22.574 million. This was enhanced by carry forwards from 2010/11 of £6.154 million and additional funding awarded during the year of £2.299 million resulting in an overall available budget of £31.027 million. The budget was revised to £20.901 million during the year to reflect re-profiling of various projects.
46. Major projects re-profiled into 2012/13 were Montrose House replacement, due to legal problems connected with the acquisition of the land, and alignment of the Bridgegate House refurbishment within the wider Irvine Town Centre programme. Dreghorn Primary School upgrade incurred cash slippage, however the upgraded school will be operational from October 2012 in accordance with the planned timetable.
47. The housing revenue account capital budget was originally £29.567million. This was reduced during the year to £24.206million due to the re-profiling of: part of the window replacement programme due to procurement issues; the regeneration and refurbishment programme due mainly to delays in securing confirmation of external funding; a delay in concluding proposals for the development of sheltered housing; and a lower requirement for door entry systems than had been anticipated.
48. The capital programme and assets group, which was formed in 2010, is beginning to make progress in identifying and reviewing reasons for slippage; and identifying projects to be brought forward. However, the re-profiling and slippage encountered in 2011/12 means that there is further progress to be made. The council's recently revised structure puts the property section under the remit of finance & property services. The council considers that combining asset management and capital monitoring within the one service will improve capital performance.
49. Exhibit 5 shows the sources of finance for capital expenditure in the four years to 2011/12.

Exhibit 5: Sources of finance for capital expenditure

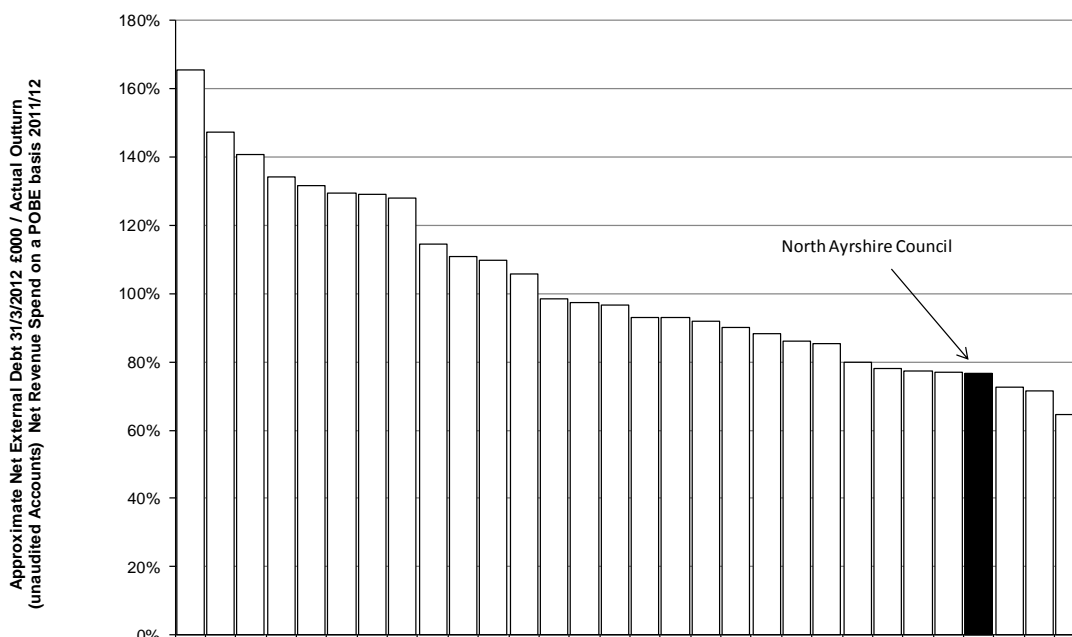


50. Going forward, as noted above, the council approved a four year capital plan with £122.455 million of investment. The council's capital fund and repair and renewals fund will be used to help finance the capital programme. Major investment is aligned to the council's corporate priorities and includes significant projects such as Garnock campus, regeneration of Irvine Town Centre through Bridgegate refurbishment, Irvine Leisure Centre, new schools and the on-going roads and lighting improvements. Work is in progress to develop a 10 year view of the council's capital investment requirements. This is being progressed with a key objective being the alignment of the capital investment programme with the council's asset management plans.

Treasury management

51. As at 31 March 2012, North Ayrshire Council held cash and temporary investments totalling £30.735 million (£24.548 million at 31 March 2011). The increase is partly due to the return of Icelandic Bank deposits late in the financial year. In addition, the lower than planned capital expenditure contributed to the increase in cash and temporary investments. These balances will be used to help finance investment in future years. The return on investments during the year averaged 0.65% compared to a budget assumption of 0.6%.
52. The council's borrowing decreased by £1.567 million to £289.604 million as at 31 March 2012. This figure includes PFI liabilities of £72.998 million and accrued interest. The total long term borrowing at 31 March 2012 was £211.269 million with an average interest rate of 5.72%. This is an increase from 5.65% at 31 March 2011 and is due to a variation in interest rate of a stepped rate loan effective from September 2010. Exhibit 6 below shows the council's net external debt at 31 March 2012 as a proportion of net revenue expenditure for the year in comparison to other Scottish local authorities. The council's debt levels are in the lower quartile, which reduces the impact of interest charges and provides flexibility for the future.

