

# South Ayrshire Council

## Annual report on the 2012/13 audit



Prepared for Members of South 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. 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

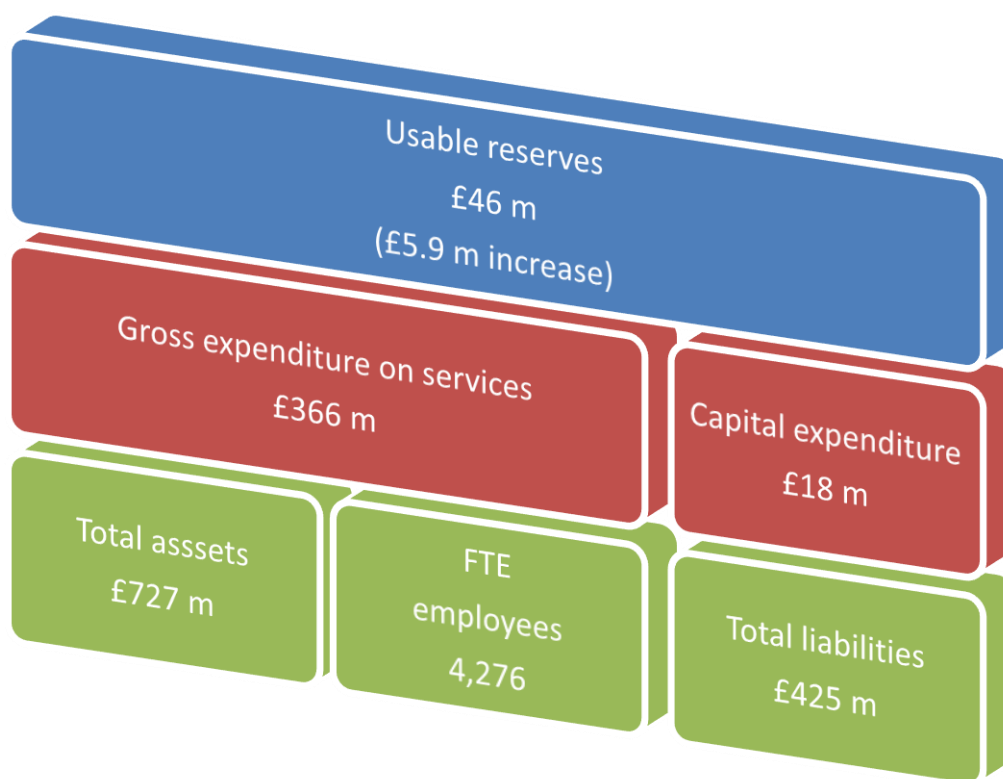
## 2012/13 Key facts

This report summarises the findings from our 2012/13 audit of South Ayrshire Council. As part of the audit we assessed the key financial and strategic risks 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.

## Financial position



The results for 2012/13 provide the council with a sound financial position going forward into 2013/14.

Whilst overall financial management is sound, persistent under spending against budgets has significantly contributed to the level of reserves. Under spending is particularly marked in the housing revenue account (HRA).

Management and members should be alert to the possibility that underspent budgets may indicate structural problems in the underlying budget setting process. The HRA budget should be fundamentally reviewed.

Members should assure themselves that explanations for underspends contained in budget monitoring reports are based on an analysis of underlying activity and that the delivery of agreed service levels have not been compromised. Members should also seek explanations where there is a significant disparity between succeeding projections and in particular with final outturn figures.

The annual cost to the council of bed and breakfast accommodation is significant. The council should review its strategy for the provision of temporary homeless accommodation to ensure that it is applying resources in the most efficient and effective way.

Slippage on the capital investment programme both for general services and housing continues to be an issue of concern. Management should consider whether adequate resources are available to deliver the council's capital programme.

Rent arrears written off under delegated authority during the year amounted to £0.551 million. Members should be regularly made aware of the total value of rent arrears written off during the year.

Rent arrears indicators exhibit significant decline which is a matter of concern, as the full consequences of welfare reform changes have yet to take full effect.

Welfare reform has had a considerable impact on processing for both new claims and change in circumstances benefit claims.

## **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 some areas for improvement were agreed with management.

The amount of business, in terms of agenda items, flowing through each of the council's panel's shows significant variation. The council should consider whether workloads are satisfactorily distributed and whether it could be making better use of the skills and experience of members.

The council is required to meet new and uncompromising security measures to retain its connection to the public services network (PSN). It is currently working towards compliance which must be achieved before the indicative date for termination, 10 December 2013. The potential for disconnection poses a risk of interruption to the data-sharing arrangements with central government and its agencies.

## Performance and best value

The council has been criticised in previous audit reports over the need to implement an up to date corporate plan, which is fully aligned to service plans and is used to drive its performance management arrangements. While we recognise that the council refreshed its Single Outcome Agreement during the year, in line with Scottish Government expectations, limited progress has been made on developing a corporate plan and supporting service plans.

As part of a Best Value review we reported that members have not been provided with comprehensive and regular information to allow effective management and scrutiny of the council's existing improvement programme.

Further delays are expected in the implementation of the council's community engagement strategy and the full implementation of service level self evaluation.

## Outlook

The outlook for public spending remains very challenging, with South Ayrshire Council facing an estimated funding gap of around £22 million over the next three years. Receiving no real terms increase in grant funding for the next three years, while maintaining the freeze on council tax and meeting a number of additional expenditure commitments will undoubtedly present further challenges at a time when resources are already under severe pressure. Difficult decisions will need to be made about prioritising resources towards the council's key strategic objectives.

The changes arising from the Welfare Reform Act 2012 include the introduction of the universal credit and consequent eventual elimination of the housing and council tax benefit function currently undertaken by the council. 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 services.

The Public Bodies (Joint Working) (Scotland) Bill is currently being considered by the Scottish Parliament. The Bill provides the framework for the integration of health and social care services in Scotland. Integration will be complex and challenging and South Ayrshire Council will need to continue to engage at the highest level with Ayrshire and Arran Health Board and, if appropriate neighbouring councils, to ensure that that it is well prepared for integration when legislation is enacted.

## Acknowledgement

The courteous co-operation and assistance extended to us over the past year by members and staff of the South Ayrshire Council is gratefully acknowledged.

# Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of South Ayrshire Council. The purpose of the annual audit report is to summarise the auditor's opinions on the financial statements 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 during 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 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 the 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 monitor progress.
4. This report is addressed to members and the Controller of Audit and should form a key part of discussions with the Corporate and Community Planning Standing Scrutiny Panel, as the council's audit committee, as soon as possible after it has been issued. Audit is an essential element of accountability and the process of public reporting. Audit reports are public documents and should be made available to the other stakeholders and the public.
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 annual overview report will be published on the Accounts Commission's website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
6. The management of the council is responsible for preparing financial statements which give 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 annual governance statement and the remuneration report. 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 South Ayrshire Council for 2012/13 give a true and fair view of the state of 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 Chief Accounting Officer has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's corporate management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

## Annual governance statement

12. We are satisfied with the disclosures made in the Annual Governance Statement and the adequacy of the processes put in place by the council to obtain the necessary assurances.
13. The Annual Governance Statement makes reference to two internal audit investigations that have yet to be formally reported. Further information is included at paragraph 113 of this report.

## Remuneration report

14. We are satisfied that the Remuneration Report for 2012/13 has been prepared in accordance with Local Authority Accounts (Scotland) Regulations 1985 and the Scottish Government finance circular 8/2011 and includes all required disclosures.



## Accounting issues

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

## Accounts submission

16. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2013. The unaudited financial statements were available for public inspection and the statutory period for lodging objections passed on 19 August 2013. No objections were made to the unaudited financial statements.
17. The financial statements submitted for audit were complete and prepared to a high standard. Working papers provided in support of the financial statements were of a high standard. The working papers and cooperation and assistance afforded to the audit team enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2013.
18. The audited financial statements are now available for presentation to members and publication.

## Presentational and monetary adjustments to the unaudited accounts

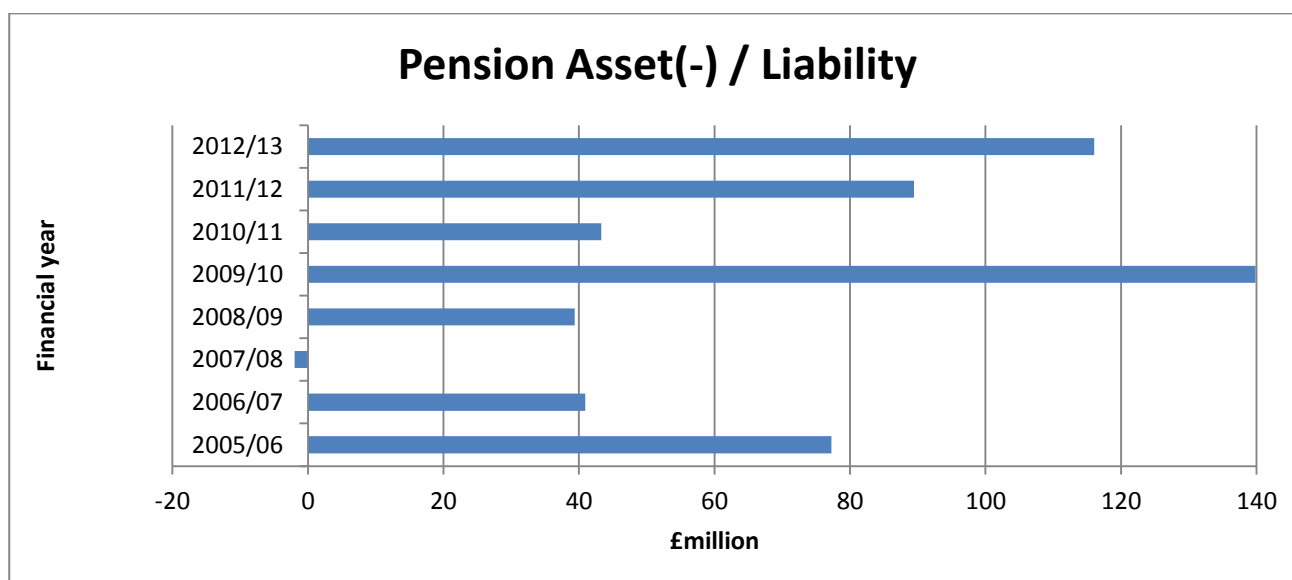
19. A number of agreed adjustments were made to the unaudited financial statements in accordance with normal audit practice. There were no amendments which impacted on the general fund balance of the council and there are no unadjusted errors in the audited financial statements. A number of presentational amendments were, however, made to enhance the disclosures within the financial statements.
20. One significant adjustment was required to the Comprehensive Income and Expenditure Statement and the Housing Revenue Account. This was the result of the inclusion of £1.195 million in respect of an internal recharge. The comparator figure for the previous year was also adjusted to eliminate a balance of £0.369 million in respect of 2011/12. The categorisation between dwelling and non-dwelling rents has also been amended for both years. The effect on the Housing Revenue Account and Comprehensive Income and Expenditure Statement is neutral as both income and expenditure are reduced by the same amount.

## Pension costs

21. South Ayrshire Council is a member of Strathclyde Pension Scheme which is a multi-employer defined benefit scheme. In accordance with International Accounting Standard 19 "Retirement Benefits" the council recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation as at 31 March 2013, provided by the scheme's actuaries, increased the council's share of the deficit from £89.461 million in 2011/12 to £116.054 million in 2012/13.

22. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. It should be stressed that the pension liability is an estimate made by actuaries at a specific point in time, based on a number of assumptions, most importantly forecasts of investment returns and interest rates.
23. In year payments made to the pension fund by the council comprise employer and employee contributions, the rates for which are set on a triennial basis. At the last triennial valuation the Strathclyde Pension Fund was 97.3% funded and had assets of £11.3 billion. The next valuation will take place on 31st March 2014 with new contribution rates in place from 1st April 2015. The movement in the council's liability in respect of pensions in recent years is set out in at exhibit 1.

