

North Ayrshire Council

Annual report on the 2012/13 audit



Prepared for Members of North Ayrshire Council and the Controller of Audit
October 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Key Messages

Introduction

This report summarises the findings from our 2012/13 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.

Financial statements

We have given an unqualified opinion on the financial statements of the council and its group for 2012/13. In our opinion they give a true and fair view of the financial transactions for the year to 31 March 2013 and the financial position at that date.

Financial position

The financial management arrangements have operated effectively during the year. Key figures within the financial statements include:

- The council generated an accounting surplus of £6.253 million in the year prior to transferring £2.719 million to other usable reserves. The surplus was mainly attributable to the early delivery of efficiencies, service underspends, and savings on loans charges.
- The general fund balance (included within total usable reserves below) increased by £3.534 million to £32.636 million at 31 March 2013. Of the year end balance, £26.607 million is committed to earmarked projects or to support the council's transformation programme. This is an increase of 85% since 2009/10.
- Total usable reserves increased by £1.390 million to £59.087 million at 31 March 2013. The balance, as a proportion of annual spend, is above the average for Scotland. Of the total usable reserves, £53.058 million is committed to future capital and revenue projects and £6.029 million is uncommitted. The uncommitted element is in accordance with the council's reserves strategy to retain at least 1.5% of budgeted expenditure.
- The council is in a stable financial position going forward into 2013/14. The reserves have been built up over time to fund the council's transformation programme and smooth spending levels in response to reduced financial settlements
- The council incurred capital expenditure of £52.105 million against a re-profiled budget of £54.455 million.
- The council has reduced its workforce since April 2009 by 640 employees to 5,644 WTE as at 31 March 2013. Termination costs of £15.064m have been incurred over this period with projected annual savings of £13.914 million.
- Uncertainties remain regarding the extent of any future equal pay settlements. The financial statements include a provision of £0.461 million and an earmarked balance of £3.8 million as an estimate of potential future payments.

Governance and accountability

Overall the council's governance arrangements in 2012/13 were satisfactory. No material weaknesses in the accounting and internal control systems were identified during the audit although we agreed with management some areas for improvement in our internal controls management letter.

Performance and best value

The council's performance management and self assessment arrangements continue to improve. The council's best value improvement plan was fully implemented during 2012/13. The council is in the process of developing a medium term corporate improvement plan which will incorporate the recently completed council wide self assessment.

The council's latest annual performance report produced in September 2013, demonstrated progress against 137 performance indicators. The analysis showed that 71% met or exceeded target, 16% were slightly adrift and 13% of indicators were significantly adrift of target.

Outlook

Scotland's public bodies face reduced funding as well as increasing demand and cost pressures for their services for the foreseeable future. North Ayrshire, as with other councils, will require to review its future priorities and service provision to achieve a balanced budget. The council is currently developing the next phase of its transformation strategy that will deal with fundamental issues such as the relative priority of services, the mode of delivery (provider or enabler) and the resources required.

The three year budget to 2015/16 identified savings required of £19.776m over the next three years. The council has identified savings of £15.998 million, leaving a funding gap of £3.778 million still requiring to be identified for 2015/16. This will be reviewed during the process for approving the 2014/15 budget.

The council moves forward from a sound financial base in terms of reserves and a clear picture of its medium term financial position. The council approved its ten year financial strategy 2013/14 to 2022/23 in May 2013. The funding gap for the remaining period covered by the ten year strategy (2016/17 to 2022/23) is estimated at £68 million, an average of £9 million per annum with a peak of £13 million in 2016/17.

The council's first ten year capital investment programme has been developed with a clear programme for the first five years and indicative proposals for the following five years. The programme outlines projects to the value of £126.418m. This is in addition to the existing medium term capital expenditure programme.

Welfare reform will continue for several years and from October 2013 the Universal Credit will start to be rolled-out nationally. This will replace a range of existing means-tested benefits and tax credits for people of working age. It is important that the council continues to respond to the impact of these reforms and develop effective strategies that address them.

The Public Bodies (Joint Working) (Scotland) Bill will result in the integration of adult health and social care in Scotland and the creation of a Health and Social Care Partnership (HSCP) with NHS Ayrshire and Arran. A shadow partnership is planned to be in place by April 2014 and become fully operational by April 2015. It has been agreed which services in North Ayrshire will be managed within the partnership. The council are currently considering the structures, financial and governance arrangements.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of North Ayrshire Council. The nature and scope of the audit were outlined in the Audit Plan presented to the Audit Committee on 27 May 2013 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, which may be shorter than statutory requirements, 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 & Corporate Support), corporate 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 of the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of North Ayrshire Council for 2012/13 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2013 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 & Corporate Support) 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. The objection included some issues which are reported in the common good section of this report. The objection also raised the fact that the council has not held a putting competition in accordance with the terms of one of the trust deeds that it administers. We have noted that the council have not carried this out on the grounds that it is not an appropriate use of their resources to arrange it. They would consider any proposals by third parties to organise this with the council contributing prize money from the fund.
13. 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.

Corporate governance statement

14. As part of our annual audit we review the disclosures made in the Corporate Governance Statement, included in the financial statements, and the process for obtaining sufficient assurances to inform the content of the statement.
15. We are satisfied that the disclosures in the Corporate Governance Statement are in line with the guidance contained in the CIPFA publication Delivering Good Governance in Local Government. We acknowledge that, in response to an action point raised in last year's report, a formal process has now been put in place to obtain the necessary assurances for the Corporate Governance Statement.
16. The Corporate Governance Statement refers in outline to a number of areas where improvements are being progressed:
 - Undertaking a review of the 'Scheme of Delegation to Officers'.
 - Development of updated arrangements for monitoring the delivery of major capital projects.
 - Implementation of a new programme of elected member development.
 - Extension of the High Impact Leadership programme.
 - Further review of council structures due to the impact of the establishment of a Health and Social Care Partnership.
 - The development of an 'Outcome Based Budgeting' approach.

Remuneration report

17. We are satisfied that the remuneration report has been prepared in accordance with the relevant legislation. The disclosures within the 2012/13 financial statements include all eligible remuneration for the relevant council officers and elected members for a number of categories including pension benefits.

Accounting issues

18. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code). We are satisfied that the council prepared the 2012/13 financial statements in accordance with the Code.

Accounts submission

19. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2013. The working papers in support of the financial statements were of a reasonable standard however, we consider there are areas where improvements should be made in future years. These have been discussed and agreed with officers. Finance staff provided good support to the audit team. This enabled us to conclude the audit and certify the financial statements prior to the target date of 30 September 2013. The financial statements are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited accounts

20. Any adjustments required as a result of the audit process have been reflected in the accounts. There was one monetary adjustment which impacted on the general fund, increasing it by £0.104million. There were a large number of presentational adjustments required to the unaudited accounts that the council also amended.

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 2013 provided by the scheme's actuaries increased the council's share of the deficit from £109.115 million last year to £142.825 million this year. The large increase is due to poorer than expected financial assumptions, such as the rate for discounting scheme liabilities, which were partially offset by better than expected returns on assets.
22. The additional liability in 2012/13 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, which provide assurance that the pension scheme is adequately funded. 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 2008/09 - 2012/13

	2008/09	2009/10	2010/11	2011/12	2012/13
	£ million	£ million	£ million	£ million	£ million
Liability	46.955	160.519	44.063	109.115	142.825

Source: North Ayrshire Council 2012/13 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 financial statements show a provision of £0.461 million for single status equal pay claims. The council have also 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.

25. 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.

Refer to Action Plan No. 1

Whole of government accounts

26. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. Problems were experienced by the Scottish Government in issuing the guidance and template for WGA resulting in all councils being unable to meet the scheduled deadline of 7 August. The council submitted the consolidation pack to support its 2012/13 WGA return to the Scottish Government on 17 September 2013. We are in the process of auditing the WGA return.