Exhibit 6: Net external debt as a proportion of net revenue spend



- 53. The council budgeted £29.379 million for financing costs and expenses on debt for 2011/12. Actual costs were £26.327 million. The underspend was due to the continuing strategy to delay new external borrowing by utilising cash balances, resulting in savings in external interest costs; and by slippages on the capital programme, resulting in savings on loans fund principal and interest payments.
- 54. North Ayrshire Council had deposits of £10m with Glitnir and £5m with Landsbanki when the Icelandic banking system collapsed in October 2008. All monies within the various Icelandic banks are subject to administration and receivership processes administered under Icelandic law. The Icelandic Supreme Courts have ruled that UK local authorities qualify as preferential creditors in the administration of Landsbanki and Glitnir.
- 55. As a result, in March 2012 North Ayrshire Council received 100% of the principal and interest in respect of the investment in Glitnir. With regard to the Landsbanki deposit, the financial statements assume a full recovery spread over 8 years to December 2019. The Icelandic Kroner equivalent of £1.946m is being held in an Escrow account, which is a secure third party account, due to current Icelandic Law preventing Icelandic Kroner being exported.

Financial planning to support priority setting and cost reductions

Asset management

- 56. The council's asset management strategy was approved by the executive in March 2011. In our 2010/11 annual audit report we noted that there had been little demonstrable progress with regard to asset management and that asset management plans have not yet been

developed. In February 2012 the executive approved the six themed asset management plans covering property, roads, housing, open space, fleet, and ICT.

57. Each of the six plans are aligned with the council and community plan objectives and have an action plan to ensure continued development of the council's approach to its core assets. These are regularly reviewed by the Capital Programme and Assets Group (CPAG) and reported to the Cabinet. As the plans are developed, the council intend to use them to provide a more effective basis for investment decisions and to inform the development of the 10 year capital plan.
58. The six themed plans reflect the current known condition of the assets and a programme of surveys, particularly in relation to roads and property is continuing. A cross service Strategic Property Group (SPG), a sub-group of the CPAG, has been established to ensure a corporate and more efficient approach to property management and to take forward the property asset plan.
59. These are important foundations in the council's approach to improving asset management. We will continue to monitor the council's progress in linking the asset management plans with the capital plan; and whether this helps to define and target investment in the council's core estate.

Workforce reduction

60. As part of the on-going change programme the council has continued to downsize the workforce through vacancy management, voluntary redundancies and the offering of a voluntary early release scheme. The council has avoided the need for compulsory redundancies.
61. Over the three year period to 31 March 2013, the council anticipates a reduction in the workforce of 611.86 full time equivalent posts with corresponding savings of £18.086 million. In 2011/12, the workforce was downsized by 308.29 full time equivalent posts with resultant savings of £8.527 million. The council should continue to monitor the impact of the reduction in workforce on service provision.

Procurement

62. The public procurement reform programme aims to drive continuous improvement in public sector procurement. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. So far three rounds of PCA assessment have been completed. In 2011 the council scored 34% which is classed as 'conformance' and demonstrates improvement on the 2010 score of 27% and 2009 score of 17%.
63. The Scottish Government has set an expectation that councils will achieve a 50% 'improved performance' rating in the 2012 PCA. This requires to be achieved by March 2013. The

council has set a target score of 46% for the 2012 assessment that will take place in October 2012.

Refer to Action Plan No. 5

Partnership working

64. Management consider that the council has worked collaboratively with South and East Ayrshire Councils and other public sector partners since re-organisation took place in 1996 and that a significant set of joint arrangements is in place. In April 2006, a “pan-Ayrshire Group” was formalised with the neighbouring Ayrshire councils, NHS Ayrshire and Arran, Strathclyde Police and Scottish Enterprise. The council is involved in the delivery of shared services in a number of areas.
65. In August 2009, the Executive agreed in principle to the development of a Joint Ayrshire Regulatory Service, the Pan Ayrshire Regulatory Service (PARS). This focussed on building standards, environmental health and trading standards and envisaged all three services managed by one lead council. A shared services project manager was appointed jointly by the three Ayrshire councils in May 2011 to progress work in relation to PARS and a number of other areas. Significant work was carried out to consider the business case, structure, costs, service benefits and governance arrangements for a joint PARS.
66. In June 2012 the council concluded that there was no overwhelming incentive for the project to proceed, with increased costs in the first two years and the potential for one or more councils to have continuing increased costs in the long term. The early realisation of efficiency savings in the council's own regulatory service meant that the estimated efficiencies from joint arrangements were significantly lower than originally anticipated. The council consider that many lessons have been learned from this project, particularly the need, in the current climate, to undertake an initial assessment to determine the likely scope for financial savings. Other lessons learned include the importance of good project management, governance arrangements, costs analysis, business case construction and employee communication; all of which will be useful in moving ahead with other shared service projects.
67. The council has demonstrated that it is striving to maximise value for money from its road maintenance service by participating in a variety of activities in partnership, notably the joint procurement framework for minor civil works. More significantly, North, South and East Ayrshire Council have developed a detailed business case for a shared service delivery model using a joint committee for all the roads and transportation services in Ayrshire. The proposal for an All Ayrshire Roads Service is progressing but has legal and re-deployment issues that require to be settled and the detailed business case still requires agreement by all three councils.
68. Other examples of partnership working include the council's involvement in the Clyde Valley Partnership to secure a long term solution for the treatment of residual waste, and the on-going work with partners to develop a response to the integration of health and social care.