**Exhibit 1: Movement in net pension liability 2005/06 - 2012/13**



Source: South Ayrshire Council audited financial statements

24. The pension reserve, included within unusable reserves in the balance sheet, absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding these benefits. This accounting arrangement ensures that there is no impact on the bottom line of the council's financial position.

**Equal pay**

25. 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 and are dissatisfied with the council's proposed resolution or compensation can elect to have a case heard before an employment tribunal. South Ayrshire Council has received a significant number of claims for compensation. Whilst the council has made provision for the estimated cost to resolve these claims, 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.

26. In May 2013 the council made an offer of compensation to 478 employees. The main trade union (Unison) recommended acceptance to its members. To date 444 employees have accepted the offer.

### Payments in advance

27. Audit testing found one instance where a payment in advance had been made. The council's financial regulations do not permit payments in advance. Officers acknowledge that this may be an issue which needs to be considered. We recognise that, on occasion, there may be a social or commercial imperative to make payments in advance. The payment in question was for a residential placement for 12 months in the sum of £95,000. The place was not required for the full term of the contract. In March 2013, the council negotiated a refund for the period from October 2012 to March 2013, however as at October 2013, the refund had not yet been received. The council could suffer financial loss if goods or services paid for in advance are not received or refunds not paid. The council should therefore develop procedures to restrict payments in advance for goods or services.

**Refer Action Plan No. 1**

### Home loans

28. The financial statements include debtors amounting to £63,000 in respect of four outstanding home loans made to Ayrshire residents to buy their homes. For two of these loans, totalling £52,714, no payments have been received from the debtors for some time. Management advised that there is currently no policy in place to direct how the non-payment of home loans should be addressed. Management are discussing with the council's legal service how to progress recovery of these amounts in 2013/14.

**Refer Action Plan No. 2**

### The Long Leases (Scotland) Act 2012

29. The Long Leases (Scotland) Act 2012 converts "ultra-long leases" into ownership on the "appointed day" (28 November 2015). Ultra-long leases are leases that were let for over 175 years and: for residential leases, have over 100 years left to run from the appointed day; for non-residential leases, have over 175 years left to run from the appointed day. Long leases are most commonly found in common good accounts. It is not clear what, if any, impact the Act will have on the common good funds administered by the council. We are advised that the council's legal service will consider the potential impact on the common goods funds administered by South Ayrshire Council.

**Refer Action Plan No. 3**

## Charities accounts

30. The Charities Accounts (Scotland) Regulations 2006 specifies the accounting and auditing rules for Scottish registered charities. South Ayrshire Council has 10 trusts having charitable status with total assets of some £0.598 million. The largest has assets of £0.371 million: seven have assets amounting to less than £0.025 million. As a consequence of the interaction of section 106 of the Local Government (Scotland) Act 1973 with the regulations, 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.
31. The audit time, and therefore cost, has not yet been quantified, however the cost is likely to be significant in the context of trust assets. Officers should investigate options for mitigating the financial impact, including winding up charities for which there are minimal balances and merging charities which share a common purpose.

**Refer Action Plan No. 4**

## Whole of government accounts

32. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The template used by councils to submit the required data for audit is issued by the Scottish Government. For 2012/13 the issue of the template was delayed and the deadline for submission by councils was extended to 6 September 2013. The council submitted the consolidation pack to support its 2012/13 WGA return to the Scottish Government prior to the deadline of 6 September 2013. We have now completed the audit of the council's WGA return and have no matters to report.

## Outlook

33. 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. The Assistant Auditor General 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 in the 2013/14 audit planning process.
34. A consultation exercise is currently underway on proposed amendments to the Local Authority Accounts (Scotland) Regulations 1985. South Ayrshire Council already has in place arrangements comply with some of the proposals, for example, the preparation of a governance statement. There are, however, a number of areas where the proposals may necessitate some changes to the timetable and disclosures with respect to the production of the council's annual financial statements. These include:
  - a mandatory "Management Commentary" signed by the proper officer, the Chief Executive and Leader of the Council which would replace the current Explanatory Foreword
  - disclosure of details of any disposal of land at less than best consideration

- unaudited accounts to be published on the council's website when they are submitted for audit
  - changes to the requirements for notice of public inspection and the public inspection period
  - Audit Committee to formally approve audited financial statements final signed version of the accounts by 30 September each year.
35. Police and Fire functions transferred to the Scottish Police Authority and the Scottish Fire and Rescue Service on 1 April 2013. The transfer means that South Ayrshire Council will no longer have a material interest in these bodies. The council plans to undertake a review in 2013-14 to ascertain whether the remaining bodies in which the council has an interest are sufficiently material to warrant the preparation of group accounts.

# Financial position

36. Audited bodies are responsible for establishing arrangements for the proper conduct of their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
37. Auditors consider whether audited bodies have established adequate arrangements and examine:
  - financial performance during 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.
38. This section summarises the financial position and outlook for the organisation.

## Financial results

### General fund

39. In December 2011 the council approved a net revenue budget of £268.019 million including expenditure to be financed through specific grants. The budget for 2012/13 was based on Band D council tax of £1,154 per annum and during the year the council planned to use £3.327 million of earmarked balances brought forward from the previous year. The budget also assumed the use of £1.300 million of the general fund balance.
40. In 2012/13, South Ayrshire Council spent some £387.640 million on the provision of public services. Its income totalled £391.453 million, resulting in a surplus on the provision of services of £3.813 million before the necessary accounting adjustments. After adjustments to reflect the difference between the accounting surplus and statutory requirements the increase in usable reserves is £5.910 million.
41. Overall the council reported an underspend against budget of £8.392 million (which included budgeted use of balances unused). Underspends against budget on all general services and the housing revenue contributed to the underspent total of £8.392 million.
42. The most significant underspend in 2012/13 was in children and community services at £4.413 million. This is mainly made up of an underspend of £3.121 million on employee costs and £1.352 million on payments to agencies. The council has attributed these to the time taken to fill vacant posts within the directorate and the reduced number of care packages required.

## Bed and breakfast accommodation costs

43. The Housing (Scotland) Act 1987 places an obligation on councils to provide accommodation for homeless persons. As a matter of practicality this frequently means placing successful applicants in temporary accommodation prior to identifying and allocating suitable permanent accommodation. Temporary accommodation can mean; blocs of council owned housing reserved for homeless use, hostels and bed and breakfast accommodation. Homeless applicants are frequently on benefits and the council is able to recover the costs of homeless accommodation from the Department for Work and Pensions (DWP) through the benefit subsidy arrangements.
44. The DWP operates, what is in essence, a subsidy cap which limits subsidy by reference to a local housing allowance (LHA). Where housing benefit is awarded at or below this cap the council is reimbursed 90% of the benefit awarded. Where the council awards benefit above this cap no subsidy is payable. The cost is borne by the council's general fund, over the five year period 2008/09-2012/13 this amounted to £2.240 million. Exhibit 2 provides an analysis of the costs to the council of bed and breakfast accommodation over the previous five years.

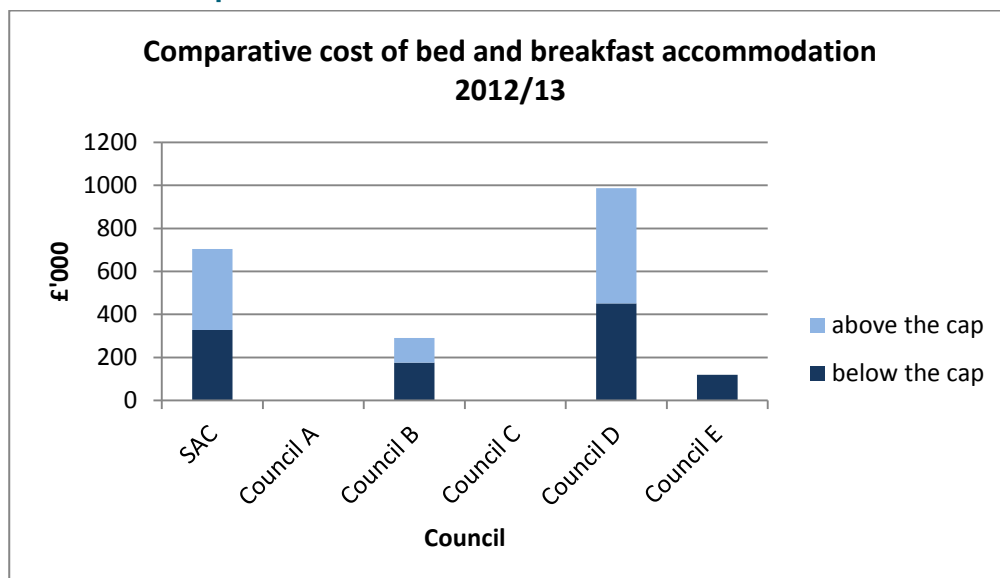
### Exhibit 2: Cost of bed and breakfast accommodation 2008/09 - 2012/13

	Below cap	Above cap	Cost to general fund
Year	£'000	£'000	£'000
2008/09*	592	271	506
2009/10*	622	257	504
2010/11	391	401	440
2011/12	312	350	381
2012/13	328	376	409
<b>Total</b>	<b>2,245</b>	<b>1,655</b>	<b>2,240</b>
* A different reimbursement regime was in place			

Source: South Ayrshire Council DWP benefit subsidy claims 2008/09-2012/13

45. Comparing South Ayrshire Council's spending with that of the 32 other Scottish councils; it is in the upper quartile (which includes the major cities) in terms of costs to the general fund. Exhibit 3 shows the comparative costs of a number of councils with similar demographics to South Ayrshire.

**Exhibit 3: Comparative cost of bed and breakfast accommodation 2012/13**



Source: DWP benefit subsidy claims 2012/13

46. We are advised that the council is reviewing its strategy for the provision of temporary homeless accommodation to ensure that it is applying resources in the most efficient and effective way.

**Refer Action Plan No. 5**

**Housing revenue account (HRA)**

47. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. In November 2011 the council resolved to adopt a fixed rent increase of 5.2% for the years 2012/13 to 2014/15. The budget was set on the basis of total income and expenditure of £25.828 million.
48. The estimation of the detailed income and expenditure items for the forthcoming year(s) is the main reason for the budget process. The budget is, therefore, a key tool in delivering the council's priorities while simultaneously planning a closing financial position which provides a sound basis for future years.
49. Estimates are subject to error and it can be expected that even well prepared estimates will occasionally turn out significantly different from forecast. However, the general pattern of the council's housing revenue account performance is one of continuing underspends and the accumulation of unplanned reserves. Exhibit 4 provides an analysis of underspends on the HRA over the past four years.