The Charities Accounts (Scotland) Regulations 2006

27. A full audit is required from 2013/14 of all registered charities where the local authority is the sole trustee irrespective of the size of the charity. This is due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with the Charities Regulations.
28. The Assistant Auditor General (AAG) wrote out to Local Government Directors of Finance in June 2013 advising them of these new arrangements and the Accounts Commission's decision to appoint the auditor of each council as the auditor of its relevant charities. This is likely to result in an increase in audit costs and will form part of the fee discussions as part of the 2013/14 audit planning process.
29. Also, the AAG has indicated that councils that have not made any progress in reducing the number of registered charities using the reorganisation provisions of the charities legislation might want to consider doing so in order to reduce the number of separate audits required. Furthermore, the AAG also suggested that councils might wish to consider whether they can use the connected charities provisions in the regulations to reduce the number of separate reports and accounts required to be submitted to the Office of the Scottish Charity Regulator (OSCR).
30. The council approved a reorganisation scheme in January 2012 whereby existing funds held for relief of poverty and assistance to those in need would be amalgamated to ensure more effective use of the assets available for disbursement and to simplify the administration of these trust funds. Following discussion with OSCR a trust fund has been established for each town in which the council holds trusts for these purposes. Officers advised that there were 16 registered trusts at 1 April 2013, with a view to four of these being further amalgamated to reduce them to 12 by 31 March 2014. These will require accounts and an audit for the first time in 2013/14.

Refer to Action Point No.2

Common good fund

31. 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.
32. An asset register has been prepared by the council that agrees with the values in the common good balance sheet. Historically, the council's approach has been 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.
33. During 2012/13 the council commenced a review of the title deeds it holds to ascertain whether ownership/title of property has been correctly recorded and accounted for. This is a lengthy exercise involving a review of some 6000 title deeds. This exercise, scheduled for completion by closure of the 2013/14 annual accounts, will provide additional assurance regarding the common good fund accounts in future years. In carrying out the review of title deeds 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. 3

Outlook

Local Authority Accounts (Scotland) Regulations

34. A consultation exercise is currently underway in terms of the Local Authority Accounts (Scotland) Regulations. It is likely that for 2013/14 local authorities, if they do not already do so, will require the Audit Committee to approve the accounts by 30 September 2014.

Financial position

35. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
36. 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.
37. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the council.

Financial results

38. In 2012/13, North Ayrshire Council spent £494.988 million on the provision of public services, resulting in an income and expenditure account deficit on provision of services of £4.303 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 a general fund surplus of £6.253 million and an overall increase in usable reserves of £1.390 million.

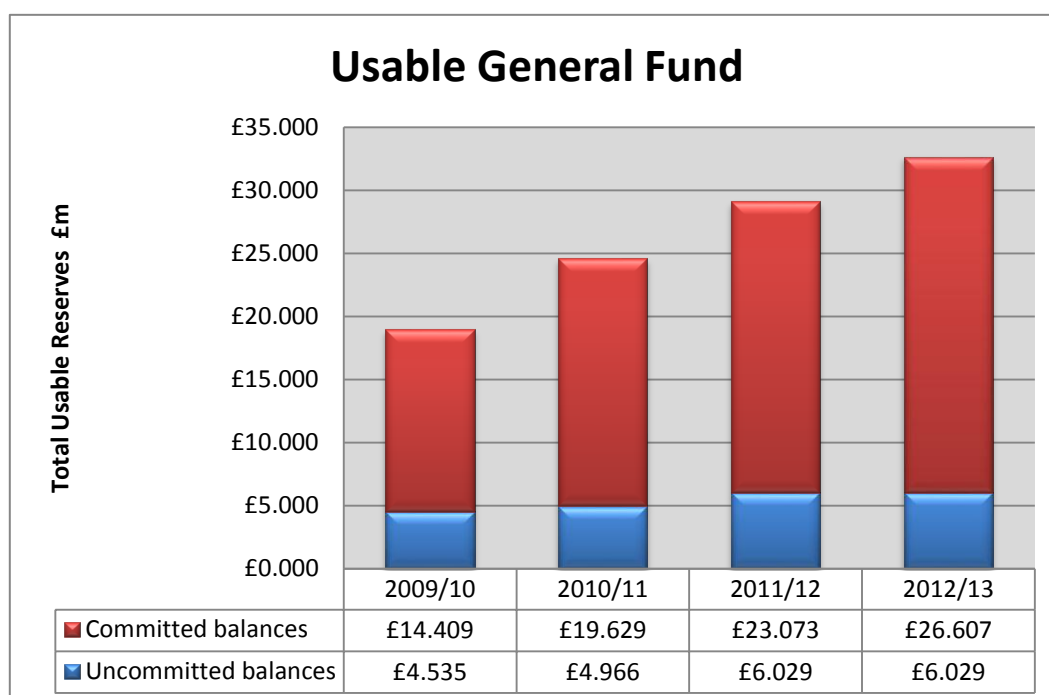
Budgetary control

39. The explanatory foreword reported a general fund revenue account underspend of £14.062 million in the year against a budgeted surplus of £0.155 million. However, this includes expenditure of £7.809 million incurred in 2012/13 that was financed from income received from the previous year (i.e. reserves) but is included in 2012/13 budgeted income. The resulting accounting surplus for the year prior to transfers to other usable reserves, as stated in the "movement in reserves statement" in the annual accounts, is £6.253 million. This is largely attributable to:
 - £4.492 million from early delivery of efficiency changes and service underspends
 - £0.345 million saving from the general contingency budget due to the cost of settling of outstanding job evaluation appeals and impact of inflation being less than anticipated; offset by net costs of voluntary early release
 - £0.525 million from lower than expected debt charges resulting from using council cash balances and thus delay the need to borrow and on-going slippage in the capital programme

- £0.540 million of additional funding.
40. Of the £14.062 million underspend reported in the annual accounts "explanatory foreword by the Corporate Director (Finance & Corporate Support)", £7.902 million has been earmarked for future service expenditure in 2013/14. The council approved that the balance of £6.160 million will be utilised by transferring £2.660 million to the capital fund and earmarking £3 million and £0.500 million to the change fund and Commonwealth Games and commemorative projects respectively.
 41. The underspend on budget continues a trend from 2010/11. In 2010/11 the council achieved an underspend against budget of £9.332 million. In 2011/12 the council achieved an underspend against budget of £10.868 million. These were due to improved efficiencies, the impact of pay restraint, and early implementation of the approved savings. Hence, we are satisfied with the reasons for these savings. A significant factor contributing to the year on year underspend relates to projects which will be carried out or completed in the following financial year, for which resources require to be carried forward.

Financial position

42. The 2012/2013 general fund reported an increase, after transfers to other reserves, of £3.534 million. This increases the general fund balance to £32.636 million as at 31 March 2013. This balance is made up of earmarked commitments of £26.607 million leaving an unallocated general fund balance of £6.029 million. This is in line with the council's reserves strategy to retain at least 1.5% of budgeted gross expenditure for the year.
43. The council's budgetary process allows departments to earmark funds for spending in the following financial year. These funds require to be identified for specific purposes either due to differences in the timing of expenditure, or where there are plans for service delivery which will be delivered at a later date.
44. The usable general fund contains an element of committed and uncommitted funds. Exhibit 2 shows the yearly movement of both committed and uncommitted funds over the past 4 years. This shows that total useable reserve balances have increased by 72% over the period. The uncommitted balances have increased by 32% to comply with the council's reserves strategy. The use of committed reserves shows a significant increase of 85% over the period to support the council's transformation programme.