Outlook

2012/13 budget

69. The council, like all public sector organisations, continues to face a very challenging financial climate. In February 2012, the council approved a revenue budget of £346.827 million for 2012/13, with savings of £5.064 million required to achieve a balanced budget in the year. Members approved efficiency savings across services of £5.151 million, resulting in balanced budgeted for the year.
70. The budget reduction measures included within the budget were extremely detailed for each service and included a number of management and operational savings. Some of the key budget reduction themes included staff restructure, the merger of environmental health and trading standards, absence management, efficiencies in transport operations, facilities management and repair and improved procurement in homecare for adults.

2012/13 budget reporting

71. The revenue budgetary control statement to 31 July 2012 reported a projected deficit of £0.172 million at 31 March 2013, representing an overspend of £0.327 million against the approved budget for the year.
72. The anticipated deficit is largely due to a projected overspend of £2.777 million in social services and health, where an increase in demand for services has been notable. The most significant area of overspend has been highlighted in older people's services, including care delivered in a care home setting, flexible care costs and employee costs. There is work on going between financial services and social services to implement corrective action to address the overspend.

Financial forecasts beyond 2012/13

73. Looking ahead, it is clear that the outlook for public spending remains very challenging. Continuing to deliver vital public services with a reducing budget will be a significant challenge for the council. The council has identified a funding gap for the medium term of £8.132 million, £7.861 million, and £6.175 million for 2013/14, 2014/15, and 2015/16 respectively, giving a total funding gap for the next three years of £22.168 million. This was reported to members in September 2012.
74. The Council is currently identifying savings to address the estimated funding gap. This includes a number of initiatives which have been developed in partnership with imPower, the Council's strategic partner for developing and delivering the corporate change programme. The council is refreshing its current financial strategy to provide a longer term view of the council's position over a period of 10 years to support financial planning.

Refer to Action Plan No. 6

Governance and accountability

75. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
76. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
77. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
- corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
78. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

79. Following the council elections in May, changes have been made to the structure of North Ayrshire Council. The executive has been replaced by a cabinet of 7 members from the administration. The scrutiny committee has been replaced by the scrutiny and petitions committee and the audit committee. This scrutiny and petitions has new terms of reference; the performance function has transferred to the cabinet; and petitions previously heard by the council will now transfer to this committee. The audit committee has been formed to undertake the audit functions of the former scrutiny committee.
80. In June 2012, members approved a revised senior management (chief officer) structure that will increase the number of directorates from 3 to 4, with the introduction of a development and environment directorate. The basis for the restructure is to strengthen the link between economic development and planning, and to reduce the functions that have direct accountability to the chief executive, allowing the chief executive to focus on the strategic direction of the council and partnership working. As part of this review, the role of monitoring officer has been assigned to the newly established post of head of democratic and administrative services with direct accountability to the chief executive. It is anticipated that a further review at senior manager level will follow these changes.

81. There has also been a change at the organisational level. Members of staff that previously carried out finance roles within the services have transferred into one central corporate financial management team. It is envisaged that these changes will provide greater governance over the council's financial controls.

Internal control

82. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
83. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
84. Overall, we concluded that the internal audit service operates in accordance with the 2006 CIPFA Code of Practice for Internal Audit in Local Government and we were able to place reliance on their work to support our audit.
85. In our 2010/11 annual report, we highlighted our concerns regarding the governance of goods and services ordered and invoiced at the year end. This concern related to services being processed in the wrong accounting year. We carried out additional audit testing of orders and invoices covering the year end period in 2011/12 and concluded that officers have satisfactorily addressed this issue.
86. Our audit work attained the required assurance to enable us to place reliance on the council's financial systems. The results of our review of key controls were reported to the Audit Committee on 26 September 2012. Areas where key control improvements could be made have been discussed with officers and have either already been implemented or will be implemented per an agreed timetable.

ICT data handling and security

87. The council maintains a sound information management environment. This is being achieved through the implementation of policies, guidance, standards and training to maintain and improve information governance. The council's existing information security policy complies with the international standards organisation information security standard (ISO27001). The corporate information security policy is the subject of regular review to ensure the security and confidentiality of information, information systems, applications and networks owned by the council.
88. The council makes effective use of information communications technology (ICT) to support and deliver services and its strategic vision sees ICT as an integral part of the council's service delivery activities. The strategy recognises the need for continuing capital investment in the ICT infrastructure to ensure its continued effective operation and in this context

investment is being provided to upgrade infrastructure, including improving and upgrading the quality and efficiency of the council's wide area network (WAN). In addition, the IT service has secured funding to rollout a Microsoft Office software upgrade.