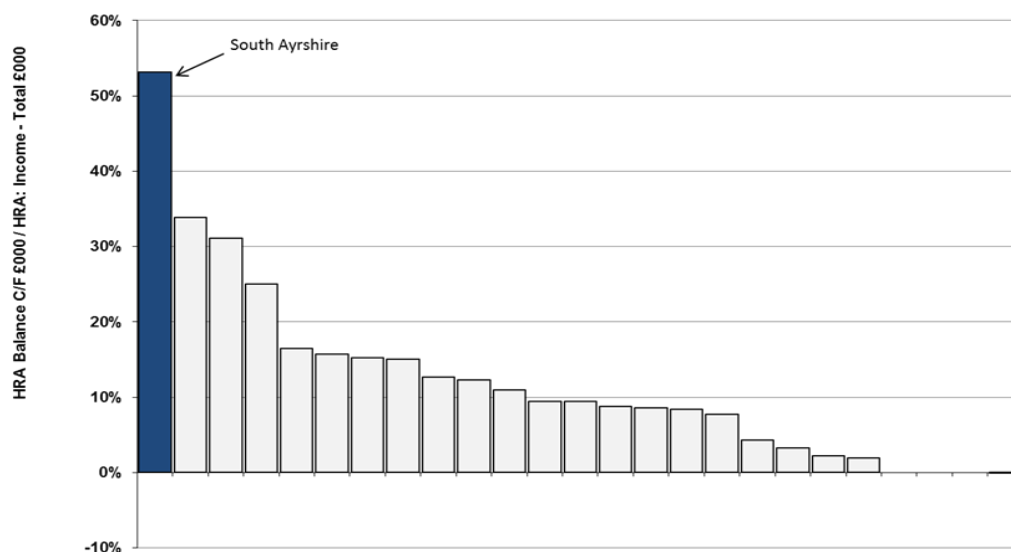
**Exhibit 4: HRA underspends 2009/10 - 2012/13**

<b>HRA four year underspends/(overspends)</b>					
<b>Cost</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>Total</b>
	£'000	£'000	£'000	£'000	£'000
Employee	498	670	679	472	<b>2,319</b>
Property	971	724	818	477	<b>2,990</b>
Supplies/services	113	118	51	129	<b>411</b>
Transport	0	4	23	30	<b>57</b>
Administration	181	140	130	93	<b>544</b>
Support services	63	121	(73)	48	<b>159</b>
Agency payments	(100)	(86)	(12)	(296)	<b>(494)</b>
Transfer payments	18	(3)	47	7	<b>69</b>
Financing	(341)	1,709	(52)	372	<b>1,688</b>
<b>Total</b>	<b>1,403</b>	<b>3,397</b>	<b>1,611</b>	<b>1,332</b>	<b>7,743</b>

Source: South Ayrshire Council budget monitoring reports

50. The council's housing revenue account was budgeted to use balances of £2.820 million in 2012/13. The year end balance actually decreased by £1.124 million in 2012/13 to £14.590 million.
51. Given the level of underspending of budgets, officers and members should consider whether the service is delivering the services implicitly agreed at the setting of the annual budget or whether the budget setting process is unsound. In this respect, we note that one reason for the significant underspend in employee costs was the absence of any allowance for staff turnover in setting the budget for employee costs, we understand that this has been addressed in the budget for 2013/14. The evidence of persistent underspending suggests that a further fundamental review of the HRA budget is required.
- Refer Action Plan No. 6**
52. Exhibit 5 compares the ratio of the HRA reserve to total HRA income for Scottish councils; the South Ayrshire Council HRA reserve balance is exceptionally high.

**Exhibit 5: Ratio of HRA reserves to total HRA income 31 March 2013**



Source: Scottish councils' unaudited financial statements 2012/13

53. Earmarked reserves are funds which councils choose to set aside to meet known or predicted commitments. Of the balance carried forward at 31 March 2013, the council has earmarked £6.869 million for specific capital and revenue expenditure. Exhibit 6 shows four identifiable earmarked amounts in reports made to members in respect of outturns on the HRA for the four years 2009/10 to 2012/13.

**Exhibit 6: HRA four year sample of earmarked reserves**

	2009/10	2010/11	2011/12	2012/13
	£'000	£'000	£'000	£'000
CFCR*	5,502	6,380	7,056	2,425
Planned maintenance carried forward	298	358	323	95
Maisonettes North Ayr	4,964	3561	3189	3,095
Riverside House	204	529	572	572
<b>Total</b>	<b>10,968</b>	<b>10,828</b>	<b>11,140</b>	<b>6,187</b>
*Capital funded from current revenue				

Source: South Ayrshire Council budget monitoring statements

54. The 2013/14 budget includes a further £5.324 million CFCR. At paragraph 68 we comment further on the delivery of the council's capital investment programme. The position has improved over the past year, however, the North Ayr maisonettes and Riverside House projects show little movement over last year. Officers and members should consider how and when these projects will be delivered.

**Refer Action Plan No. 7**

### Rent arrears write-offs

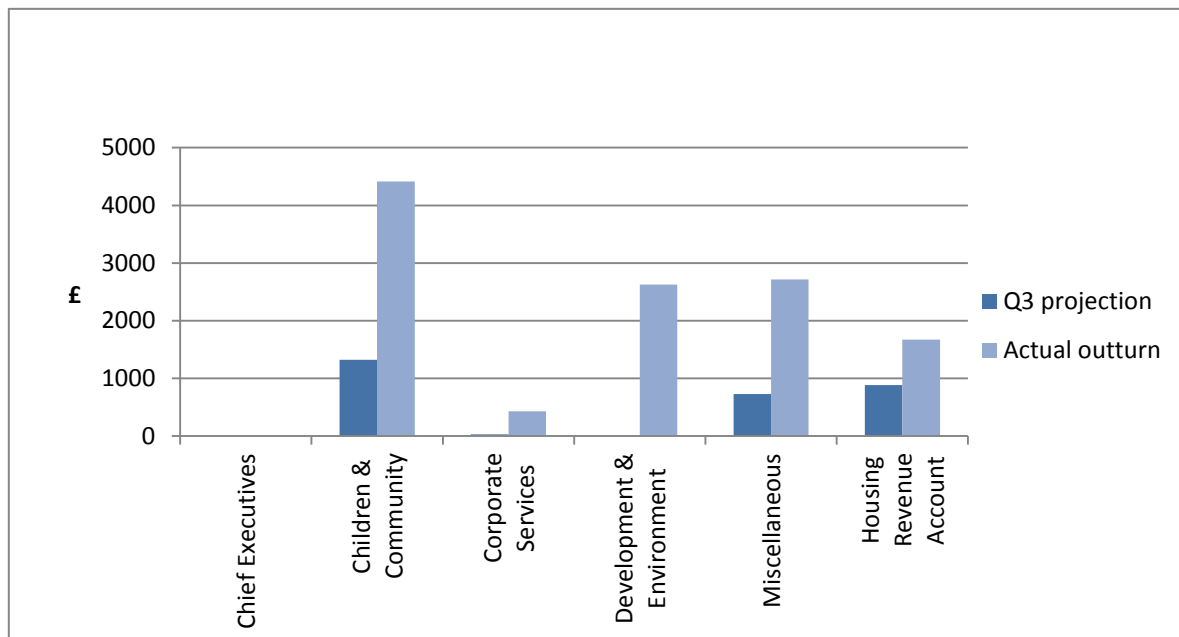
55. The Executive Director Resources, Governance and Organisation has delegated authority to write-off individual debts up to £5,000, with write-offs above this threshold requiring Leadership Panel approval. In 2012/13, the council wrote off £567,440 in rent arrears (£229,532 in 2011/12), £16,143 of which required approval by the Leadership Panel. While we recognise that the write-off of the remaining £551,297 was done in accordance with delegated powers, given the significance of the amounts involved and the backdrop of escalating rent arrears, we would expect members to be made aware of the total value of debts written off rather than just the amounts for which their approval is required.

**Refer Action Plan No. 8**

### Budgetary control

56. 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 council tax charges, rents and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management. In practical terms, budget monitoring involves examining periodic monitoring reports, obtaining explanations based on underlying activity and taking action to tackle any significant variances. Management and members must be alert to the possibility that underspent budgets may indicate structural problems in the underlying budget setting process.
57. Quarterly budget monitoring reports are submitted to the Leadership Panel. The bar chart at exhibit 7 shows the projected outturn for each department reported to members in the third quarter budget monitoring reports versus the actual year end outturn. With the exception of Chief Executives Office and Corporate Services, all budget heads have out turned with significant underspends which were not being predicted in the quarter three budget monitoring report.

**Exhibit 7: Underspend projections 2012/13**

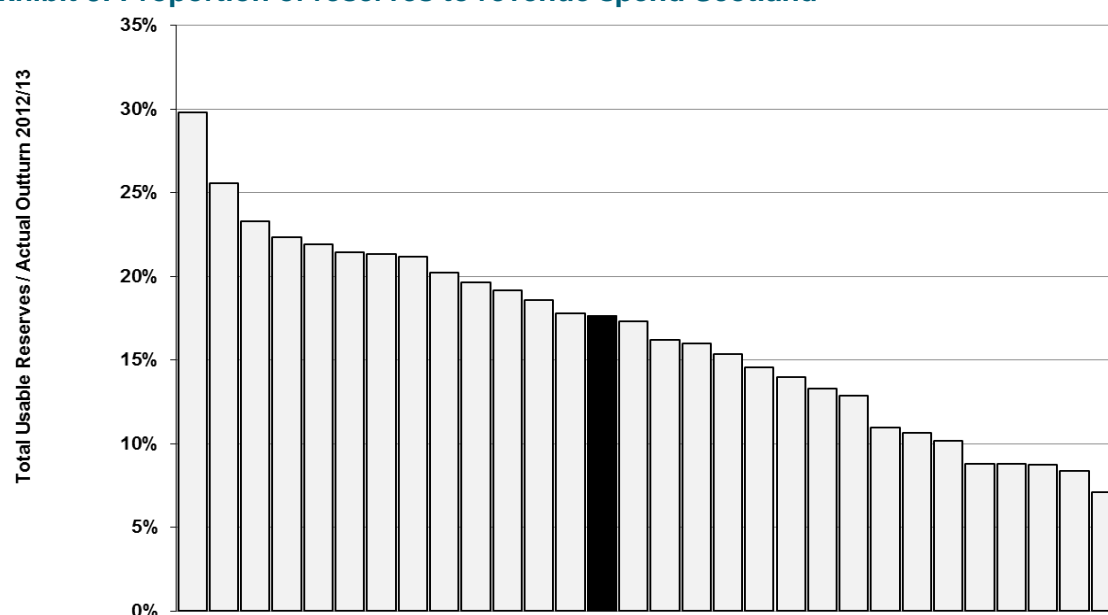


Source: South Ayrshire Council budget monitoring statements

58. Members should assure themselves that explanations for underspends contained in budget monitoring reports are based on an analysis of underlying activity and that the delivery of agreed service levels have not been compromised. The use of the judgemental terms favourable / unfavourable to describe variances in budget monitoring reports is not helpful in this respect. Members should also seek explanations where there is a significant disparity between succeeding projections and in particular with final outturn figures.

**Financial position**

59. The general fund reserve has no restrictions on its use. There is no specified minimum level of reserves that an authority should hold; it is the responsibility of the section 95 officer to advise on the level of reserve to be held. The principal purpose of holding a general fund reserve is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows. Reserves can only be used once and so should not be held to fund recurring revenue expenditure. This would be unsustainable as, at some point, the reserves would be exhausted. South Ayrshire Council’s useable reserves (highlighted in black) now stand at £45.546 million. Exhibit 8 shows the comparative picture, across Scotland, of reserves as a proportion of expenditure.

**Exhibit 8: Proportion of reserves to revenue spend Scotland**

Source: Scottish councils' unaudited financial statements 2012/13

60. Exhibit 9 shows the balances in the council's useable reserves at 31 March 2013 compared to the previous two years. Funds include a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing assets and an insurance fund to absorb insurance premiums and payments in respect of uninsured losses.

**Exhibit 9: South Ayrshire Council increase in useable reserves**

Description	31 March 2013	31 March 2012	31 March 2011
	£ million	£ million	£ million
General Fund	24.458	18.026	15.302
Housing Revenue Account	14.590	15.714	13.960
Capital Grants Unapplied	1.187	1.051	0.195
Capital Receipts Reserve	0.589	0	0.133
Repair and Renewal Fund	4.297	4.420	4.280
Insurance Fund	0.425	0.425	0.425
Capital fund	-	-	0.033
<b>Total</b>	<b>45.546</b>	<b>39.636</b>	<b>34.328</b>

Source: South Ayrshire Council 2010/11 - 2012/13 financial statements

61. In 2007 the council committed to achieving unallocated general fund reserves of £8.000 million by 31 March 2013. Of the £24.458 million general fund balance, £10.011 million was earmarked by the council for specific purposes leaving an unallocated balance of £10.601 million, or £2.601 million greater than target. Members need to understand the factors that contribute to unplanned accumulation in reserves and consider whether this is consistent with their expectations of service quality and delivery.
62. In a report by the Chief Executive to the council of 27 June 2013 members were asked to approve the transfer from the unallocated reserve balance of £10.601 million; £2.000 million to the Repairs and Renewals Fund and £0.601 million to the Change Fund. No rationale for the transfers is specified in the report other than reducing the unallocated reserve balance to £8.000 million. Transferring balances from the unallocated reserve balance simply to keep the unallocated balance at a predetermined target is not, in our view, appropriate. Members should be provided with a clear explanation, specifying the purpose of the transfer and the expected timescale for use of all transfers. Officers and members should review the purpose, level, historic use and planned use of all reserve balances annually, to ensure they are still necessary to support medium and long-term spending plans.