Exhibit 2: Yearly movement in total useable reserves

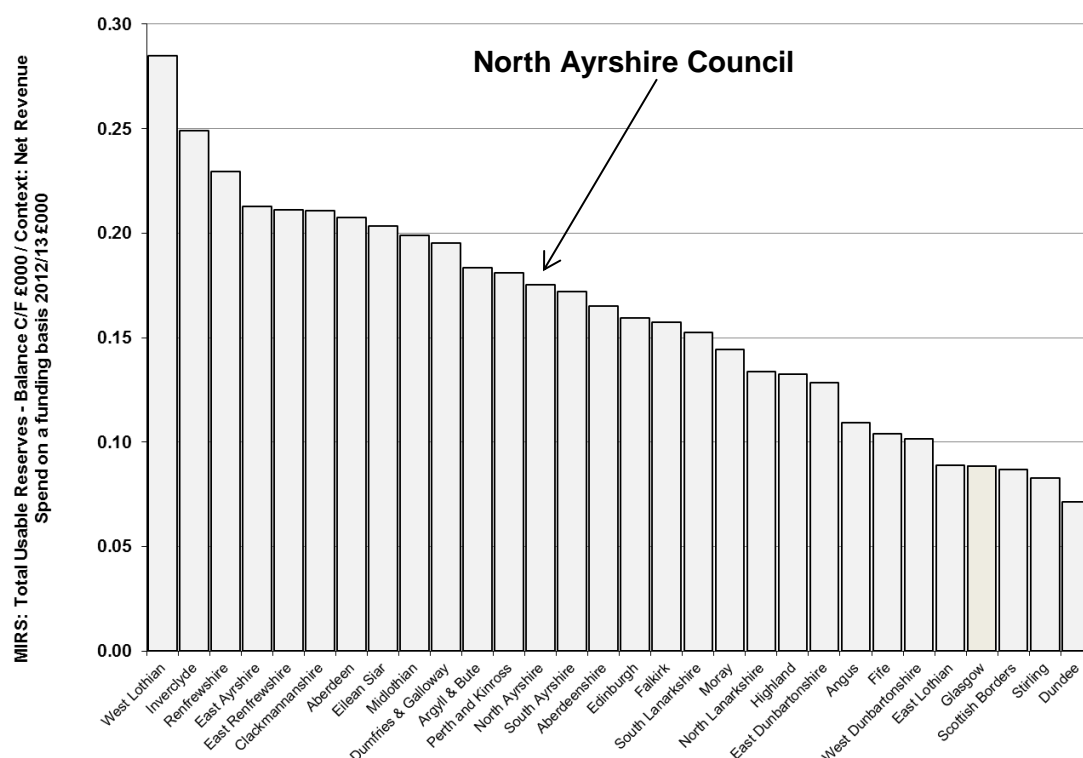
45. Exhibit 3 shows the usable reserve balances in the council's funds at 31 March 2013 compared to the previous year. These include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing assets. The council's funds at 31 March 2013 totalled £59.087 million, an increase of £1.390 million on the previous year. This, in turn, was a £4.985 million increase on the value of useable reserves at 31 March 2011 (£52.712 million).

Exhibit 3: Usable Reserves

Description	31 March 2012 £ million	31 March 2013 £ million
General Fund	29.102	32.636
Housing Revenue Account	8.230	7.173
Capital Fund	9.091	11.341
Repairs and Renewals	7.943	4.550
Insurance Fund	3.331	3.387
Total Usable Reserves	57.697	59.087

Source: North Ayrshire Council 2012/13 financial statements

Exhibit 5: 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 2012/13

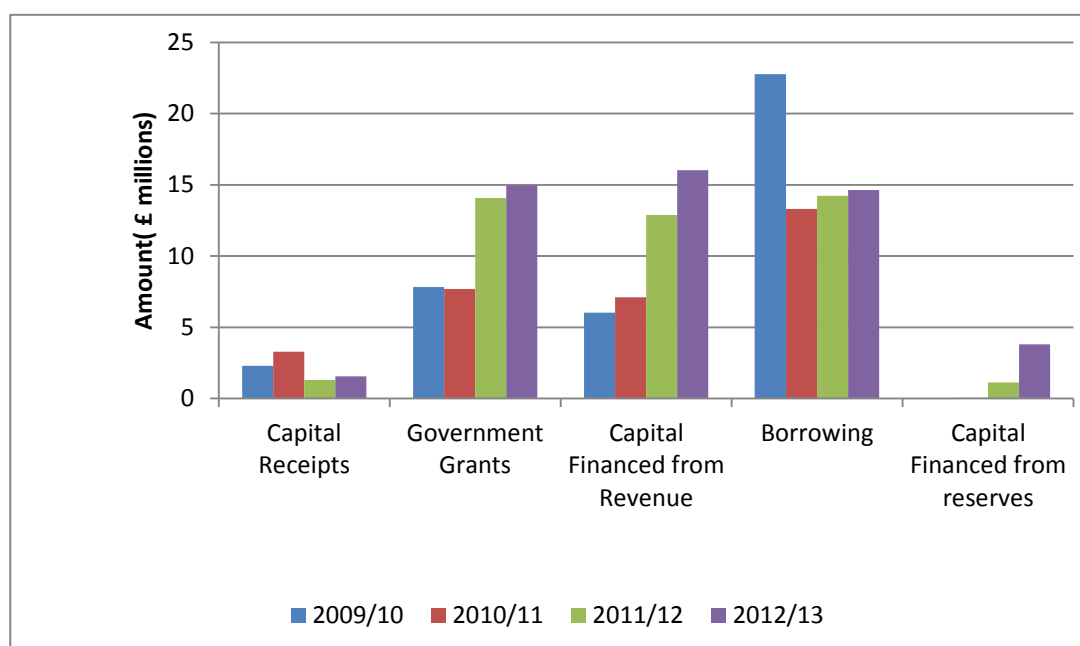
48. In 2012/13 the council incurred capital expenditure of £52.105 million split between the housing revenue account (£24.251 million) and the general services programme (£27.854 million). The housing revenue account includes areas such as the building of new houses, external upgrading, refurbishments and meeting the Scottish housing quality standard. The general services programme includes investments in primary schools, the refurbishment of office accommodation and on-going investment in infrastructure, including roads improvement and lighting.
49. The planned general services capital expenditure for 2012/13 was originally £40.549 million. This was enhanced by carry forwards from 2011/12 of £6.812 million and additional funding awarded during the year of £5.230 million resulting in an overall available budget of £52.592 million before revisions. The budget was revised down to £28.823 million during the year to reflect re-profiling of various projects.
50. The major projects re-profiled into 2013/14 were:
 - Irvine leisure centre (£5.566 million of the £5.924 million budget was re-profiled into 2013/14) due to delays in site identification and planning permission being obtained.
 - Bridgegate House (£9.141 million of the £12.724 million budget) due to a correction of the initial profiling of expenditure. There is no significant delay to the completion date of this project.

- Two Irvine primary schools (re-profiling of £1.537 million and £1.474 million respectively) due to projects starting later than anticipated. However, both schools were completed in 2013 as scheduled.

51. The housing revenue account capital budget was originally £26.311 million. This was subsequently increased by £6.839 million to reflect projects brought forward from 2011/12, but £7.528 million was re-profiled into future years to arrive at a revised budget of £25.622 million. The principal projects re-profiled into 2013/14 were the building of new dwellings at Redstone Avenue and spending on sheltered housing units. This arose because total expenditure was initially included in year one of the project in order to give members a complete project budget to approve, given the council currently operates a one year HRA capital budget.