89. The council has created an ICT steering group to oversee the delivery of the priorities and service targets included in the ICT strategy 2011-2016. Representatives on the group identify the ICT implications of their individual service plans and provide input to the council's capital programme, which includes investment in improved ICT infrastructure and new applications to support new or changing business needs.

Prevention and detection of fraud and irregularities

90. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularities.
91. The council maintains an official policy on the prevention and detection of fraud. This incorporates a defined strategy regarding the arrangements for the prevention and detection of fraud and is communicated to all staff. The council also have a Whistleblowing Policy which documents the procedures for reporting a matter. This has recently been added to the HR Policies and Procedures section of the council's intranet to improve accessibility for staff. We have concluded that these arrangements are satisfactory and we are not aware of any specific issues that we should identify in this report.

NFI in Scotland

92. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise started in October 2010 and was reported upon in May 2012. NFI 2012/13 is due to commence and the council is making preparations for data submission in October 2012.
93. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations.
94. North Ayrshire Council was assessed as part of the 2010/11 NFI exercise. The council managed its role to the satisfaction of Audit Scotland and complied fully with the exercise. The process identified 19 frauds relating to benefits, where individuals had been identified who had been claiming benefits with undeclared public sector earnings or pension income. A total of £58,000 has now been recovered by the council in relation to this. The exercise also identified 264 'blue badge' parking permits which are still in use or renewed in the name of deceased individuals.

Standards of conduct and arrangements for the prevention/detection of bribery and corruption

95. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place.
96. During 2011/12, the council's financial regulations, code of financial practice and standing orders relating to contracts were reviewed and updated. Council officers across all services received training on the revised policies. These steps should ensure that the council has satisfactory arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues that we need to identify in this report.

Complaints Handling Procedures

97. The council previously operated a system whereby only formal complaints were recorded. The Scottish Public Services Ombudsman (SPSO) now requires councils to adopt a new two stage complaints handling procedure, which means informal complaints will need to be recorded by 1 April 2013. The council has made good progress towards this by setting up a complaints handling review group. The group has prepared an implementation plan and a new complaints handling procedure for the council. These have been submitted to the SPSO as required by 14th September 2012.

Outlook

98. The Welfare Reform Act 2012 received royal assent in March 2012. The Act provides for a range of changes including the introduction of a 'Universal Credit' to replace a range of existing means-tested benefits and tax credits for people of working age, starting from 2013. Councils will face challenges in understanding and acting upon welfare reform changes, and communicating these accurately and effectively to local residents. The introduction of Universal Credit will also have a significant impact on councils' strategies and plans in areas such as housing, asset management, finance, ICT and customer service. Councils will be challenged during this period of change.
99. North Ayrshire Council has established a welfare reform working group to monitor and respond to the implications of the Welfare Reform Act 2012. A detailed action plan has been prepared and is being progressed. This plan, amongst other actions, includes:
- the assessment and impact of the changes on the community and the council's financial position
 - the development of a communication strategy to raise awareness amongst staff, partners and the general public
 - the development of a training strategy to ensure council staff are well equipped to advise and support the public

- the development of the council's information technology systems to ensure that these are fit for purpose going forward.
100. As part of our work on the 2012/13 audit, we will consider the council's preparedness for the introduction of these changes, and how it is developing and taking forward its strategies and plans to address the risks arising from these changes.

Refer to Action Plan No. 7

Best Value, use of resources and performance

101. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
102. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
103. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at a local level
 - a review of a body's response to national recommendations.
104. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments
105. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
106. This section includes a commentary on the Best Value/ performance management arrangements within the council. We also note any headline performance outcomes/ measures used by the council and comment on any relevant national reports and the council's response to them.

Performance management

107. The Local Area Network (LAN), consisting of the principal scrutiny bodies in Scotland (i.e. Audit Scotland, the Care Inspectorate, the Scottish Housing Regulator, and Education Scotland) completed its third shared risk assessment (SRA) in Spring 2012 and reported its findings in an Assurance and Improvement Plan (AIP). The AIP highlighted the need for the council to ensure that its approach to performance management was adopted uniformly by all services. North Ayrshire Council has emphasised its intention to develop its performance management arrangements, with senior officers and members committing to improving and

promoting a performance management culture. The council has approved a revised Performance Management Strategy for 2012 to 2015. The strategy clearly states the vision that 'by 2014, the Council will have sector-leading performance management systems and a supporting culture in place'.