**Refer Action Point 9**

## Welfare reform

63. In our 2011/12 annual report, we commented that the council's ability to implement systems and processes to respond to the consequences the Welfare Reform Act 2012 would directly affect its capacity to support residents through these changes. To meet the challenge, the council established a cross-directorate Corporate Welfare Reform Working Group in 2012, led by the Chief Executive and comprising the Revenues and Benefits Manager, Housing Services Manager, Communications Manager, Chief Accountant and Customer Service Manager. From June 2013 the membership has been extended to include Head of Corporate Human Resources, Social Work Managers and the Community Engagement Manager.
64. The group has two work streams, one covering corporate debt and the second covering the impact of welfare reform on both claimants and council services. The working group prepared an action plan and submitted this to the Leadership Panel in November. There is, however, little evidence of routine progress monitoring, particularly of the improvement activities detailed in the Welfare Reform Working Group Work Plan which have not been updated since 2012.
65. Welfare reform changes have been communicated to local residents, members and council staff. A 'Benefits are Changing' contact directory has been issued to aid stakeholder organisations and local residents affected by the welfare reforms. In addition, the council has submitted a bid for Scottish Legal Aid Board challenge funding to provide co-ordinated and effective access to information and support through a partnership involving the third sector and stakeholder organisations.
66. Following the initial changes to the benefits regime the benefits service was overwhelmed with customer enquiries. The benefits service has done much to stem and steadily reduce the arrears of work that has accumulated. Collaborative working has been improved and officers

in housing, customer services and welfare rights sections now deal with customers enquiring about the shortfall in their rent payment rather than automatically directing them to the benefits service. Importantly, and more in line with other councils, customer service staff are now assisting with general benefit enquiries including the verification of supporting documentary evidence.

67. Local priorities include sustaining the benefits service and retaining its experienced staff until the migration of the current housing benefit caseload to universal credit. The service took over the responsibility for administering applications for free school meals and clothing grants in 2012 and from April 2013 is responsible for administering the Scottish Welfare Fund, the Council Tax Reduction Scheme and an increased Discretionary Housing Payments fund.

**Refer to Action Point 10**

68. The council has earmarked £0.400 million of the HRA balance to meet the cost of activities to manage and mitigate the risks of welfare reform. This may include the creation of temporary staffing resources to work with affected tenants to provide housing options advice, offer support to tenants to apply for discretionary housing payments, to make referrals to other agencies such as Welfare Rights and Money Advice, to provide advice and information on options available to help reduce the impact of welfare reform and to carry out processes associated with negotiating, monitoring and recovering rental income and arrears.

## Capital investment and performance 2012/13.

69. Capital expenditure for 2012/13 totalled £18.512 million (2011/12, £22.053 million). Spend on the housing programme was some £10.284 million (2011/12, £11.818 million) and on the general services programme was £8.228 million (2011/12, £10.235 million). The housing programme focused mainly on "major component replacement", refurbishments and new build council houses. The general services programme was concentrated on the new build, refurbishment and repair of schools, delivery of various ICT projects, roads and transport infrastructure and the creation of a children's residential unit.
70. The council approved its housing capital programme for 2012/13 in December 2011. The budget was set at £14.328 million. At the end of period three (to 30 June) the monitoring report submitted to the Leadership Panel in September noted the increase in the housing capital programme to £18.630 million for 2012/13 to absorb the previous years underspend. Throughout the year further adjustments were made to the programme to reflect new expectations on project delivery. This resulted in a final revised programme of £11.655 million.
- Actual spend on the housing capital programme amounted to 72% (2011/12, 76%) of the original programmed expenditure (£14.328 million).
  - Actual spend on the housing capital programme revised as at 30 June 2012 amounted to 55% of the revised programmed expenditure (£18.630 million).
  - Actual spend on the housing capital programme amounted to 88% of the final revised programmed expenditure (£11.655 million).

Slippage was noted across most projects including notably, "major component replacement" and "North Ayr maisonettes". On the positive side, the council's new build programme was substantially completed.

71. The period four (to 31 July 2013) housing capital monitoring report notes a revised capital programme for 2013/14, to take account of previous slippage carried forward, of £23.123 million (originally set at £12.182 million). This report projects slippage of £2.192 million for the year. Members should consider how realistic such programmes are given the council's record of underachievement. In addition, management should consider whether adequate resources are available to deliver the council's capital programme. Officers advise that additional resources have been allocated as part of the 2013/14 capital programme.

**Refer Action Plan No. 7**

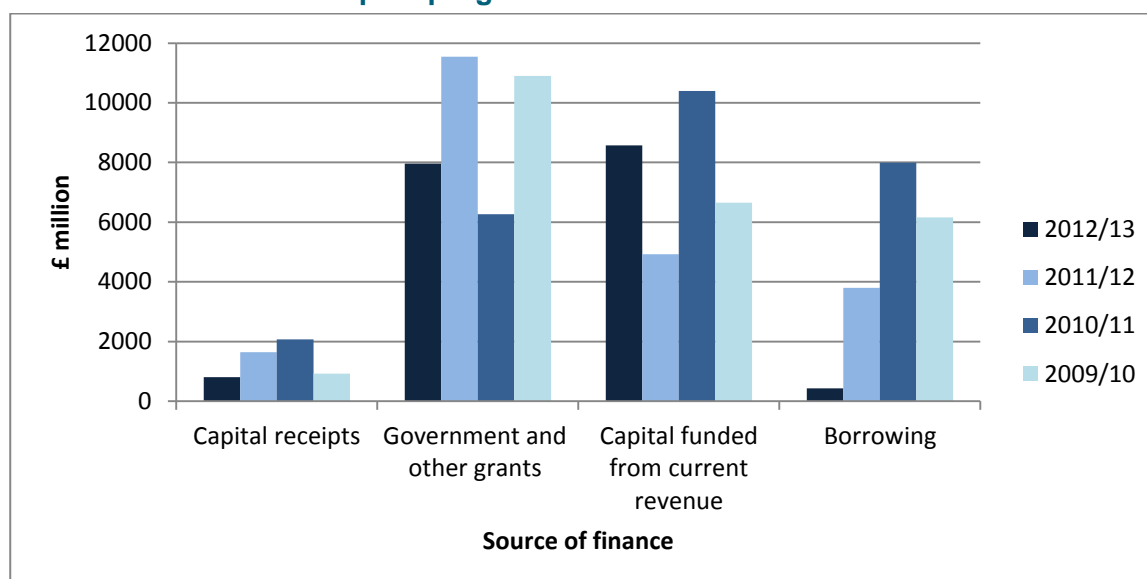
72. The council approved its general services capital programme for 2012/13 in March 2012. The budget was set at £12.980 million (2011/12, £14.171 million). At the end of period three (to 30 June) the monitoring report submitted to the Leadership Panel in September noted the increase in the general services capital programme to £17.104 million for 2012/13 to absorb the previous years underspend. Throughout the year further adjustments were made to the programme to reflect new expectations on project delivery. This resulted in a final revised programme of £9.076 million. Slippage was identified across a number of projects.
- Actual spend on the general services capital programme amounted to 62% (2011/12, 72%) of the original programmed expenditure (£12.980 million).
  - Actual spend on the general services capital programme revised as at 30 June 2012 amounted to 48% of the revised programmed expenditure (£17.104 million).
  - Actual spend on the general services capital programme amounted to 91% of the final revised programmed expenditure (£9.076 million).

73. The period four (to 31 July 2013) general services capital monitoring report notes a revised capital programme for 2013/14, to take account of previous slippage carried forward, of £27.576 million (originally set at £12.980 million). This report projects slippage of £0.575 million for the year. Members should consider how realistic such programmes are given the council's record of underachievement. In addition, management should consider whether adequate resources are available to deliver the council's capital programme. Officers advise that additional resources have been allocated as part of the 2013/14 capital programme.

**Refer Action Plan No. 7**

74. Funding for the council's capital programmes is derived, in the main, from central general and specific grant, capital receipts and borrowing. Exhibit 10 shows the sources of capital expenditure funding for the period 2009/10- 2013/14.



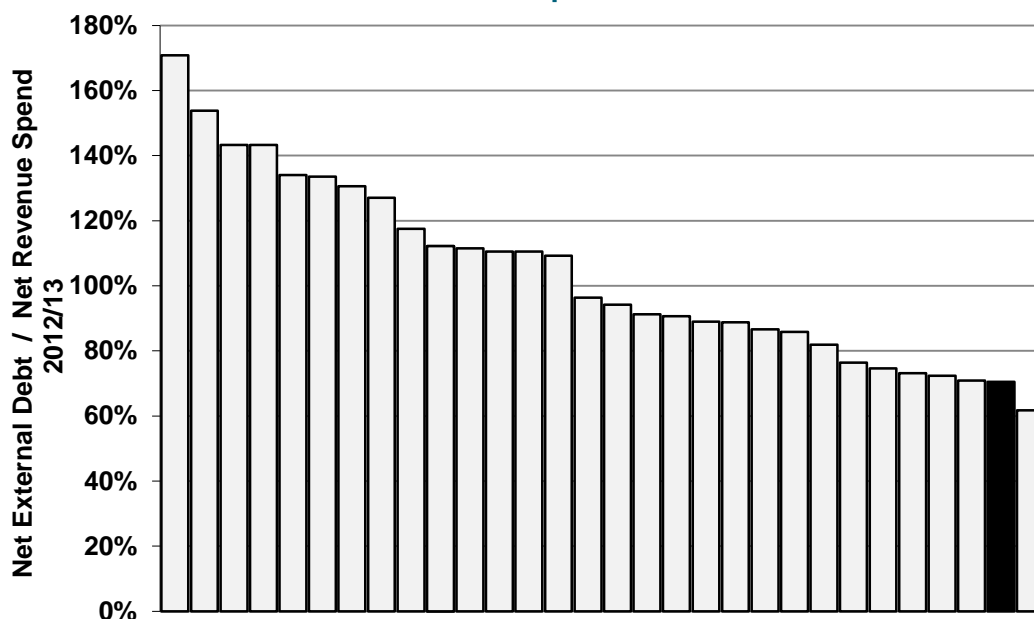
**Exhibit 10: Sources of capital programme finance**

Source: South Ayrshire Council annual financial statements

## Treasury management

75. The council's long term borrowings decreased marginally by £0.142 million to £177.311 million. Where possible the council has sought to use internal resources to meet financing requirements in the short term, until borrowing is available at favourable rates.
76. The average interest rate on investments improved marginally in the year from 1.077% in 2011/12 to 1.201% in 2012/13. The council received £0.832 million in investment income in 2012/13, compared to the £0.536 million received in 2011/12. While long term borrowing rates are also low, the council has a significant proportion of its historical debt at fixed rates resulting in the average cost of borrowing for 2012/13 remaining at 5.486%.
77. Analysing net external debt as a proportion of net revenue spend gives an indication of the relative indebtedness of the council. Exhibit 11 shows the net external debt as at 31 March 2013 as a proportion of the actual outturn for the year for all councils in Scotland. South Ayrshire (highlighted in black) fares well in this comparison with 71p of net borrowing for every £1 of taxation and grant income, compared to the highest council with over £1.60 of borrowing for every £1 of taxation and grant income.