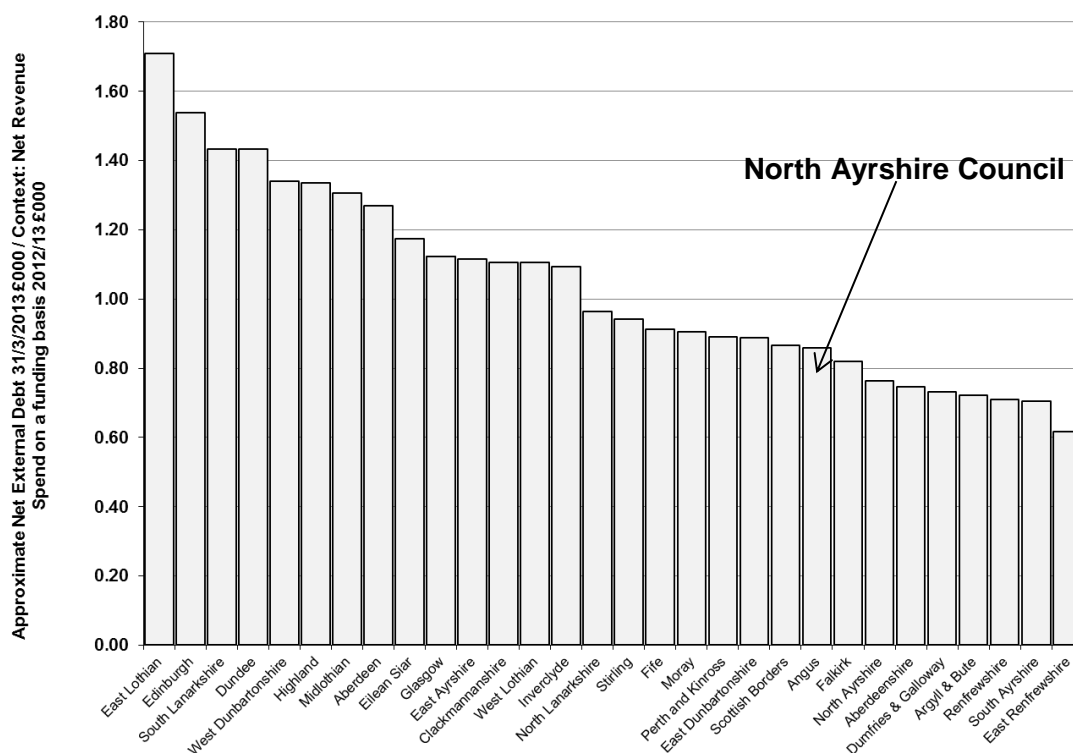
Refer to action point 4

52. To improve its management of assets, the council approved a ten year Corporate Asset Management Strategy during the year. The strategy has been developed to take a long term view and align the management of the council's assets with its broader priorities, plans and the Single Outcome Agreement. The council's first ten year capital investment programme has been developed with a clear programme for the first five years and indicative proposals for the following five years. The programme outlines projects to the value of £126.418 million. This is in addition to the existing medium term capital expenditure programme. The principal projects included in the ten year capital program include: roads improvement (£21.7 million); and Scottish Futures Trust phase 3 of the schools for the future programme (£19.4 million).
53. Exhibit 6 shows the sources of finance for capital expenditure in the four years to 2012/13. This shows that borrowing has remained stable over recent years but highlights that an increasing use of revenue funds has been used to finance capital expenditure. This principally relates to the HRA capital programme; the council has a 30 year HRA business plan which addresses how capital expenditure will be financed over this period.

Exhibit 6: Sources of finance for capital expenditure for general services and HRA**Treasury management**

54. As at 31 March 2013, North Ayrshire Council held cash and temporary investments totalling £34.536 million (£30.735 million at 31 March 2012). This is made up of a cash balance of £1.605 million (2012/13: £17.702 million) and short term investments of £32.931 million (2012/13: £13.033 million). The return on investments in the year of £1.280 million averaged 2.05% compared to a budget assumption of 0.5%. This compares to £0.520 million (an average rate of 0.65%) in 2011/12. The increase in the return in short term investments is a result of a strategic decision to invest balances for a longer time (than 90 days).
55. The council's borrowing increased by £3.427 million to £293.031 million as at 31 March 2013. This figure includes PFI liabilities of £71.548 million and accrued interest. Borrowing, excluding PFI, had an average interest rate of 5.6% for the year. This is a decrease from 5.73% at 31 March 2012. Exhibit 7 below shows the council's net external debt (i.e. total borrowing, including PFI, less short term investments) at 31 March 2013 as a proportion of net revenue expenditure for the year in comparison to other Scottish local authorities excluding Orkney and Shetland. The council's debt levels are in the lower quartile. This should help to reduce the impact of interest charges and provide flexibility for future borrowing requirements.

Exhibit 7: Net external debt as a proportion of net revenue spend



- 56. The council budgeted £28.235 million for financing costs and expenses on debt for 2012/13. Actual costs were £27.980 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.
- 57. North Ayrshire Council had deposits of £10 million with Glitnir and £5 million 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.
- 58. The council has recovered 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.
- 59. The council currently has balances in Escrow accounts, which are third party accounts, for both deposits, due to current Icelandic Law preventing Icelandic Kroner being exported. The Icelandic Kroner equivalent of £2.153 million is being held in these accounts.

Financial planning to support priority setting and cost reductions

Savings

60. The council has an established budget setting process in place. Officers consult with Members to produce a comprehensive package of budget papers which are aligned to the council's priorities. The council also carry out a thorough process of engagement and consultation with members of the public and key stakeholders when approving annual budgets.
61. When setting the 2012/13 budget, the council highlighted a funding gap of £19.637 million over the period 2013/14 to 2015/16. The council took steps to address this and identified £15.859 million of savings, leaving £3.778 million relating to the 2015/16 financial year that still requires to be addressed. However, the gap and some of the savings are based on various assumptions and projections that may alter, perhaps significantly, as events unfold. The funding gap, together with a review of assumptions and projections, will be reviewed again during the 2014/15 budget setting process.

Refer to Action Plan No. 5

Workforce reduction

62. Over the four year period from April 2009, the council has reduced its workforce by 640 employees through early release schemes. This reduction has incurred initial costs of £15.064 million with cumulative annual savings of £13.914 million expected. The council have financial control systems in place to manage, control and report on the required workforce efficiency savings aligned to committed budget savings.
63. The council plans to carry out a review of workforce planning over the next three financial years to ensure best practice is in place and to continue to strengthen the council's existing governance arrangements.
64. The council recognises the significant impact from workforce reductions in its strategic risk register which categorises this as 'high risk'. The council is addressing this by targeting better integration of workforce planning within service planning and the budgeting process and by encouraging early engagement with the workforce and trade unions where service redesign may impact upon workforce numbers.

Procurement

65. 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. The council achieved an improved procurement capability assessment score of 51% in 2012 (34% in 2011). This is classed as 'improved performance' and exceeds the Scottish Government expectation of 50% for councils by March 2013. The council set a target score of 60% for the October 2013 assessment and achieved 61%. This maintains the year on year improvement since 2010.

Partnership working

66. 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. A Shared Services Executive has been in place since 2006 which currently comprises the neighbouring Ayrshire councils and NHS Ayrshire and Arran. The council is involved in the delivery of shared services in a number of areas.
67. The three Ayrshire councils established a shared services joint committee known as The Ayrshire Councils' Joint Committee. This will assume responsibility for all specific, agreed shared council services in Ayrshire. An overarching shared services minute of agreement was approved (on 28 March 2013) by the three councils and the functions of the Joint Committee have been agreed. This is responsible for monitoring joint working in tourism.
68. The council participates in the joint procurement framework for minor civil works with the other Ayrshire Councils. More significantly, North, South and East Ayrshire Council developed a detailed business case over the last couple of years for a shared roads and transportation service using the joint committee. The council recently decided not to proceed with this and, instead, decided to drive further financial efficiency from its own service. The council are therefore in the process of redesigning the current roads service to achieve further efficiencies. The council consider that joining the Ayrshire Roads and Transportation Shared Services would have resulted in pausing the council's improvement programme while integration took place.
69. The findings from Audit Scotland's review of the North Ayrshire Community Planning Partnership are summarised in the "best value, use of resources and performance" section of this report.
70. 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

2013/14 budget

71. The council, like all public sector organisations, continues to face a very challenging financial climate. In January 2013, the council approved a revenue budget of £316.722 million for 2013/14, with savings of £6.555 million required to achieve a balanced budget. Members approved management and operational efficiencies/savings across services of £6.555 million, resulting in a breakeven budget for the year.
72. The revenue budgetary control statement to 31 July 2013 projects an underspend of £0.070 million against the approved breakeven budget for the year.