- 108.** The strategy places significant focus on culture and improvements in self-assessment; it also acknowledges that there is variation in services' progress towards this vision and the challenge for all to meet this standard to demonstrate that the approach to performance management and continuous improvement is embedded across the council. The strategy is supported by an action plan for 2012/13 and progress on this is to be reported to Members on a six monthly basis, with the first update currently being prepared for member approval in December 2012.
- 109.** The council has a section of its website dedicated to performance, 'North Ayrshire Performs' which is accessible to the public. This provides a range of information including performance indicators, the performance management strategy, financial information and service plans. Use of the covalent electronic performance management system is now widespread throughout the council. The system holds information and action plans at a corporate and operational level, and produces outputs which demonstrate progress against these and the council's response to agreed audit action points.

Self-evaluation arrangements

- 110.** The AIP highlighted that the council needed to further develop its approach to self-evaluation. There is evidence that the council is taking positive steps to develop these arrangements. The council's self-assessment strategy forms part of the overall performance management strategy 2012-15. The council has committed to a 'regular, proportionate and risk-based programme of self-assessment' across services in 2012/13.
- 111.** In September 2012 the council's corporate management team agreed that a second council wide PSIF self-assessment would commence in February 2013, with a target date of April 2013 for the completion of the improvement plan. The council achieved the Quality Scotland Committed to Excellence recognition in June 2012. The council wide self-assessment will be a key component of the council's Quality Scotland Recognised for Excellence submission that is planned for 2013. The council aims to obtain this external recognition in June 2014.
- 112.** The council is working to develop in-house EFQM capabilities to facilitate assessments and create a greater awareness of the excellence model and PSIF across the council. There are currently 20 accredited EFQM assessors across the council, with at least one assessor in each service.

Refer to Action Plan No. 8

Community/user engagement

- 113.** A revised Community Planning Partnership (CPP) Community Engagement strategy has been developed. The strategy takes account of the recent Scottish Government consultation

on the draft Community Empowerment and Renewal Bill, advice from the Scottish Government's working group on community councils, and the council's "Straight Talking" consultation. The revised strategy will be considered by the CPP Board in December 2012.

Overview of performance in 2011/12

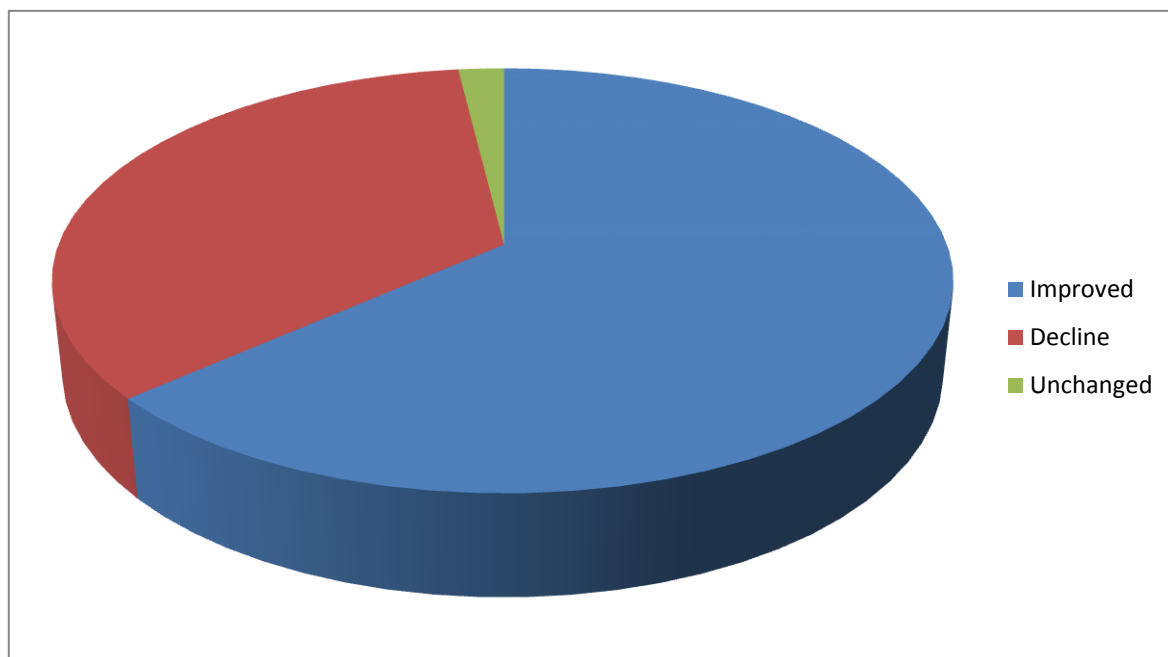
North Ayrshire Council's performance measurement outcomes

114. The council produced an annual performance report in September 2012, a key component of the performance management strategy. The report demonstrates the council's progress against 155 performance indicators, including the 25 statutory performance indicators (SPIs). The analysis showed that 78% met or exceeded target, 14% were slightly adrift and 8% of measures were significantly adrift of target.
115. Some of the performance measures achieved in 2011/12 include:
- Recycling targets
 - Cost of collecting council tax per dwelling
 - Carbon emissions.
116. Some of the performance measures not achieved in 2011/12 include:
- Percentage of working age population in employment
 - Number of new businesses per 10,000 working age population
 - Sickness absence for non-teaching staff.
117. The current economic climate had an impact on both employment levels and new business, with less jobs and funding available and difficult trading conditions. The council's maximising attendance policy was introduced in April 2010 and initially reduced sickness absence from 12.2 days to 8 days. The initial impact of the policy has lessened after the first year, and the sickness absence rate in 2011/12 has increased to 9.8 days.
118. In response to the increasing absence levels the chief executive has initiated a requirement for monthly absence reports to be presented to the corporate management team to create a focus on reducing absence levels across the council. In addition, human resources will be carrying out research via the council's cognos reporting system to identify absence 'hot spots' where remedial action can be targeted.