**Exhibit 11: Net external debt to revenue spend Scottish councils**



Source: Scottish councils' unaudited financial statements

**Provision for Icelandic bank losses**

78. In October 2008 the Icelandic banks, Landsbanki Islands hf, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The council had two deposits amounting to £5 million with Landsbanki at the time of its entry into administration. Landsbanki Islands hf is in winding-up proceedings in accordance with Icelandic law. The Winding-up Board has provided information which indicates that the expected quantum of recovery will be close to 100%. After the fourth distribution from the Winding-up Board the council had recouped some 55% of its original investment. The current timetable anticipates full settlement by December 2019. A market in claims has developed and it is possible that the council may have the opportunity to sell its remaining interest as a preferred creditor.

**Financial ratios**

79. A set of financial ratios has been developed by the CIPFA Directors of Finance working group. The ratios are intended to assist stakeholders in evaluating the council's financial sustainability and the affordability of financial plans. The council are commended on the incorporation of a number of the financial ratios within the Explanatory Foreword. The ratios will also provide stakeholders with a means of appraising the effectiveness of councils' financial management arrangements.

80. Audit Scotland has compiled the financial ratios for all councils in Scotland, and a selection may be published in the Local Government Overview report for 2012/13. Some key ratios have been included in this report.

## Financial planning to support priority setting and cost reductions

81. In common with other public sector bodies the council faces continuing financial constraint. The indicative budget figures for the period 2014/15 to 2016/17 identified a funding gap of £22.333 million. Management are using this forecast to plan the savings required in future years and efficiency measures are being agreed during the course of the year to minimise delays in the budget setting process.

### Asset management

82. The council's balance sheet as at 31 March 2013 discloses an aggregate valuation in excess of £640 million in respect of non-current assets. It is important that the council, as custodian of a significant public asset base, is able to justify its holding in terms of best value and efficient and effective service delivery. A corporate asset management plan is intended to provide a strategic approach to the management of a council's assets and how they will be deployed in meeting its corporate objectives. A corporate asset management plan also better facilitates rational and informed decision-making, based on identified needs and available funding.
83. The council approved a comprehensive corporate asset management plan in November 2012. A further report submitted to the Leadership Panel in January 2013 sets out a timetable for the completion of a number of tasks to implement the plan. Management and members should ensure that the plan is now implemented and that an appropriate reporting and monitoring regime is in place.

**Refer Action Plan No. 11**

### Workforce reduction

84. Workforce reduction is a key part of the council's plan to reduce expenditure to meet the reductions in funding in the coming years. In 2012/13 the council reduced its workforce by 109 employees. Of this number 49 went through a combination of early retirement and voluntary redundancy at a revenue cost to the council of £0.570 million. The council recently circulated a targeted voluntary early retirement trawl as part of its efforts to achieve efficiencies.
85. Without careful planning, staff reductions can lead to increased overtime or use of agency staff. The council is aware of this risk and continues to monitor expenditure on overtime and agency staff to ensure that the changes to the workforce profile do not have an adverse effect on costs.

## Procurement

86. 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. In the most recent PCA (December 2012) the council scored 53% (December 2011 39%). This score ranks the council in the "improved" quartile and is an above average score. The council is commended on the progress it has made over the past three years. The council should now build on the solid foundations that it has in place to achieve further improvement in procurement.

**Refer Action Plan No.12**

## Shared services

87. In April 2006, a "pan-Ayrshire Group" was formalised with the neighbouring Ayrshire councils and NHS Ayrshire and Arran. The group's remit is to consider and progress the potential for improved effectiveness and efficiency through alternative models of service delivery across Ayrshire. An Ayrshire Shared Services Joint Committee, which will oversee the delivery of shared services by the lead authority, has recently been agreed by the three Ayrshire councils.
88. The council is involved in the delivery of shared services in a number of areas, including;
- the pan-Ayrshire Civil Contingencies Team providing emergency planning services
  - the Ayrshire environmental health out-of-hours noise team operating to tackle noise nuisance throughout Ayrshire
  - the Ayrshire Social Work Out Of Hours Response Service has been operating as a unified service based at Crosshouse Hospital since April 2012
  - the Ayrshire shared tourism service
  - the Ayrshire archives service.
89. Each of the Ayrshire councils and NHS Ayrshire and Arran operate an aids and equipment store. These stores hold a supply of the most common types of equipment generally required to support people to live at home independently. The council is now collaborating with North and East Ayrshire Councils and NHS Ayrshire and Arran to develop a joint equipment store.
90. The three Ayrshire councils collaborated in developing a business plan for a shared roads service. North Ayrshire Council withdrew from the project at a late stage; however, South and East Ayrshire Councils resolved to proceed with a joint roads service from 1 April 2014. The Ayrshire Roads Alliance will deliver roads services across South and East Ayrshire, including roads maintenance, design and infrastructure, traffic and transportation and road safety. The new shared service is predicted to achieve joint savings in excess of £8 million over a ten year period. The councils have recently announced the appointment of the head of the new service and he is expected to take up post in early 2014.

## Outlook

### Revenue and capital budgets

91. The council approved its revenue budget for 2013/14 on 18 December 2012, with total planned expenditure of £246.221m. Following the receipt of the Finance Order 2013 in January 2013, revisions to the revenue budget were approved by members at the Council meeting of 14 February 2013, with total planned expenditure increasing to £252.540m. The council resolved to bridge the £5.8 million gap between funding and expenditure by applying £1.3m from reserves, adjusted for a contingency of £0.2 million, with the balance (£4.7 million) to be met through efficiency savings. The indicative budget figures for the period 2014/15 to 2016/17 identified a funding gap of £22.333 million. The budget delivered a freeze on council tax in line with Scottish Government funding conditions.

### Budget projections 2013/14

92. The council's first budget monitoring report for 2013/14 was presented to members in September 2013 and covered the period from 1 April 2013 to 30 June 2013. Early indications of actual performance against budget, projected a year end underspend of £0.336 million for general services and an underspend of some £0.638 million for the housing revenue account.

### Financial forecasts beyond 2013/14

93. The financial challenges facing the Scottish public sector are well documented. Public bodies face deep and prolonged cuts in funding. Real terms reductions in central funding for all local government bodies are inevitable, meaning that recurring savings in overall net expenditure will need to be found from base budget allocations. Use of reserves in the short term may bridge the gap between expenditure needed to maintain services at existing levels and available funding, however, this does not provide a long term solution.
94. The Audit Scotland report, Scotland's Public Finances - addressing the challenges (March 2013), highlighted the pressures faced by council in terms of resources and demands on services. 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. The council should ensure that it takes action to address the issues raised in the follow up report issued in October 2013 to ensure that it is able to meet the challenges that lie ahead.

### Future risks and developments

95. A number of legislative changes will impact on the services the council provide. These include the Welfare Reform Act 2012, the Public Bodies (Joint Working) (Scotland) Bill and the community planning review.
96. Welfare reform will continue, for several years, to be a dominant issue for all councils. From October 2013 the next stage in the reform process, universal credit, will be phased in. In future, the direct payment of housing benefit to claimants entails the risk of higher levels of rent arrears and ultimately higher levels of write offs. However, the most immediate impact of

the Act (the over accommodation restrictions on benefit) are manifest in the escalating rent arrears at the council and the increase in resources required to support those citizens affected by the changes. It is important that the council continues to monitor the impact of these reforms closely and develops effective strategies that address the consequences of the welfare reform agenda.

97. The Public Bodies (Joint Working) (Scotland) Bill is currently being considered by the Scottish Parliament. The Bill provides the framework for the integration of health and social care services in Scotland. As it stands the Bill offers some flexibility on the partnership arrangements for the governance and oversight of health and social care services. Integration plans must be prepared jointly by councils and health boards and these will be subject to ministerial scrutiny and approval. The integration will be complex and challenging and South Ayrshire Council will need to engage at the highest level with Ayrshire and Arran Health Board and, if appropriate neighbouring councils, to ensure that that it is well prepared for integration when legislation is enacted.
98. The community planning review which began in January 2012 aims to consider how effective community planning can contribute to public sector reform. In particular, it seeks to reduce duplication, improve outcomes for communities and strengthen joint working. The Single Outcome Agreements to be implemented for 2013/14 will build on these principles.

# Governance and accountability

99. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed.
100. 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.
101. 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.
102. In this part of the report we comment on key areas of governance.

## Corporate governance

### Processes and committees

103. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the improvement agenda.
104. The local government elections in May 2012 resulted in a change to the administration of the South Ayrshire Council. It is now a Conservative/Labour administration having previously been a Conservative/SNP administration. The council has continued with the executive/scrutiny panel political decision making structure.
105. South Ayrshire Council has delegated executive decision making powers to a Leadership Panel consisting of seven members each of whom has responsibility for a specific portfolio. The Leadership Panel currently comprises four Conservative and three Labour members and is chaired by the Leader of the Council. The Leadership Panel, under powers delegated by the full council, takes all key strategic and service delivery decisions although the review and approval of annual revenue and capital budgets and the setting of council tax are reserved for the full council.
106. The Leadership Panel has a strategic role focusing on policy development, service review and strategic management of the council's services. Under this arrangement, a significant amount of council business is considered by the Leadership Panel. Between January 2012 and June 2013, the Panel met 16 times and considered 264 items, an average of over 16 papers per

meeting. The council should consider whether workloads are sustainable at the current level and whether the current political decision making structure remains fit for purpose.

**Refer Action Plan No. 13**

**107.** The council has three standing scrutiny panels, aligned to Leadership Panel portfolios, whose main function is to call in and review decisions of the Leadership Panel as necessary. One of the standing scrutiny panels, the Corporate and Community Planning Standing Scrutiny Panel, convenes alternately as the council's audit committee. This panel's remit includes the responsibility for receiving internal and external audit reports and audit plans, as well as overseeing risk management and treasury management arrangements. It is less clear what the contribution of the remaining scrutiny panels is given the limited agendas and the cancellation of scheduled meetings due to lack of business.

**Refer Action Plan No. 13**

**108.** During the year under review we attended a number of council meetings and Corporate and Community Planning Standing Scrutiny Panel meetings. We found that these are well supported by members, with good attendance and, in general, constructive challenge to officers on the audit reports submitted.

**109.** In addition to the executive/scrutiny panels the council operates a Scrutiny / Governance Management Panel, the remit of which centres on the maintenance of good governance and the adherence to standards. General Purposes (grants to voluntary organisations, civic hospitality and members conference attendance) and Rural Panels (strategy and budget pertaining to rural communities) are also in operation.

## Corporate management

**110.** During the year under review the previous Chief Executive took early retirement in the interests of the efficiency of the service. The costs of the early retirement package were funded from the council's accumulated general fund reserve. As part of our normal audit duties we reviewed the circumstances of the decision and concluded that it was taken in, what members believed, was the best interest of the council. The council took appropriate external advice and considered alternative options and costs in arriving at its decision. We found no evidence that any legislation or guidance was breached. Notwithstanding our conclusion, we made two recommendations, which the council accepted, in respect of governance arrangements over the employment of senior officers.

## Internal control

**111.** While external 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 is informed by an assessment of risk and the activities of internal audit.

**112.** Accordingly, we conducted a review of selected elements of the council's accounting and internal control systems. Our work covered several systems including general ledger, cash



and cash equivalents, council tax, non domestic rates and housing rents as well as aspects of the payroll and trade payable systems. The findings from this work were reported to the Corporate and Community Planning Standing Scrutiny Panel in September 2013. No material control weaknesses were identified. The review did, however, identify a number of areas where we considered that enhancement to internal control procedures was desirable. Officers have agreed an action plan and improvements have already been introduced, or will be implemented in accordance with an agreed timetable.