Financial forecasts beyond 2013/14

73. Looking further ahead, it is clear that the outlook for public spending remains challenging for the foreseeable future. Continuing to deliver vital public services with a reducing budget will remain a significant challenge to the council for the foreseeable future.
74. As noted at paragraph 61, the three year budget to 2015/16 identified a funding gap of £3.778 million still requiring to be identified for 2015/16. This will be reviewed during the process for approving the 2014/15 budget.
75. The council approved its ten year financial strategy 2013/14 to 2022/23 in May 2013. This has been developed to steer the council through the challenging economic climate and to support the delivery of key priorities at a time of reducing resources. The council intend to review and update the ten year financial strategy on an annual basis. The funding gap for the remaining period covered by the ten year strategy (2016/17 to 2022/23) is estimated at £68 million, an average of £9 million per annum with a peak of £13 million in 2016/17.

Refer to Action Plan No. 5

Governance and accountability

76. 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.
77. 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.
78. 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.
79. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

80. The council committees with overall responsibility for corporate governance are the full Council, the Cabinet, the Audit Committee and the Scrutiny and Petitions Committee. The structure of the council's committees, how members are appointed and their function within the committee are all defined within the 'Scheme of Administration'. These committees meet regularly with the timetable published on the council website. The agendas and reports for upcoming meetings are posted onto the website three days prior to the meeting taking place. We consider these arrangements work well.
81. During 2012/13 there was a senior management (chief officer) restructure. The number of directorates increased from 3 to 4 with the creation of a new Development & Environment Directorate. The basis for the restructure was to strengthen the link between economic development and planning, and to reduce the functions that have direct accountability to the chief executive, enabling 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.

82. At an organisational level, following a reorganisation of the financial management structure, a central corporate financial management team was formed to provide greater governance over the council's financial systems and controls.

Internal control

83. 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. The extent of this work is informed by their assessment of risk and the activities of internal audit.
84. As part of our audit we reviewed the high level controls in a number of the council's financial systems. Our work covered several systems including general ledger, non-domestic rates billing and collection, council tax billing and collection, benefits, trade payables, housing rents, capital accounting, treasury management and payroll. The findings from this work were reported to management in August 2013. Areas where key control improvements could be made have been discussed with officers and have either already been implemented or will be implemented in accordance with an agreed timetable.
85. 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.
86. The Internal Audit annual report presented by the Senior Manager (Internal Audit, Risk and Performance) to the Audit Committee in May 2013 concluded that substantial assurance can be placed on the council's overall framework of controls for the year to 31 March 2013.

Internal audit

87. A key element of our work on internal controls is the extent of reliance that we place on the work of internal audit in terms of International Standards on Auditing 610 (Considering the work of internal audit). The findings from our review of internal audit were reported in January 2013 and we concluded that the internal audit service operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government and has sound documentation standards and reporting procedures in place.
88. Also, we placed formal reliance on aspects of the work of internal audit in several areas, for the purposes of our financial statement audit responsibilities, including cash & cash equivalents and trade receivables. This avoided duplication of effort and also enabled us to focus on other areas of risk.
89. The new Public Sector Internal Audit Standards (PSIAS) came into effective from 1 April 2013. These standards provide a framework to ensure that Internal Audit is operating effectively and efficiently and contributing to the council's objectives. PSIAS requires the introduction of an Internal Audit Charter which defines the purpose, authority and responsibility of the Internal

Audit service. The council's Internal Audit Charter was prepared in accordance with PSIAS and was approved in May 2013.

ICT arrangements

90. Good ICT governance arrangements are in place and these are fully embedded into the wider governance arrangements in place within the council. The ICT strategy 2011-2016 sets out how the council will use ICT resources over the five year period to ensure that the infrastructure and systems exist to enable the council to deliver its objectives. Delivery of the strategy is overseen by the ICT steering group, with six monthly progress reports on the ICT strategy action plan submitted to the steering group and Corporate Management Team (CMT), with an annual report also presented to Cabinet.
91. The council has a centralised ICT Service, with responsibility for delivering all ICT related activity across the council. Performance of the ICT service is monitored in the directorate service plan progress reports prepared twice a year. We found that processes and procedures within the service were operating satisfactorily and, following a reorganisation of the service during 2012/13, we note that these continue to evolve.
92. The ICT Service is currently being reviewed in accordance with council's Supporting Services Review. This will evaluate which model of service delivery offers the council best value. The existing ICT strategy will also be reassessed in line with the outcome of the Supporting Services Review.

Corporate application review

93. During 2012/13 IT Services co-ordinated a strategic review of core business applications to establish whether the various corporate systems can still deliver what the business needs now and over the next five years.
94. The review highlighted two systems where there were significant issues that require to be addressed to ensure they remain fit for purpose.
 - Chris 21 (Payroll system).
 - Masterpiece, the financial management system (FMS).
95. While there were some fundamental issues highlighted with the Chris 21 system it has been agreed that the service will be able to resolve these by means of improving their business processes and by making better use of the functionality of the software.
96. Masterpiece has been earmarked for replacement and an option appraisal is currently underway. A project mandate is currently being prepared by the Finance Service for submission to the Change Advisory Board (CAB), who are responsible for approving all new projects. It is anticipated that the CAB will request that a business case is prepared.

Public Services Network

97. The council exchanges data with many other public bodies and in so doing makes use of Cabinet Office sponsored arrangements to share electronic data with other public sector bodies e.g. the Department of Works and Pensions.
98. The Government Secure Intranet (GSI) is the mechanism that allows the council to share data and services. The council must re-apply annually to the Cabinet Office to be allowed to connect to the government secure network. This year the government is replacing GSI with the Public Services Network (PSN).
99. From November 2012 all applicants have to apply to connect to PSN which means complying with the stricter PSN Code of Connection. The new code of connection is challenging and uncompromising about security measures and aims to provide a substantial level of trust between organisations.
100. The council submitted its application on 15 August 2013 and received official notification on 16th September that accreditation has been declined due to non compliance within five areas. The council have entered a three month escalation period giving them until mid December to address the compliance issues.

Refer to Action Plan No 6

Welfare Reform

101. The implementation of the Welfare Reform Act 2012 will continue to have an impact on the council.
102. A questionnaire was issued by Audit Scotland in February 2013 to all 32 councils which aimed to assess their views on the significance of welfare reform and their preparedness for the upcoming changes. Results showed that all 32 councils are placing due importance on the upcoming changes and have already carried out a significant amount of work to plan for and mitigate against the impact of the changes arising from the welfare reform agenda. North Ayrshire Council highlighted their concerns regarding reduced benefits payable to customers, the subsequent increase in the amount of rent to be collected and, consequently, an increase in the value of rent arrears. The council reported that in respect of the accommodation size criteria, 2,650 tenants would be affected resulting in an estimated reduction in benefit of approximately £1.2 million per year, and an increase in rent arrears of approximately £0.446 million.
103. As at the end of June 2013, rent arrears for council tenants were £0.812 million, an increase of £0.267 million since the end of March 2013. Some 1,648 (71%) tenants subject to under occupation are in rent arrears owing £0.239 million; however 779 of these tenants had arrears of £0.128 million prior to the introduction of the under-occupation charge; an increase therefore of £0.111 million.

Refer to Action Plan No 7

104. 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 training strategy, and ensuring the council's IT systems are fit for purpose. The latest action plan identifies areas which will have an impact on the council and the progress to date to address these.