Statutory performance indicators

119. In 2011/12, a total of 25 Statutory Performance Indicators (SPIs) were required. Exhibit 7 below illustrates the council's overall performance in relation to these performance indicators.

Exhibit 7: Improvements demonstrated by SPIs



Source: North Ayrshire Council SPI Data Return 2011/12

- 120.** The above analysis shows that a number of performance indicators have improved. The most significant areas of improvement include the condition of council dwellings, homecare hours provided and the time spent dealing with complaints, especially those relating to business advice.
- 121.** Areas of decline include sickness absence and invoices being paid within 30 days. The percentage of invoices sampled which are paid within 30 days has decreased from 88.1% to 82.5% and the council is now ranked 29th out of 32 councils. Timeliness of submission of invoices varies across services, together with resourcing issues within the creditors team impacted on performance. More robust and regular monitoring of performance has been established, alongside greater flexibility of resources within the procurement team. The council considers that these measures will assist in delivering improved performance.

Local performance reporting

Maintaining Scotland's roads: a follow-up report

- 122.** This report examines the progress on implementing the recommendations contained in a national report published in November 2004, with particular emphasis on the change in condition of the road network, current expenditure on road maintenance and management arrangements. Key messages in the report include:
- Limited progress has been made to improve the road networks based on an assessment against the recommendations from the 2004 report

- The condition of Scotland's roads has worsened since the 2004 report despite public spending rising by around 25 per cent. Only 63 per cent of roads are now in an acceptable condition
- The present levels of spending are insufficient to maintain Scotland's roads, even in their current condition.

123. We carried out targeted follow-up work during the year to assess the progress that North Ayrshire Council has made in improving the management of road maintenance, focusing on road asset management planning, performance management and maximising value for money.
124. Officers within North Ayrshire Council's Infrastructure & Design (Roads) Service are actively involved with the Society of Chief Officers of Transportation in Scotland (SCOTS) network which is currently developing a Road Asset Management Plan methodology for use by all councils. The roads condition index, as measured in 2011/12, indicated that 43.8% of the road network in North Ayrshire should be considered for maintenance treatment. This places the council in the bottom quartile for all Scottish councils. The 2012/13 budget spend on carriageway maintenance is less than that required to maintain the council's roads in a "steady state" as defined by SCOTS.

Refer to Action Plan No. 9

125. Overall, we concluded that North Ayrshire Council has responded positively to *Maintaining Scotland's roads: a follow-up report*. A number of areas for improvement were identified, and an action plan has been agreed with officers to address these weaknesses. We presented our findings to members on 26 September 2012.

National performance reports

126. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 8:

Exhibit 8: A selection of National performance reports 2011/12

- | | |
|---|---|
| • Commissioning social care | • Reducing greenhouse gas emissions |
| • The National Fraud Initiative in Scotland | • The role of community planning partnerships in economic development |
| • An overview of local government in Scotland - challenges and change in 2012 | • Modernising the planning system |
| • Scotland's public finances: addressing the challenges | • Community Health Partnerships |
| • Transport for health and social care | • Managing Performance: are you getting it right |

Source: www.audit-scotland.gov.uk

Scotland's public finances: addressing the challenges

127. The report provides an overview of the financial environment facing the public sector in Scotland and the cost pressures currently faced. It outlines what the public sector is doing to respond to current and future budget reductions, and highlights a number of key risks and issues that the public sector needs to manage in responding to the challenges.
128. As stated at section 69 to 74, the council has demonstrated a clear awareness of the financial challenges that are highlighted in this report, and is responding accordingly.

Transport for health and social care

129. Older people, those with long-term health or social care needs and people who live in remote and rural areas may need support to get to a hospital appointment or to access services such as their local day centre. This includes help with paying for transport or getting to their appointment in transport provided by the ambulance service, councils, NHS boards or the voluntary sector. If transport is not well planned it can result in unnecessary journeys, missed or late appointments, people staying in hospital longer than they need to and reliance on unplanned options such as taxis.
130. The council is reviewing all transport services, including transport for social care. The council has procured, and is currently installing, a vehicle tracking and route planning ICT system that will enable efficient planning of journeys and allocation of vehicles. This system along with the utilisation of third party transport provision will be managed and co-ordinated centrally across the council through a corporate transport hub that is planned to become operational in early 2013.