## Internal audit

- 113.** Internal audit provides an independent appraisal service to management, by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the council's internal audit arrangements against the CIPFA Code of Practice for Internal Audit in Local Government 2006. We concluded that the council's Internal Audit Service operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom.
- 114.** Where possible, to avoid duplication, we have placed reliance on the work performed by internal audit. We have been able to take necessary assurance from the work carried out in relation to specific controls operated in the collection of non-domestic rates income, council tax collection, cash income and banking, main accounting, treasury management and housing and council tax benefits. Internal audit also played a key role in reviewing the council's annual submission of statutory performance indicators. This not only avoided duplication of effort but also enabled us to focus on other areas of risk.

## Internal audit investigations

- 115.** Internal audit undertook two significant investigations during the period under review. The first concerned the award of a contract for the provision of a managed service for printers. The second was an investigation into alleged irregularities concerning the construction of a cycle path.

## Photocopier contract

- 116.** The council issued tender documents for the "Provision of a Managed Service of Multi Function Devices" in August 2010. The estimated value of the contract awarded, over its five-year period was £1.9 million. The aim of the contract was to streamline the council's printer/copier stock, and enable more efficient usage which could be effectively monitored and managed. A review of procedures followed in awarding this contract was undertaken by internal audit and a draft report issued in January 2013. Officers advise that the final report will be issued shortly. The draft includes a detailed action plan to meet the weaknesses identified in the evaluation and awarding of the contract and the maintenance of comprehensive records.
- 117.** The review concluded that there were a number of serious shortcomings in the specification, financial evaluation and management of the process which ultimately resulted in the council contracting for a service delivered on fundamentally different terms to those intended. In

addition the council is unable to demonstrate that Best Value was obtained as a result of this contract process. The council has agreed an action plan which will ensure these problems are not repeated in awarding contracts in the future.

### **A713 Cycle path: Misuse of council assets**

- 118. At a meeting with senior council staff a third party made a number of allegations of irregularities in connection with the job being undertaken on Phase 1 of the A713 Cycle path between Ayr Hospital and Carrick Glen Hospital. The allegations centred on the misuse of council vehicles, theft of materials and council employees doing private work on council time.
- 119. Internal audit investigated the allegations by using records from vehicle tracking systems and measuring the amount of materials required for the job. At the time internal audit had prepared the investigation report the job was over budget both in terms of costs and time. Disciplinary procedures involving a number of roads employees are nearing completion. An action plan addressing control weaknesses was prepared and is being implemented.

### **ICT service review**

- 120. As part of our 2012/13 audit work we carried out a follow-up to the ICT service review performed in 2011/12 using a standard methodology developed by Audit Scotland. This was done in consultation with ICT management and by reviewing relevant documentary evidence.
- 121. The ICT service review in 2011/12 provided a total of five agreed action points and of these, we were able to report that three were considered to be completed, although the action related to change management was continued for further follow on. The continuation was to allow completion of some refinement required to meet the standard for the re-accreditation process to the Public Service Network (PSN).
- 122. A revised action plan for improvement has been discussed and agreed with management.

### **Public Services Network**

- 123. 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. For example, the council shares benefit information with the Department of Works and Pensions while social work and education services exchange information with the police, Criminal Justice Partnership and Children's Hearings Scotland.
- 124. 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).
- 125. Since November 2012 all applicants must 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.

126. The council's initial application was not successful and it continues to work with Cabinet Office assessors and a specialist security consultant to meet the enhanced compliance requirements for continued connection to PSN. To meet requirements the council is developing an option that can be delivered within the required timescale and which minimises costs and business disruption. The council is, however, currently in escalation meaning that the indicative date for termination to PSN services if it does not achieve compliance is 10 December 2013. As there continues to be a risk of interruption to the existing data-sharing arrangements, we would suggest that the council considers its business continuity options.

**Refer Action Plan No. 14**

## Housing and council tax benefits performance audit

127. A risk assessment was previously carried out on the council's benefits service in 2011 and a detailed report was issued. The report identified 19 risks to continuous improvement and management agreed an action plan to address these risks. The current year's risk assessment confirmed that all but one of these risks had been addressed. The outstanding action relates to progress on the key activities in the Benefit Service Delivery Plan which was to be monitored through the corporate performance management system. However, the assessment found that the plan does not include milestone dates and there is no evidence of routine monitoring of the plan.

128. The current year's risk assessment also identified five risks which were mostly related to progress monitoring, the time taken to process claims and dealing with interventions. South Ayrshire Council has consistently been one of the top performing council's in benefit processing. The introduction of Welfare Reform has had a significant impact on processing times, resulting in the council slipping to rank 17 in quarter four of 2012/13. The transfer of seven experienced staff members along with an unprecedented demand on the service from customers seeking information and assistance following the introduction of over accommodation restrictions to housing benefit from April 2013 contributed to this decline. However, the impact was greater than at other high performing councils. These risks and those still outstanding from the last review have been incorporated into an updated action plan for implementation.

**Refer Action Plan No. 10**

## Prevention and detection of fraud and irregularities

129. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. We noted that South Ayrshire Council has a range of measures in place to prevent and detect fraud, including Standing Orders and Financial Regulations, and a Code of Conduct for members and staff. Also, a number of other policies are available to staff via the intranet including 'whistleblowing'.

130. The council's internal audit function has a formal programme of work, which, although not specifically designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud.

131. Overall, we have concluded that the council's arrangements were 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.

### National Fraud Initiative in Scotland

132. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud. The most recent data matching exercise collected data from participants in October 2012 with matches identified for follow-up in February 2013.
133. The current NFI data exercise identified 7,083 data matches of which 6,290 are considered high quality and 871 recommended for investigation. Good progress has been made in the investigation of these data matches with 178 matches investigated to date. Overpayments of £1,827, including one confirmed case of fraud, have been identified so far.
134. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

### Standards of conduct and arrangements for the prevention and detection of corruption

135. 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.
136. The council has assessed its own governance arrangements against the CIPFA/SOLACE guidance: Delivering Good Governance in Local Government. The council reviews its local arrangements annually and the last review concluded that the council continues to have effective arrangements in place to protect its interests and promote good governance.
137. We have concluded that the arrangements for the prevention and detection of corruption in South Ayrshire Council, subject to the Anti-Fraud and Corruption Policy being updated to include reference to the requirements of the Bribery Act 2010, are satisfactory.

### Equality Act 2010

138. 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 integral 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.

139. The council produced the South Ayrshire Council Equality and Diversity Strategy Outcomes and Mainstreaming Report 2013 which sets out its arrangements for meeting the requirements of the Equality Act 2010. Specifically it sets out how the council has developed outcomes and how it is mainstreaming equalities as required by the Equality Act 2010 (Specific Duties) (Scotland) Regulations. It encompasses the council as a provider of services and an employer, as an Education Authority and as a Licensing Board. The council has also produced a simple guide for use by managers in preparing material for council decisions.

## Outlook

140. Changes in pension legislation came into force in 2012 requiring that all eligible employees must be automatically enrolled into a workplace pension scheme. Auto enrolment is part of a government initiative to encourage people to save for retirement. All employees between 22 and state pension age who earn more than the earnings trigger (currently £9,440 per annum) will be automatically enrolled in either the Strathclyde Pension Fund for local government employees, or the Scottish Teachers Superannuation Scheme, operated by the Scottish Public Pensions Agency. The roll-out of the new requirements is staged and staging dates depend on the number of employees in the PAYE scheme as at 1 April 2012. South Ayrshire Council's 'staging date' was 1 May 2013. This has placed an additional workload on staff in both HR and payroll sections, however there has been no evidence of significant issues arising from the introduction of this change.
141. From 1 July 2013, councils are required to share employees' payroll information with the Department for Work and Pensions. This government initiative has been introduced to ensure all those eligible to receive state benefits, particularly when universal credit is introduced, receive the right amount at the right time. This has placed an additional workload on staff in both HR and payroll sections, however there has been no evidence of significant issues arising from the introduction of this change.

# Best Value, use of resources and performance

142. 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.
143. 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 local level
  - a review of a body's response to national recommendations.
144. This section includes a commentary on the Best Value/performance management arrangements within the South Ayrshire Council. We also note any headline performance outcomes/ measures used by the council and comment on any relevant national reports and the body's response thereto.

## Management arrangements

### Best Value

145. The findings of the annual Shared Risk Assessment (SRA), carried out by the Local Area Network (LAN), were submitted to management in March 2013 in the Assurance and Improvement Plan (AIP) 2013-16. As a result of our findings it was determined that we should, in collaboration with colleagues from Best Value and Scrutiny Improvement, undertake a Best Value review of the council's corporate improvement programme. The aim of the review was to form a judgement on:
- The effectiveness of the management and scrutiny of the improvement programme by the council; and
  - The council's progress in completing its improvement programme.
146. The findings from this review were reported to members on 27 June 2013. The key conclusions were:

- Since November 2011 members had not been provided with comprehensive and regular information to allow effective management and scrutiny of the council's improvement programme.
  - A number of improvement areas included in the programme did not have specific, measurable actions against which progress could be monitored.
  - Reports had been made to various panels on a range of activities which included incidental reporting against some of the six improvement areas but it was difficult to trace these back to improvement programme objectives.
  - The disparate nature of reporting made it very difficult for the council to demonstrate progress against its improvement programme and for members to be assured that progress was being made.
147. The report made two recommendations for improvement. The first was that in order to promote continuous improvement, the council should ensure that there are clear, measurable objectives with agreed timescales for delivery. Management agreed to ensure that the new Council Business Plan actions this recommendation.
148. The second recommendation was that there should be clear and transparent reporting arrangements in place to ensure that members are able to scrutinise performance and hold officers to account. Management advised that a reporting timetable will be agreed with members when finalising the new Council Business Plan.
149. Further targeted Best Value audit work is planned in the autumn of 2013 to consider how well members and senior officers are identifying, prioritising and driving improvement. The findings from this work will be reported early in 2014.

## Performance management

150. A common understanding of the council's strategic priorities and how the underlying plans, goals and tasks flow down through directorates, services and teams to individuals is a prerequisite to the successful delivery of Best Value services to the citizens of South Ayrshire. This unbroken link between the actions of individual staff and corporate objectives is sometimes referred to as the "golden thread". Robust performance management arrangements are essential for monitoring progress against objectives and driving continuous improvement.
151. The council adopted a computer based performance management system in April 2011 which aimed to provide the facility to report on progress against the council's key performance indicators. In previous audit reports we recognised that this was a significant step forward, however, we also highlighted the need to nurture a culture of continuous improvement throughout staff at all levels in the council.
152. The LAN for South Ayrshire Council reported in the AIP 2013-16 that there was a risk that the achievement of the objective of providing services more efficiently and effectively was being frustrated by a lack of performance information. Management advised that the performance management framework would be aligned to the new strategic plans from April 2013 and that

there would be monthly performance reports to managers. The council planned to introduce these changes by 30 April 2013 however with the appointment of a new Chief Executive in May 2013, the council decided to delay the Council Business Plan until October 2013 which means that the timescale for detailed departmental plans has been extended to 31 March 2014. Progress in developing detailed council and departmental service plans will be considered as part of the Best Value audit work mentioned earlier in this report.

**Refer Action Plan No. 15**

## Customer service

**153.** An updated customer service strategy was agreed in March 2011. It specified face to face, telephone and online as being the three main channels for customer interaction. One of the key elements of the strategy was the council's commitment to the delivery of customer facing services from 'one-stop-shops' in the heart of its communities. During the year under review the council opened four (Girvan, Maybole, Prestwick and Troon) customer service centres. In July of 2013, a fifth centre, the Wallace Tower in Ayr, was opened. The centres provide a single point of contact and service access where citizens can access information, assistance and advice on a wide range of council services.

## Complaints Handling Procedures (CHP)

**154.** The council's complaints procedure is available on its website. Ultimately, if a complainant is not satisfied with the response of a council to a complaint, there is an opportunity to take the matter forward to the Scottish Public Services Ombudsman (SPSO). The SPSO required all councils to move to a two stage CHP from 1 April 2013. Accordingly, the council submitted details of its proposed revised CHP to the SPSO by the target date of 14th September 2012. The SPSO responded with a positive assessment of the council's revised CHP. Having made the necessary adjustments to ensure full compliance the council was able to introduce the revised CHP in January 2013.

