



East Ayrshire Council

Annual report on the 2013/14 audit

Prepared for the members of East Ayrshire
Council and the Controller of Audit

October 2014



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Key messages

Financial statements

- We have given an unqualified auditor's report on East Ayrshire Council's 2013/14 financial statements.

Financial position

- Financial management remains strong with a robust budget setting process in place, to deliver services in line with the council's priorities.
- Usable reserves have decreased by £10.165 million to £49.538 million at 31 March 2014. However a reduction in reserves of £17 million was planned and an underspend of £9.358 million against service budgets is reported.
- The council reported a general fund accounting deficit of £7.420 million in 2013/14. This included £7.860 million of severance payments which will generate savings in future years.

Governance & accountability

- The council overall had sound governance arrangements in place.
- Systems of internal control have generally operated effectively.
- Issues arising from the liquidation of the open cast mines in the area have required the council's urgent attention and the council has provided a prompt and robust response to address the related matters.

Best Value, use of resources & performance

- The Transformation Strategy provides the framework for reviewing and changing the way that services are delivered.
- The Council has a well developed framework in place for monitoring and reporting performance against strategic priorities.
- The Single Outcome Agreement Annual Performance Report 2013/14 identified 62 measures where the council and its partners were improving, and 26 where further improvement was required.

Outlook

- Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care. Effective partnership working will be essential to make the best use of available resources.

Financial Statements

1. We have given an unqualified audit opinion that the financial statements of East Ayrshire Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2014 and of the income and expenditure for the year then ended.
2. We have also given an unqualified audit opinion on the 2013/14 financial statements of those charities registered by East Ayrshire Council and audited under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(C) of the Charities and Trustee Investment (Scotland) Act 2005.

Financial position

3. The council incurred a general fund accounting deficit of £7.420 million in 2013/14. This included costs of £7.860 million for severance payments which will generate savings in future years.
4. Total usable reserves decreased by £10.164 million to £49.538 million at 31 March 2014. The decrease was mainly due to planned use of funds from 2012/13 to meet commitments in 2013/14. There was also a reduction in the capital fund to finance capital expenditure. The reserves balance, as a proportion of annual spend, is marginally above the average for Scottish councils.
5. The reserves have been built up over time to fund the council's

transformation strategy and smooth spending levels in response to reduced financial settlements.

6. The general fund balance was £28.026 million at 31 March 2014. Of the year end balance, £18.651 million is committed to earmarked projects. The uncommitted balance of £9.375 million is in accordance with the council's reserves strategy to retain 2-4% of budgeted expenditure.

Governance and accountability

7. The key controls within the council's main financial systems were operating satisfactorily during 2013/14. The council also has an internal audit section that operates in accordance with Public Sector Internal Audit Standards.
8. Progress in developing plans for integration of Health and Social Care has been well managed. A clear timeline for the implementation of various stages to full integration has been agreed with NHS Ayrshire and Arran. We are satisfied that arrangements are sufficiently advanced to be able to deliver integration on time.
9. A key focus for the council has been responding to the liquidation of open cast mine companies in the area. An independent review highlighted a number of major and persistent failings in procedure and practice.
10. Since the council identified the issues arising from the

Key Messages

liquidation it has provided a prompt and robust response in addressing them. A number of actions are ongoing to determine the future of a number of sites, and the settlement and use of bond monies is being pursued.

Best Value, use of resources and performance

11. The council's Transformation Strategy 2012-17 has a range of work streams aimed at changing the way services are delivered and achieving the savings requirements outlined in the 2014/15 budget.
12. The council has well established performance management and self evaluation arrangements in place, including regular reporting of performance to members. All services carry out annual self assessments using accredited self-evaluation tools.

Outlook

13. Demands on services and resources continue to increase and these need to be managed alongside major reforms in the welfare system and health and social care. This underlines the need for strong governance, leadership and decision making based on the continuation of good cost and performance information.
14. Like other local authorities, the council faces a significant challenge in delivering services with resources which continue to reduce. The council's Transformation Strategy identifies the

need to achieve savings of over £36 million during the period to 2016/17 and sets out the framework to achieve financial savings.