Prevention and detection of fraud and irregularities

105. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularities. The council maintains a policy and strategy on the prevention and detection of fraud. The council also have a Whistleblowing Policy which documents the procedures for reporting a matter. These documents are accessible to all staff via the council's intranet.
106. The council is a member of the National Anti-Fraud Network (NAFN), which is a local authority led organisation providing UK authorities with intelligence and other information aimed at protecting the public purse from fraud. The council receives regular Intelligence Bulletins from NAFN updating them on issues of fraud impacting on the sector. Procedures are in place to ensure that these bulletins are received within the various services, with copies also held on the council's intranet.
107. The council's internal audit function has a formal programme of work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud.
108. Overall, we have concluded that the council's arrangements are adequate in relation to the prevention and detection of fraud and irregularities, although it should be noted that no system can eliminate the risk of fraud entirely.

NFI in Scotland

109. North Ayrshire Council participates in the National Fraud Initiative (NFI). The NFI uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
110. NFI allows public bodies to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
111. NFI is being co-ordinated by Internal Audit, with services responsible for the initial investigation of data matches. The Team Manager (Internal Audit) is the nominated key contact for NFI within the council. The most recent data matching exercise collected data from participants in October 2012. The main release of matches identified for follow-up was issued in January 2013, followed by a further 8 releases of matches during 2013.

112. Good progress has been made in the investigation of these data matches with some 2, 099 matches investigated to date. All key reports are being considered for investigation, with emphasis on high quality matches and those recommended by NFI for follow up. Of those investigated so far, 2078 have been closed and 21 are on-going. To date there have been no identified cases of fraud or error.
113. The Team Manager (Internal Audit) undertakes regular monitoring of the NFI database to ensure that the services are keeping it updated with progress. To date there have been no reports on progress to senior management or committee.
114. Overall, we concluded that the council has satisfactory NFI arrangements in place.

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

115. 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.
116. The council has taken a number of steps to ensure that there are satisfactory arrangements in place for the prevention and detection of bribery and corruption. This includes publication of the following policies, all of which are available to staff on the intranet: Code of financial practice (updated June 2011); Financial regulations (updated March 2012); Standing Orders Relating to Contracts and Contract Procedure Rules (updated December 2012); and the Code of Conduct (updated April 2013). In addition, all council members must adhere to the Councillors' Code of Conduct.
117. We are not aware of any specific issues that we need to identify in this report.

Outlook

Welfare reform

118. Welfare reform will continue for several years and from October 2013 the Universal Credit will start to be rolled-out nationally. This will replace a range of existing means-tested benefits and tax credits for people of working age. The council has highlighted this as a key stage in the welfare reform process. It is, therefore, important that the council continues to monitor the impact of these reforms closely and develop efficient and effective strategies that address the welfare reform agenda.

Health and Social Care Partnership

119. The Scottish Government published its Bill for the integration of adult health and social care on 28 May 2013 (entitled Public Bodies (Joint Working) (Scotland) Bill). It was agreed that the integration model for Ayrshire would be one of a Health and Social Care Partnership (HSCP)

for each council area, with variations regarding the range of services directly managed by each partnership.

120. It is intended that the HSCP with NHS Ayrshire and Arran will be in place by April 2014 and fully operational by April 2015. An option appraisal was undertaken on the two possible models for integration, namely that of a delegation to a body corporate and of delegation between partners. The outcome of the option appraisal recommended adopting the body corporate model.
121. Proposals from the Scottish Government specify the minimum services which require to be integrated. In North Ayrshire, it is intended that all services currently managed in the Social Services & Health Directorate, with the exception of housing services, will be managed within the partnership. Social Work/ Social Care services to children and Money Matters service will be included together with services to adults and older people. It is proposed that Criminal Justice Social Work services will be managed in the partnership until the Scottish Government announces the outcome of its review of the Criminal Justice system.
122. A Transition Integration Board is scheduled to be in place by the end of October 2013. A key duty of this board is to establish a shadow Health and Social Partnership for the area and transition arrangements. It is also essential that financial and governance arrangement for the partnership are in place.

Best Value, use of resources and performance

123. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. 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 are also required to review and report on audited body's progress against its Best Value improvement plan.
124. 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.
125. Furthermore, 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.
126. 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.

Best value

127. The follow up audit of North Ayrshire Council's best value and community planning was 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 plan, which contained 100 actions, was fully implemented during 2012/13.
128. The council is in the process of developing a medium term corporate improvement plan which will incorporate the recently completed council wide self assessment.

Performance management

129. 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 fourth shared risk assessment (SRA) in April 2013 and reported its findings in an Assurance and Improvement Plan (AIP). The AIP acknowledged the

improvements made by the council to its performance management arrangements; particularly in respect of previously reported weaknesses regarding self evaluation arrangements and uniformity of arrangements across all services.

130. The council's performance management strategy for 2012 to 2015 states the vision that 'by 2014, the council will have sector-leading performance management systems and a supporting culture in place'. The strategy places significant focus on culture and improvements in self-assessment and is supported by an annual action plan.
131. Each service reports its performance biannually to cabinet. This provides a summary of overall service performance, together with the capacity for improvement, financial performance, and progress against the priority areas identified in the service plan. The detailed reporting of service plans is supported by the use of Covalent, which is now embedded throughout the council.
132. 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. Each indicator on North Ayrshire Performs links to the council plan and explains why it is measured. It also compares current performance against target, explains what can affect performance, and what action is being taken to improve performance.

Self-evaluation arrangements

133. The AIP highlighted the improvements the council has made to its approach to self-evaluation. The council carried out a second council wide PSIF self-assessment during 2013. This considered a series of questions aimed at identifying the areas the council perform well at, together with identifying areas for improvement. The outcomes from this, together with the development of a corporate improvement plan, were recently presented to the CMT.
134. The council achieved the Quality Scotland Committed to Excellence recognition in June 2012 and intend to use the experience from the PSIF self assessment to inform its application for 'Recognised for Excellence'(R4E) submission to Quality Scotland. The council is applying for this accreditation in line with its vision of having 'sector leading performance management systems' in place. A performance support team is in place to help ensure the submission is completed.

Community/user engagement

135. North Ayrshire Community Planning Partnership (NACPP) was selected as a pilot site regarding the audit of community planning partnerships. The audit, which was carried out during 2012/13, concluded that community planning is well established in North Ayrshire, the CPP has good awareness of the key issues facing the community, and there are some examples of CPP partners working together to improve outcomes. The findings from this audit are reported in more detail below.

Overview of performance in 2012/13

North Ayrshire Council's performance measurement outcomes

136. The council produced an annual performance report in September 2013, a key element of the performance management strategy. The report demonstrates the council's progress against 137 performance indicators, including the statutory performance indicators (SPIs) as reported to Audit Scotland. The analysis showed that 71% met or exceeded target, 16% were slightly adrift and 13% of indicators were significantly adrift of target.
137. Some of the performance measures that met their target in 2012/13 and which can demonstrate year on year improvements include:
- Dwellings meeting the Scottish Housing Quality Standard (SHQS)
 - Carbon emissions
 - Attendance at indoor sports and leisure facilities and pools.
138. Some of the performance measures not achieved in 2012/13 include:
- **Sickness absence** - the target for both teachers and all other staff were not met. Reducing sickness absence continues to be a key council priority. The council continually monitors sickness absence and offers support from occupational health and other professionals. The council has reviewed its 'Maximising Attendance' procedures and introduced a new post to further support services in managing attendance effectively.
 - **Percentage of invoices sampled that were paid within 30 days** - the council has a target of 90% but only 81.57% was achieved, which was lower than the previous year. The council has put an action plan in place in response to this with services receiving monthly information on late payments. A project team is in place and is now delivering improvements.
 - **Percentage of council buildings in which all public areas are suitable for and accessible to disabled people** - the target was 70% but only 52.5% was achieved in 2012/13. A survey was carried out in 2012 to assess council buildings on how accessible they are for disabled people. This showed a less favourable position than the previous survey in 2008. However, there has been a change to the way buildings are graded. The council have analysed the results of properties where faults have been found and categorised these to identify the high priority issues.