## Overview of performance in 2012/13

### South Ayrshire Council performance measurement outcomes

- 155.** The council prepares an Annual Performance Report for the year which is reported to the Leadership Panel. The Performance Report for 2012-13 was presented to the Leadership Panel on 25 September 2013. The report identified 63 outcomes which are being actively progressed. Of these 50 are considered to be on target, 12 are not on target and are areas of "some concern" and one is not on target and a "major concern".
- 156.** The council has recognised improved community engagement as an area of major concern and has put plans in place to develop a community engagement strategy. The council planned to put a draft strategy to members in October 2013 however this has been postponed while the council awaits the publication of the draft Community Empowerment and Renewal Bill which is likely to be late October/early November. We understand that the draft provisions are expected to give a clear indication of the direction the Scottish Government expects



councils to take in relation to community engagement. The council has had some initial dialogue with community councils and community groups on the way forward with community engagement and has indicated that it will organise a further workshop as soon as the draft Bill is available. A revised timescale of December 2013 has been set to take the community engagement strategy to members but this will depend on when the Bill is published.

**Refer Action Plan No. 16**

157. Areas identified as not on target causing some concern include:

- Town centres are supported and developed.
- Increased numbers of affordable homes.
- Effective letting of council housing.
- Responsive and effective council house repairs.
- Maximising employee attendance.
- Leaders drive a strong corporate culture of continuous improvement.
- The council works effectively through partnership to deliver sustained improvements.
- Effective performance management to support high quality service delivery.

158. Management has undertaken to present a six month interim report which considers progress made on the outcomes not on target.

### **Statutory performance indicators**

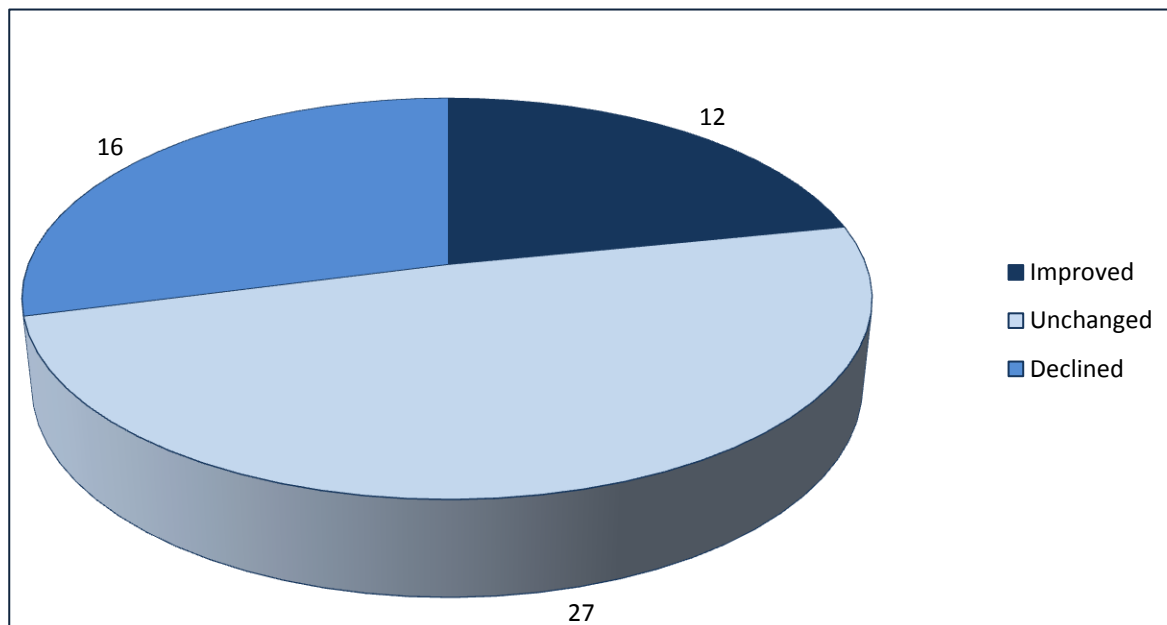
159. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). Each year we review the reliability of the council's arrangements to prepare SPIs. The council's Internal Audit section provided invaluable support in assessing the reliability of the arrangements for the preparation of the SPIs and auditing the submitted figures. Individual services are responsible for the preparation of SPIs relating to that service. Where there is any perceived lack of clarity or doubt as to how SPIs should be compiled, officers with the responsibility for the preparation of service SPIs should contact either the central performance unit, external audit or Audit Scotland directly, in good time to have any issues resolved.

160. External auditors have reported in previous years that data collection, retention, and data interpretation needed to improve to ensure performance information was reliable and accurate. It is not acceptable that these issues persist after a number of years of critical comment. The SPIs were eventually brought to a condition where they could be reported as reliable.

**Refer Action Plan No. 17**

161. The analysis at Exhibit 13 is based on 59 components of the 25 SPIs. Some indicators show a marginal increase or decrease in performance. The analysis assumes a +/- 5% tolerance margin in determining whether an indicator has improved, declined or remained unchanged. We have excluded from the analysis those indicators for which a value judgement on the direction of movement is problematic.

**Exhibit 13: Improvements demonstrated by SPIs (total of 25 indicators)**



Source: South Ayrshire Council SPI data returns

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**162.** Examples of indicators showing improved performance are:

- The proportion of the council's housing stock meeting the Scottish Housing Quality Standard.
- The percentage of the council's road network that should be considered for maintenance.

**163.** Examples of indicators showing declining performance are:

- Sickness absence for teaching staff which has moved from 6.6 days in 2011/12 to 7.7 days in 2012/13.
- Average time to re-let houses.
- Rent arrears across both current tenants and former tenants.

**164.** Rent arrears indicators exhibit significant decline which is a matter of concern, as the full consequences of welfare reform changes have yet to take full effect. Current tenant rent arrears rose from £387,511 in 2011/12 to £487,657 in 2012/13. This represents an increase of 25.8% which the council attributes to a combination of the current economic climate and the requirements of the Housing Scotland Act 2010 which increased landlords' obligations to support tenants who are experiencing rent arrears.

**165.** Former tenant arrears have also increased from £421,451 in 2011/12 to £609,283 in 2012/13, representing an increase of 44.6%. The amount of former tenant rent arrears written off during the year also increased substantially from £141,676 to £441,449, an increase of 211.6%.

## Local performance reporting

166. In October 2013 we issued Scotland's Public Finances: addressing the challenges a targeted follow-up report. This report looked at the way that the council is responding to the challenges of public sector budget constraints and its efforts to achieve financial sustainability.
167. Our report highlighted some areas of good practice including the comprehensive budget monitoring reports which provide members with sufficient detail to challenge management and recognition that the budget is prepared by a strong corporate finance team which demonstrates a clear understanding of the issues and financial pressures facing the council.
168. Our review also found the following areas for improvement:
- Delays in refreshing the Council Business Plan means that there are currently no clear priorities deriving from an over-arching plan. This means that the council cannot be assured that the budget setting process is targeted to ensure funds are being used in accordance with strategic priorities.
  - The absence of robust performance management arrangements which follow the golden thread from the Council Business Plan to directorate and service plans means that it is difficult to measure the impact of budget changes on service performance.
  - Although the council participates in a cross-council working group to explore the use of benchmarking and sharing best practice, there is little evidence this has been used to shape services or is considered in budget preparation.
  - In depth service reviews, with an element of independent validation, are essential for identifying ways to do things better within constrained budgets - both to improve service standards and achieve efficiency savings. There is no evidence that the council has a structured programme for driving service reviews.
  - Impact assessments, supported by sensitivity analyses, are helpful in understanding the effect of resource reductions, at different levels, on service provision. The council has not carried out a full impact assessment on each of the efficiencies planned.
169. We have agreed an action plan of improvements with management to address the issues outlined above. We will continue to monitor progress in implementing the action plan throughout the year.

## National performance reporting

170. 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 at exhibit 14 below.

#### Exhibit 14: A selection of national performance reports 2012/13

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

Source: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

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171. Audit Scotland encourages local authorities to review national reports, consider key findings, assess local performance against and identify local improvement actions where appropriate. The national reports are accompanied by checklist which members and officers can use to carry out a self-assessment of performance. The expectation is that Audit Scotland's performance reports are presented to the audit committee for members to consider and hold management to account for local performance.
172. In South Ayrshire Council national reports are presented to the Corporate and Community Planning Standing Scrutiny Panel, as the audit committee, for consideration. Members are asked to note the contents of the reports and consider whether any further action is required by the council.

#### Major Capital Investment in Councils

173. In March 2013, Audit Scotland published the report "Major Capital Investment in Councils". The study found that since 2000/01, councils have invested £27 billion in real terms on creating and maintaining assets and infrastructure; most major capital projects delivered by councils since 2009 were delivered within or close to contract cost, despite early estimates being too low, and councils have improved governance structures for investment planning in recent years but do not yet have enough monitoring information for fully effective scrutiny.
174. The report made several recommendations for councils, including the need to:
- Develop long term strategies to set out the needs and constraints for local capital investment.
  - Develop and use clearly defined project milestones for monitoring and reporting.
  - Improve the quality of capital project and programme information that is provided to elected members, including reporting of performance against cost, time and scope targets, risk and intended and realised benefits.
  - Consider developing a continuing programme of training for elected members on capital issues, using independent external advisers if necessary.
  - Actively look for opportunities for joint working with other councils, community planning partnerships and public bodies to improve the efficiency of their capital programmes.

175. The report was considered by the Corporate and Community Planning Standing Scrutiny Panel on 5 September 2013. The panel noted the contents of the report and agreed that the council should develop an action plan to take forward the findings of the national report locally.

## Protecting Consumers

176. Audit Scotland published its report "Protecting Consumers" in January 2013. The study examined the trading standards and food safety services being provided across Scotland's 32 councils. In particular, it assessed how well councils are protecting consumers and identified areas where there was scope for improvement.

177. The report recommended that councils should:

- Work with the Food Standards Agency in Scotland and in future, the new Scottish food safety organisation, to develop a workforce strategy which identifies the staffing levels and skills required to sustain an effective food safety service over the next 5-10 years.
- Ensure that they have access to, and make use of, intelligence to help determine their local priorities and contribute intelligence to information systems that support the work of other Scottish and UK councils and the national agencies.
- Develop a clear direction for the future of their consumer protection services and satisfy themselves that they are allocating resources where they are most effective in a way that appropriately reflects the risks, local and national priorities and the needs of local communities.
- Ensure their work on lower risk areas is sufficient to prevent them becoming serious risks.
- Ensure they monitor and manage the performance of all their consumer protection services using appropriate measures of performance that enable benchmarking and reporting performance regularly to councillors, senior management and the public.

178. The report was presented to members of the Corporate and Community Planning Standing Scrutiny Panel on 9 May 2013, along with the council's response to the "Questions for councillors" section. Members noted the report and responses by the council and referred the report to the Development and Environment Standing Scrutiny Panel for further consideration. The report was taken to the Development and Environment Standing Scrutiny Panel on 1 October 2013 and a representative from the Audit Scotland project team was in attendance, at the request of the panel, to provide a presentation and answer any questions on the report.

## Assurance and improvement plan update 2013-16

179. The LAN of scrutiny partners for the council, conducted a shared risk assessment, and produced an AIP covering the period 2013 to 2016. This was published on Audit Scotland's website and was submitted to the Audit Committee on 25 April 2013 for information and consideration by members.

180. The AIP identified four areas where scrutiny was required - vision and strategic direction, leadership and culture, performance management and challenge and improvement. Scrutiny

activity undertaken to consider these issues further is being undertaken in the two-stage Best Value audit process, the first stage of which was reported to the council on 27 June 2013.