Community Health Partnerships (CHPs)

131. The report examined whether CHPs are achieving what they were set up to deliver, including their contribution to moving care from hospital settings to the community and improving the health and quality of life of local people. The report also assessed CHPs' governance and accountability arrangements and whether CHPs are using resources efficiently. Given the move to integrate services, the report highlights issues for both NHS boards and councils to address.
132. The report reflects on the fact that across Scotland, health boards and councils have developed different local arrangements for joint working through CHPs. However, statutory guidance sets out a clear expectation that CHPs directly manage and provide some community healthcare services and they should have devolved budget responsibility for those services. The report identifies the three CHPs in Ayrshire as the only ones that do not directly manage services, instead their approach is to influence how health and social care services are planned and resourced. The council's role is to deliver services for which it is responsible in this context.
133. The North Ayrshire CHP used the report to undertake an internal review using a more challenging assessment which included the Audit Scotland self-assessment; plus an

assessment of effectiveness against the 2003 CHP guidance and the Christie Commission. This assessment totalled 20 questions and was completed by 372 partnership staff across Ayrshire. The findings of this Ayrshire review will generate an action plan and this work will be linked in to the development of the new Health and Social Care Partnerships. The council will consider its role in implementing these actions.

Modernising the planning system

134. The planning system provides the framework for deciding how land is used, how communities take shape and how new developments look and work. It has to balance economic, environmental and community priorities and is central to achieving the Scottish Government's goal of sustainable economic growth and to Scotland's economic recovery.
135. The report assessed whether recent reform and modernisation of the planning system is making it more economic, efficient and effective. The report evaluated the overall progress made by the public sector in modernising the planning system and the impact that modernisation is having on councils' performance in managing planning applications.
136. In 2011/12, the council's statutory performance indicators continued to demonstrate strong performance in this area. The council has the best performance in Scotland in relation to the speed of dealing with both householder and non-householder planning applications.
137. The report was considered by the council's scrutiny committee in February 2012. A revised senior management structure has recently been approved that will see the introduction of a development and environment directorate to allow a strengthening of focus on economic development and the links with the planning service. The post of head of development planning will afford the opportunity to bring together all elements of planning and development under a single head of service. The council recognises that these structural changes need to be in place before the council can take further action to drive the planning system forward.

Managing performance: are you getting it right?

138. The report is the fourth in the How Councils Work series. This series draws on audit work in all councils to highlight concerns, issues and good practice.
139. The report offers practical pointers and support to help councillors and officials with performance management. Effective management of performance is everyone's business in well-run councils; it is embedded throughout the organisation as part of the day job and not seen as a burden. A key element is getting the culture right with councillors and officials sharing a common purpose and vision and setting clear priorities.
140. The council has yet to consider this report as it was only published in October 2012. We will consider any impact and influence the report has on the council as part of our on-going review of its performance management.

Progress against audit risks identified in the Shared Risk Assessment

141. As reported above, the Local Area Network (LAN), completed its third shared risk assessment (SRA) in Spring 2012 and reported its findings in an Assurance and Improvement Plan (AIP). The risk assessment considered the audit and scrutiny risks in relation to the council's strategic priorities, service delivery, and corporate governance framework. This drew on evidence from a number of sources including:
- The annual report to the Controller of Audit and elected members for 2010/11 from the council's appointed external auditors
 - The council's own self-evaluation, performance reporting and supporting evidence
 - Evidence gathered from Education Scotland, the Care Inspectorate and the Scottish Housing Regulator (including published inspection reports and other supporting evidence).
142. The LAN concluded that there were no significant scrutiny risks in the council's services, outcomes and corporate governance framework that would warrant specific additional scrutiny. Areas of uncertainty identified by the LAN were: controls relating to the payment of goods and services not yet received, the challenging financial environment, the council's governance and accountability, performance management and asset management arrangements and, aspects of the social work service regarding risk assessment and management. Updates regarding the majority of these issues have been included in other sections of this report and will continue to be monitored by the LAN. An updated position regarding the social work risks will be reported by the LAN in the next AIP.

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

143. The audit of North Ayrshire Council's best value and community planning was completed in February 2005 with a follow-up report published by the Accounts Commission in March 2011. Since then the council have reported progress against the agreed best value improvement plan on a quarterly basis. The latest update was presented to the cabinet (previously, the executive) on 19 June 2012.
144. The plan, which contained 100 actions, has now been successfully implemented, with the exception of three actions where approval was obtained from members on 28 February 2012 to extend the timeframe for completion to December 2012. These actions include:
- The publication of the council vision
 - The next stage of the Integrated Resource Framework for Children with Complex Needs
 - The roll out of PECOS procurement to all schools.
145. We are satisfied with the progress that has been made against the improvement plan, and note the council's commitment to complete the outstanding actions by the end of the year.