Local performance reporting

Scotland's Public Finances: addressing the challenges a targeted follow-up report.

139. 'Scotland's public finances: Addressing the challenges', published in August 2011 is a national Audit Scotland report which provides an overview on the scale of budget cuts facing the public sector and the response of public bodies to this. Key messages in the national report include:

- The Scottish Departmental Expenditure Limit revenue budget will fall by £2.1 billion (eight per cent) to £23.8 billion between 2010/11 and 2014/15 while the capital budget will fall by £1.2 billion (36 per cent) to £2.1 billion.
- Public bodies will face increasing demand and cost pressures in the future. Increasing demand will be generated as a result of an ageing population and the heightened expectations of the public, while cost pressures arise in areas such as maintenance backlogs and the cost of revenue-financed capital projects.
- Public bodies need to focus on achieving long-term financial sustainability. This requires a clear understanding of the organisation's costs, a clear methodology for setting budgets based on priorities and the outcomes to be achieved, and strong leadership and governance.

140. We carried out follow-up work during the year to assess how North Ayrshire Council is responding to the challenges of public sector budget constraints and its efforts to achieve financial sustainability. Key messages from the local follow-up report include:

- The council has an established process for preparing three year budgets. The budget is supported by a comprehensive package of budget papers aligned to the council's priorities. More recently, the council have approved a ten year financial strategy which recognises longer term national priorities and estimates the impact of demographic and other social/ economic factors.
- The council has gone through extensive consultation and engagement with members of the public and other key stakeholders. The council carried out impact assessments for each of the planned savings in its financial plans. This identified potential risks to service delivery and the achievement of savings which would require monitoring.
- The council has a good track record of spending within budget and the early achievement of some of its savings targets.
- The council still had to identify savings to address the residual £3.778 million budget gap forecast for 2015/16.
- The budget gap identified, and some of the savings budgeted during 2013/14 to 2015/16, are based on assumptions and projections which could potentially change due to external influences.

141. Overall, we concluded that the council has taken appropriate steps to address the challenging financial climate and the reductions in financing that it faces over the next few years. We have agreed an action plan with management regarding areas that we wish to continue to monitor.

North Ayrshire Community Planning Partnership

142. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth the Accounts Commission developed an audit approach for the audit of Community Planning Partnerships. This approach was piloted in the autumn of 2012 and rolled out across the sector thereafter. North Ayrshire Community Planning Partnership (NACPP) volunteered to be one of the three pilot audit sites.

143. The review of the NACPP highlighted that community planning in North Ayrshire is well established. It noted that the NACPP has a good focus on the needs of the area and is aware of how it can improve.
144. However, the audit concluded that while there are pockets of good practice in many aspects of CPP working, health, economic and social outcomes for citizens remain poor, and significant gaps remain between the least and most deprived communities. The audit also noted that many of the performance measures for "a healthy and active North Ayrshire" are broad in nature and thus open to interpretation, making it difficult to ascertain progress against its healthy outcomes. The findings from the audit have been used to help inform the development of the SOA 2013/17, and will result in an improvement plan for the CPP.
145. The report noted that partners have been improving how they work with each other, but highlighted that there is still substantial distance to go before partners can demonstrate effective sharing of resources. It was also highlighted that the partnership needs to improve how it manages its performance, including better target-setting and stronger scrutiny and challenge. Furthermore, it is essential that individual partners better reflect community planning priorities in their own planning arrangements.
146. Overall, community planning in North Ayrshire, while not yet yielding significant results in changing wider outcomes, is moving in a positive direction.

National performance reports

147. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports of direct interest in 2012/13 are outlined in the exhibit 8 below.

Exhibit 8: A selection of national performance reports 2012/13

- | | |
|--|---|
| <ul style="list-style-type: none"> • Responding to challenge and change - An overview of local government in Scotland 2013 • Improving community planning in Scotland • Major capital investment in councils. | <ul style="list-style-type: none"> • Protecting consumers • Using cost information to improve performance - are you getting it right? • Health inequalities in Scotland • Reducing reoffending in Scotland. |
|--|---|

Source: www.audit-scotland.gov.uk

148. Audit Scotland encourages local authorities to review national reports, consider key findings and assess local, performance against them and, identify local improvement actions where appropriate. The national reports are accompanied by checklist which officers can use to carry out a self-assessment of performance. The expectation is that Audit Scotland's performance reports are presented to an audit or scrutiny committee for members to consider and hold management to account for local performance.

149. All national reports are considered by the council's Audit Committee. The reports are accompanied by a covering paper, presented by the relevant corporate director, outlining the key findings of the report, together with any progress and/or action plans as appropriate.

Assurance and improvement plan update 2013-16

150. The Local Area Network (LAN), completed its fourth shared risk assessment in spring 2013 and reported its findings in an Assurance and Improvement Plan. 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.

151. The LAN concluded that there were no areas of the council's services, outcomes or corporate governance framework that would warrant specific additional scrutiny. This was an improvement from the previous year, when the LAN identified four areas where 'more information was required'. These were:

- Social services and health- risk assessment and management
- Governance and accountability- the payment of goods and services not yet received
- Performance management- self evaluation arrangements
- Asset management.

152. The LAN obtained satisfactory evidence from the council to demonstrate that they are aware of, and taking action to address risks in these areas.

Equality Act 2010

153. 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. One of the key requirements of the legislation is for public bodies to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013.

154. The council have introduced a set of outcomes to help eliminate discrimination, advance equality and foster good relations. The outcomes are structured under the council's four core objectives. They have been set on the basis that they are short to medium term (2 – 4 years) and, wherever possible, the protected characteristic targeted has been specified. The set of outcomes were approved by Cabinet on 30 April 2013 and are published on the Council's website.

155. The council is proactive in promoting the equality agenda and has made good progress in mainstreaming the equality duty across the council. For example.

- Equality has been integrated into the business of the council through Equality Impact Assessments (EIAs). EIAs are completed when introducing a new policy or function or when reviewing an existing policy or function. There is also a requirement to produce EIAs on budget savings and proposed budget efficiencies. In 2013-14 each council

service will complete at least five EIAs on policies that are not new or under review in addition to EIAs on new policies. EIAs are published on the council's website.