181. The AIP reported that the council's Community Plan expired in March 2010 and the Corporate Plan expired in March 2012. In February 2012 the Leadership Panel agreed to roll forward the existing Corporate Plan until September/October 2012 at which point a new Corporate Plan was to be submitted for its consideration. In September 2012 the council approved its high level vision, "Raising Our Ambitions" and various updates have since been reported to members. The council planned to present its revised SOA and Council Business Plan to members in April 2013. The draft SOA was presented as planned however the Council Business Plan was delayed due to the departure of the Chief Executive and the council's desire to ensure that the proposed plan was fit for purpose. A revised timescale of October 2013 was set and on 10 October 2013 council received a report setting out the framework of the council plan. This report sought to obtain agreement to the strategic objectives of the council plan namely:

- local economy
- children and families
- adults and older people
- communities
- environment
- improve the way the council works.

182. Subject to agreement of these key objectives, a series of member seminars is planned to allow discussion on the key actions and measures under each of the strategic objectives. The seminars are planned between October and December 2013 to allow alignment with the budget process, and it is now proposed that the final Council Business Plan and Service Improvement plans will be presented to council in February/ March 2014.

**Refer Action Plan No. 18**

183. The AIP found that while the council had a workforce plan and corporate asset management plan in place, work was needed to ensure that these are aligned to the council's strategic objectives and an investment strategy. Management agreed to refresh the workforce plan and corporate asset management plan once the Council Business Plan is agreed. This was expected to be put to council in October 2013 and a target date of 31 March 2014 has been set for the revision of the workforce plan and corporate asset management plan.

184. The council reported progress on the implementation of How Good is Our Council (HGIOC) to members as part of its improvement programme update in June 2013. The report advised that the council ran a workshop for members which sought to review the conclusions drawn by officers on HGIOC. Officers advised that this helped to confirm many of the judgements and pointed to some additional aspects that members felt should be the subject of further attention. The council has subsequently refreshed the HGIOC assessment with its 2012/13 performance information and reported this as part of the 'Framework for the Council Business Plan' to council on 10 October 2013. The council plans to embed HGIOC at a service level

into the work of directorates in the preparation of their plans for 2014-17 following on from embedding the refresh of the corporate HGIOC exercise into the preparation of the Council Business Plan for 2014-17. These plans are due to be finalised by 31 March 2014.

**Refer Action Plan No. 19**

## Outlook

185. The Best Value audit work which is due to be undertaken in the autumn of 2013 will be key in helping the council to set clear priorities and direct its resources to ensure that it is able to demonstrate that it is achieving Best Value.
186. The Scottish Government and CoSLA recently conducted a joint review of community planning and SOAs. This work has resulted in a statement of ambition listing the key principles and features for an effective community planning and SOA framework. Previous work by Audit Scotland has identified that partnership working can be challenging and needs to be underpinned by strong shared leadership, robust performance management and reporting, and effective governance and accountability. Audit Scotland has developed an audit approach for the audit of Community Planning Partnerships (CPPs). Following pilots at three councils during the autumn/ winter of 2012, each council will undergo an audit of its CPP. The first tranche of five is now underway. There is at present no timetable for the audit of South Ayrshire Council's CPP.

# 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 the Adequacy of Internal Audit	30 January 2013	28 February 2013
Annual Audit Plan	7 March 2013	28 March 2013
Assurance and Improvement Plan	19 March 2013	25 April 2013
Management letter - Departure of Chief Executive	30 April 2013	6 June 2013
Management letter - Best Value	18 June 2013	27 June 2013
Internal controls management letter	13 July 2013	5 September 2013
Scotland's Public Finances - local follow-up audit	31 October 2013	tbc
ICT services review	28 August 2013	tbc
Report on financial statements to those charged with governance	13 September 2013	25 September 2013
Audit opinion on the 2012/13 financial statements	13 September 2013	25 September 2013
Audit opinion on the 2012/13 Whole of Government accounts consolidation pack	25 October 2013	n/a
Report to Members on the 2012/13 audit	31 October 2013	tbc



# 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	27	<p><b>Payments in advance</b></p> <p>The council should develop procedures to restrict the payment in advance for goods or services.</p> <p><b>Risk</b></p> <p><i>The council suffers financial loss if goods or services paid for in advance are not received.</i></p>	<p>Officers will be reminded of the need to comply with financial regulations.</p> <p>Officers will undertake a review of payments in advance to determine suitable procedures and guidance to reflect external market circumstances for certain services supplied to the Council.</p>	<p>Chief Accounting Officer</p> <p>Chief Accounting Officer</p>	<p>31 October 2013</p> <p>31 March 2014</p>
2	28	<p><b>Home loans</b></p> <p>The council should develop a policy and procedures for the recovery of home loans.</p> <p><b>Risk</b></p> <p><i>The council suffers financial loss and reputational damage if these debts are not recovered.</i></p>	<p>This is an historic situation which would not recur as the Home Loans Scheme was abolished many years ago. Officers will seek members' approval to progress recovery of outstanding amounts or to write off the amounts in question.</p>	<p>Chief Accounting Officer/ Head of Legal and Democratic Services</p>	<p>30 November 2013</p>
3	29	<p><b>Long leases</b></p> <p>The council should ascertain the impact of the Long Leases (Scotland) Act 2012 on the common good funds administered by the</p>	<p>Officers will ascertain the impact of the Long Leases (Scotland) Act 2012 and report to members.</p>	<p>Chief Accounting Officer/ Head of Legal and Democratic</p>	<p>31 March 2014</p>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		council. <b>Risk</b> <i>Ownership of assets currently held by the common good funds under the qualifying criteria will transfer to the lessee in November 2015.</i>		Services	
4	31	<b>Charities accounts</b> The council should ensure that it has adequate arrangements in place for the audit of all its trust funds. <b>Risk</b> <i>Statutory requirements are not met.</i>	Officers will review the arrangements in place for the audit of all trust funds.	Chief Accounting Officer	31 March 2014
5	46	<b>Bed and breakfast costs</b> The council should review its strategy for the provision of temporary homeless accommodation. <b>Risk</b> <i>The council is not obtaining best value from its limited resources.</i>	Officers are reviewing the arrangements for the provision of temporary homeless accommodation in light of available properties and costs involved.	Head of Community Care and Housing	31 March 2014
6	51	<b>HRA budget</b> A further review of the HRA budget to address the issue of persistent underspending / over budgeting should be undertaken. <b>Risk</b> <i>The council is not</i>	Officers undertook a review as part of the 2013/14 rent setting process but undertake a further review.	Head of Community Care and Housing	31 March 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>delivering the services budgeted for and/or rent levels are being set too high.</i>			
7	54/71/73	<p><b>Capital programmes</b></p> <p>The capital programmes for 2013/14 have been supplemented by slippage brought forward from 2012/13. HRA balances have included earmarked amounts for capital projects going back several years.</p> <p><b>Risk</b></p> <p><i>The council's approved capital investment programme is not delivered.</i></p>	Officers will bring forward revised arrangements for the capital programme.	Head of Corporate Resources	31 March 2014
8	55	<p><b>Rent arrears write-offs</b></p> <p>Members should be regularly made aware of the total value of debts being written off under delegated authority in respect of rent arrears.</p> <p><b>Risk</b></p> <p><i>Members are unaware of key financial information regarding the losses to the council through rent arrears.</i></p>	Officers will include rent arrears write off in regular reports to elected members.	Head of Community Care and Housing	31 December 2013
9	62	<p><b>Reserves</b></p> <p>Officers and members should review the purpose, level, historic use and planned use of reserve balances</p>	An updated financial reserves strategy was approved on 27 June 2013. The level and proposed use of	Chief Accounting Officer	31 March 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>annually.</p> <p><b>Risk</b></p> <p><i>Reserve levels are not being actively managed to support the council's financial plans.</i></p>	reserves will be considered as part of the budget setting process		
10	67/128	<p><b>Welfare reform/Benefits processing</b></p> <p>The introduction of welfare reform has had a considerable impact on processing for both new claims and change in circumstances benefit claims.</p> <p><b>Risk</b></p> <p><i>The council may not be able to meet demand on the service from customers seeking information and assistance following a reduction in their housing benefit from April 2013.</i></p>	Officers will continue to review the processing times for new claims and the change in circumstances as part of regular reporting to elected members.	Revenues and Benefits Manager	Ongoing
11	83	<p><b>Corporate asset management plan</b></p> <p>Management and members should ensure that the plan is implemented to timetable and that an appropriate reporting and monitoring regime is in place.</p> <p><b>Risk</b></p> <p><i>The full implementation of the plan is further delayed and decisions are taken</i></p>	Officers will bring forward revised arrangements for Corporate Asset Management Planning.	Head of Corporate Resources	30 September 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>without appropriate information being available.</i>			
12	86	<p><b>Procurement</b></p> <p>The council should continue to develop its procurement arrangements.</p> <p><b>Risk</b></p> <p><i>Council does not obtain the benefits of improved procurement.</i></p>	Officers will continue to develop procurement arrangements in line with the council plan and improvement programme.	Head of Legal and Democratic Services	Ongoing
13	106/107	<p><b>Panel workload and political decision making structure</b></p> <p>The council should consider whether workloads are sustainable and the current political decision making structure is fit for purpose.</p> <p><b>Risk</b></p> <p><i>Workload may have an adverse impact on the council's decision making capacity.</i></p>	The Scrutiny and Governance Management Panel are currently reviewing the Scrutiny Process and the Scheme of Delegation.		Ongoing
14	126	<p><b>Public Services Network</b></p> <p>The council may not meet the enhanced compliance requirements for continued connection to PSN by the deadline specified.</p> <p><b>Risk</b></p> <p><i>The council does not achieve compliance by 10</i></p>	Officers are working with the Cabinet office to ensure compliance and regular updates are being provided to members.	Head of Policy, Performance and Communications	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>December 2013. Existing data-sharing arrangements are disrupted.</i>			
15	152	<p><b>Performance management</b></p> <p>The council should ensure it has performance management arrangements in place which drive continuous improvement and provide clear accountability.</p> <p><b>Risk</b></p> <p><i>The council does not have the tools in place to drive improved performance or is unable to identify where performance should be challenged.</i></p>	Officers are working with elected members to ensure that appropriate performance management arrangements are in place.	Corporate Management Team/Elected members	31 March 2014
16	156	<p><b>Community engagement</b></p> <p>The council should implement its community engagement strategy as a matter of priority.</p> <p><b>Risk</b></p> <p><i>The council fails to engage effectively with the community.</i></p>	Officers will implement the community engagement strategy taking into account the Community Empowerment Bill.	Head of Policy, Performance and Communications	To be confirmed once Bill published
17	160	<p><b>Statutory Performance Indicators</b></p> <p>The council should ensure it has adequate arrangements in place to compile and report SPI</p>	Officers will be reminded of the need to ensure that Statutory	Chief Executive	30 November 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>information so that it is available in full for the date for submission to audit. All indicators should be supported by comprehensive back up documentation to demonstrate how the indicators have been derived.</p> <p><b>Risk</b></p> <p><i>SPI information submitted for audit is incomplete, inaccurate and unverifiable which causes delays in the audit process, a failure to meet reporting deadlines and possibly a conclusion that an SPI(s) are unreliable.</i></p>	Performance Indicators are supported by comprehensive back up documentation.		
18	182	<p><b>Council Business Plan</b></p> <p>The council should ensure that its council business plan and service and improvements plans are developed, approved and implemented as a matter of priority.</p> <p><b>Risk</b></p> <p><i>The council is operating without clear priorities and direction until the business plan and service and improvement plans are in place.</i></p>	Officers have committed to work with elected members to develop the council plan and service plans.	Corporate Management Team	31 March 2014
19	184	<p><b>Self-evaluation</b></p> <p>The council should roll out the self evaluation toolkit across all services.</p>	Officers will continue with the task of embedding HGIOC	Head of Policy, Performance and	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<b>Risk</b> <i>Delays in identifying areas where improvements are required.</i>	into services.	Communications	