Outlook

146. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth the Accounts Commission has developed an audit approach for the audit of Community Planning Partnerships. This approach is being piloted in the autumn of 2012 and rolled out across the sector thereafter. North Ayrshire Community Planning Partnership has volunteered to be one of the three pilot audit sites. The field work has been carried out, and we expect the report to be published in December 2012.
147. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of 'Specific Duties' which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the 'General Duty,' including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013. Progress made by the council in implementing these requirements will be considered in 2012/13.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	17 February 2012	12 March 2012
Shared Risk Assessment/Assurance and Improvement Plan	20 April 2012	6 June 2012
Internal controls management letter	31 August 2012	26 September 2012
Maintaining Scotland's roads - follow-up review	9 July 2012	26 September 2012
Report on financial statements to those charged with governance	18 September 2012	26 September 2012
Audit opinion on the 2011/12 financial statements	26 September 2012	26 September 2012
Audit opinion on the 2011/12 Whole of Government accounts consolidation pack	3 October 2012	n/a
Report to Members on the 2011/12 audit	October 2012	6 November 2012

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	13	<p>Accounts statutory inspection process</p> <p>The arrangements for complying with the statutory accounts inspection process should be reviewed. The council did not provide all documents requested by a member of the public during the statutory inspection period.</p> <p>Risk: the council continues to fail to comply with the requirements of S101 of the Local Government (Scotland) Act 1973.</p>	The council will provide any documents requested for 2012/13 where it is possible to do so.	S95 officer/ Corporate Director (Finance and Infrastructure) Head of Democratic and Administrative Services	July 2013
2	14	<p>Annual governance statement</p> <p>The council does not have a formal process in place for obtaining management assurances at the year end to support the annual governance statement.</p> <p>Risk: senior officers may not be not fully aware of their responsibilities for ensuring there are sound governance arrangements in place in their services throughout the year.</p>	Signed declarations will be submitted by senior officers at the year end to provide formal assurance on the governance arrangements in place across services.	Corporate Director (Finance and Infrastructure)/ Head of Democratic and Administration Services	June 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	25	<p>Equal pay claims</p> <p>The potential liability resulting from equal pay claims remains uncertain and is subject to the outcome of several national test legal cases.</p> <p>Risk: the ultimate cost to the council is greater than anticipated.</p>	The council have earmarked £3.8 million of the general fund balance to reflect the potential obligation and will continue to review its exposure to equal pay claims on an annual basis.	Corporate Director (Finance and Infrastructure)	June 2013
4	31	<p>Common good funds</p> <p>The council reviews title deeds on all assets at the point of disposal to identify potential common good assets.</p> <p>Risk: fixed asset registers may not be accurate.</p>	A review of all title deeds will be commenced during 2012/13 to ensure that the common good asset register is complete. The review will consider the LASAAC guidance in determining ownership.	Corporate Director (Finance and Infrastructure)	June 2013
5	63	<p>Procurement</p> <p>The Scottish Government has set an expectation that councils will achieve a 50% 'improved performance' rating in the 2012 PCA. This requires to be achieved by March 2013.</p> <p>Risk: the council are unable to meet the Scottish Government target.</p>	The council has set a target score of 46% for the 2012 assessment that will take place in October 2012, as a stepping stone towards the 50%.	Head of Finance	March 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
6	74	<p>Budget savings and financial pressures</p> <p>The council has identified a total funding gap of £22.168 million for 2013/14 and 2015/16.</p> <p>Risk: the council is unable to meet its budget and this could impact on public services.</p>	<p>A review of the underlying assumptions of the estimated funding gap together with sustainable options to bridge the gap is underway. This will be concluded when the Council sets its budget. Work is also being undertaken to develop an alternative budgeting framework to assist with delivery of future years savings.</p>	<p>Corporate Director (Finance and Infrastructure)</p>	<p>February 2013</p>
7	100	<p>Welfare reform</p> <p>Councils will face challenges in mitigating the impact of the welfare reform changes, and communicating these accurately and effectively to local residents.</p> <p>Risk: the impact on councils' strategies and services could be underestimated.</p>	<p>North Ayrshire Council has established a welfare reform working group to monitor and respond to the implications of the Welfare Reform Act 2012. A detailed action plan has been prepared and is being progressed.</p>	<p>Corporate Director (Finance and Infrastructure)</p>	<p>Ongoing</p>
8	112	<p>Self-evaluation arrangements</p> <p>Self-evaluation is under developed and the council still has more work to do to develop a culture of continuous improvement and behavioural change across services.</p> <p>Risk: the council cannot demonstrate that it is achieving best value.</p>	<p>A regular, proportionate and risk-based programme of self-assessment activity is planned across all services.</p>	<p>Chief Executive</p>	<p>On-going from October 2012</p>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
9	124	<p>Roads maintenance</p> <p>The roads condition index, as measured in 2011/12, indicated that 43.8% of the road network in North Ayrshire should be considered for maintenance treatment.</p> <p>Risk: at the current level of investment the roads network will deteriorate.</p>	<p>A draft Roads Investment Plan has been prepared, which will utilise the recently issued SCOTS financial reporting tool. This will assist with providing long-term funding estimates enabling the production of a long-term investment strategy</p>	Head of Infrastructure and Design	January 2013