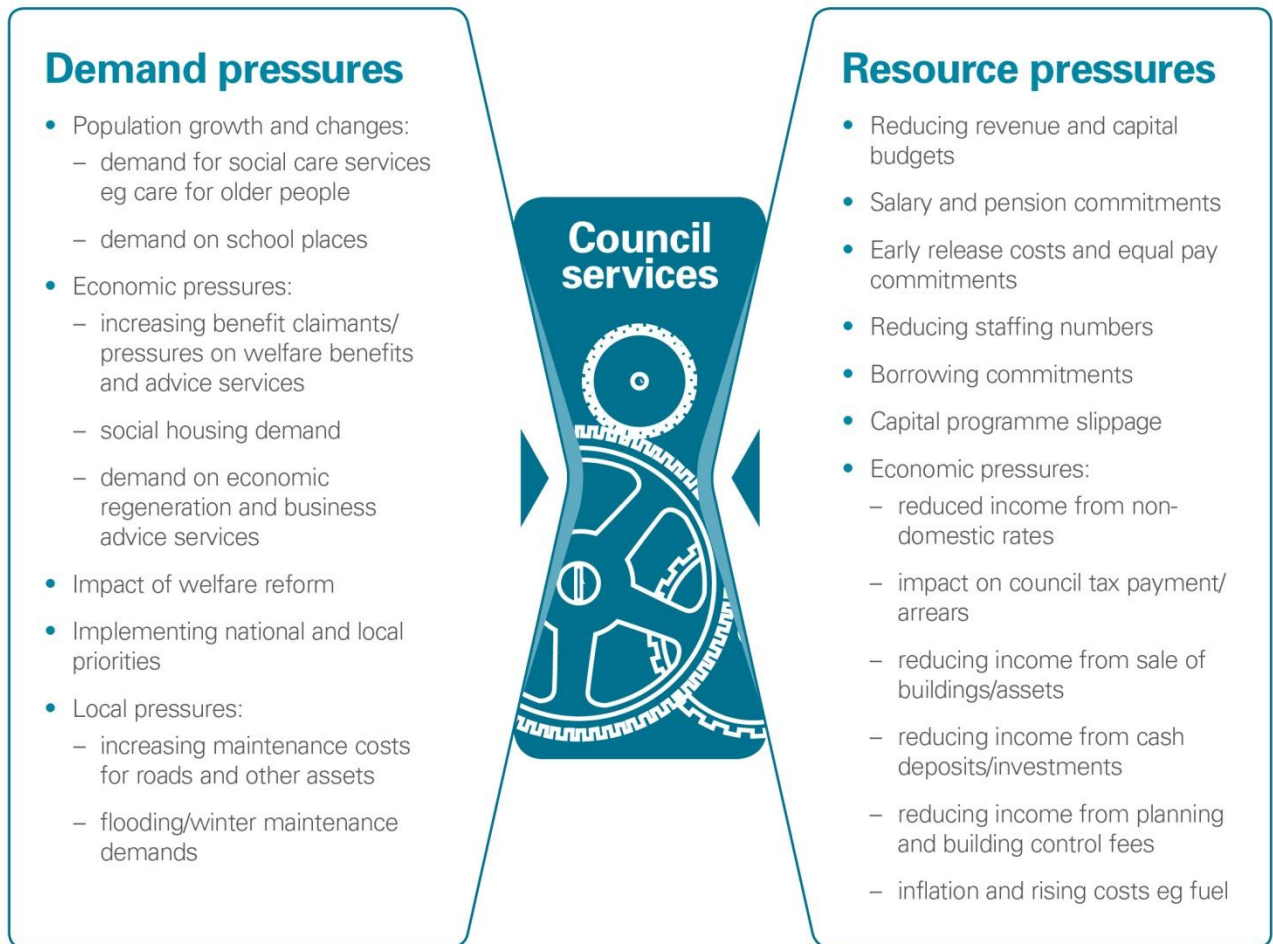
- When reports are being submitted to council committees, equality implications must be taken into account and there is a standard sub heading within the committee report template for this. Where EIAs are undertaken these are added as an appendix to the committee report.
- Council service plans now require to have a clear commitment to promoting equality and should outline what is being done to achieve equality in planning and delivering services.
- All council employees are being given access to training designed to raise awareness of equalities issues and to ensure that there is knowledge across all staff groups of their responsibilities
- The council have introduced an Equality Action Plan for 2013-14 to deliver on the newly agreed equality outcomes for North Ayrshire. This is monitored by the Corporate Equality Group, which has membership from across council services along with Elected Member representation.
- The council undertakes audits of public access areas of premises across the range of council services to assess their accessibility. The approach used for the recent audits has been updated. The previous approach focused on the Disability Discrimination Act 2005, as opposed to the Equality Act 2010 which has been taken into account in the recent surveys.

156. A report outlining the progress the council have made in 2012/13 in mainstreaming the equality duty in North Ayrshire Council is publically available via the council's website.

Outlook

157. The Audit Scotland report *Scotland's Public Finances - addressing the challenges (March 2013)* highlights the pressures faced by council in terms of resources and demands on services (see exhibit 9 below). These pressures are not going to abate and this means that councils may have to consider decisions, which they had previously ruled out to balance their budgets. North Ayrshire Council is currently developing the next phase of its transformation strategy that will deal with fundamental issues such as the relative priority of services, the mode of delivery (provider or enabler) and the resources required.

Exhibit 9



Source: Accounts Commission

Appendix A: audit reports

External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit Committee
Review of Adequacy of Internal Audit	29 January 2013	18 February 2013
Annual Audit Plan	22 February 2013	28 May 2013
Assurance and Improvement Plan	20 March 2013	28 May 2013
Review of ICT Arrangements	26 April 2013	28 May 2013
Scotland's Public Finances - follow-up review	12 July 2013	26 August 2013
Key Controls Report	30 August 2013	17 September 2013
Report on financial statements to those charged with governance	6 September 2013	17 September 2013
Audit opinion on the 2012/13 financial statements	17 September 2013	17 September 2013
Audit opinion on the 2012/13 Whole of Government accounts consolidation pack	By 26 October 2013	n/a
Report to Members on the 2012/13 audit (to full Council meeting)	By 31 October 2013	6 November 2013

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	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><i>Risk: The ultimate cost to the council is greater than anticipated.</i></p>	<p>The council has 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.</p>	Head of Finance & Property	30 June 2014
2	30	<p>Charities accounts</p> <p>Separate financial statements and an audit are required, from 2013/14, for registered charities where the council is the sole trustee.</p> <p><i>Risk: The council may not comply with OSCRs financial reporting and audit requirements for 2013/14.</i></p>	<p>The council is in the process of complying with the OSCR timetable and are looking at ways, using the 'connected provision' approach to reduce the number of trusts to a manageable level.</p>	Head of Democratic & Administrative Services	31 March 2014
3	33	<p>Common good funds</p> <p>Until now, the council has not reviewed its title deeds until the point of disposal to identify potential common good assets.</p>	<p>During 2012/13 the council commenced a review of title deeds to ascertain that ownership/title of property has been correctly recorded and accounted for. This</p>	Head of Democratic & Administrative Services	31 March 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>The council is currently in the process of reviewing all of its title deeds.</p> <p><i>Risk: Until this review is complete, there is a risk that the fixed asset register may not be accurate and that common good assets may not be identified in accordance with LASAAC guidance.</i></p>	<p>exercise, scheduled for completion by 31 March 2014, will provide additional assurance regarding the common good fund accounts in future years.</p>		
4	51	<p>Capital investment and performance</p> <p>The council re-profiled significant elements of its general service and HRA capital budgets from 2012/13 to 2013/14.</p> <p><i>Risk: There is a risk that capital budgets are not accurately profiled. This could impact decisions taken regarding borrowing requirements.</i></p>	<p>Enhanced governance arrangements, including the establishment of service project boards, were put in place during 2013/14. Capital profiles are reviewed on a monthly basis to ensure borrowing is undertaken at the appropriate time.</p>	Head of Finance & Property	Ongoing
5	61 75	<p>Budget savings and financial pressures</p> <p>The council identified a funding gap of £19.637 million over the period 2013/14 to 2015/16. To address this the</p>	<p>The funding gap, together with a review of assumptions and projections, will be addressed during the 2014/15 budget setting process.</p>	Corporate Director (Finance & Corporate Support)	11 December 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>council identified £15.859 million of savings during the 2012/13 budget setting process, leaving £3.778 million relating to the 2015/16 financial year that still requires to be identified.</p> <p><i>Risk: The assumptions and projections on which savings are based may alter. The council may be unable to meet its budget, which could impact on public services.</i></p>			
6	100	<p>Public Services Network (PSN) - Code of Connection</p> <p>The council has yet to have its application to connect to PSN approved.</p> <p><i>Risk: The council may not be able to share or access data held by other public sector bodies.</i></p>	The Council is taking urgent action to address current issues impacting on its compliance with PSN requirements.	Head of Human Resources & Organisational Development	05 December 2013
7	103	<p>Welfare reform</p> <p>The councils rent arrears are continuing to rise and this is likely to be exacerbated by</p>	The Council continues to be proactive in its approach to mitigating, as far as possible, the impact of the welfare	Corporate Director (Finance & Corporate Support)	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>future changes to welfare reform.</p> <p><i>Risk: The council may not be able to prevent rent arrears from increasing further leading to a significant loss of income.</i></p>	reform with regular reports to Cabinet		