15. Continued effective working with partners will be required to make the best use of available resources as well as innovation and vision to design and deliver the services needed to serve the future needs of citizens.

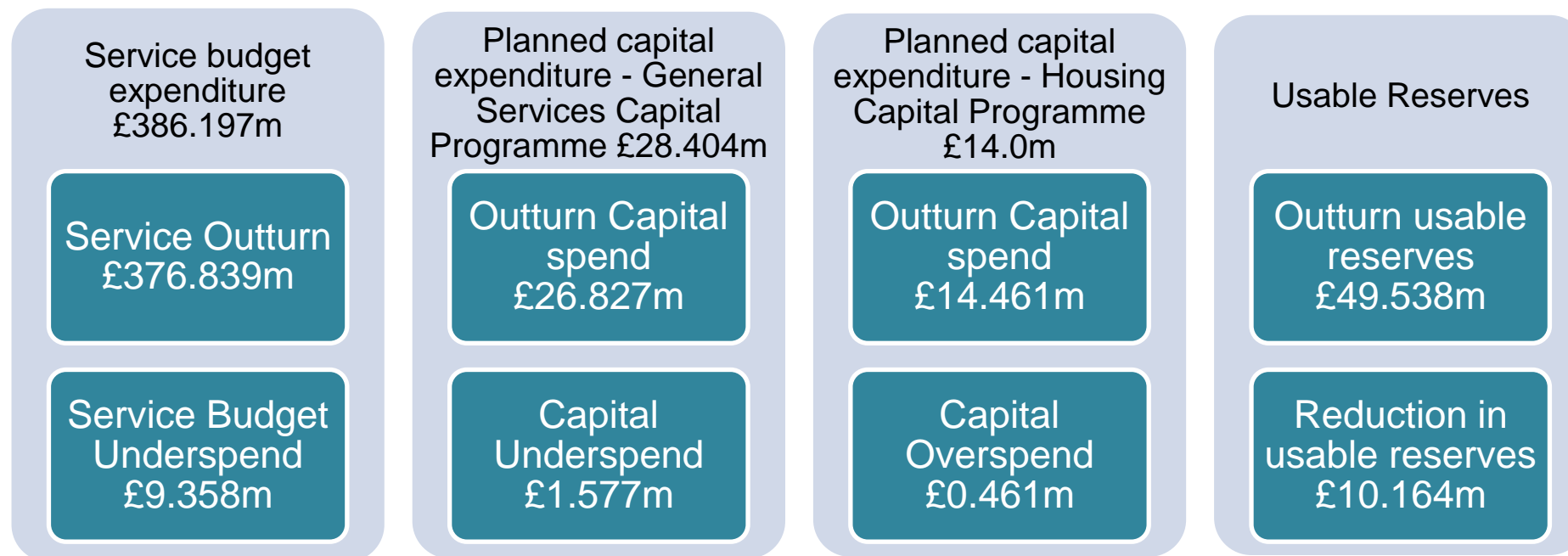
Introduction

16. This report is a summary of our findings arising from the 2013/14 audit of East Ayrshire Council. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.
17. Our responsibility, as the external auditor of East Ayrshire Council, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.
18. The management of East Ayrshire Council is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
19. This report is addressed to the members of East Ayrshire Council and the Controller of Audit and should form the basis of discussions with the Governance and Scrutiny Committee as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.
20. This report will be published on our website after it has been considered by the council. The information in this report may be used for the Account's Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
21. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, shown at Appendices I and II, include recommendations for improvements. 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 East Ayrshire Council.
22. The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix III sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Introduction

23. Appendix IV 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 "Management action/response".
24. We recognise that not all risks can be eliminated or even minimised. What is important is that East Ayrshire Council understands its risks and has arrangements in place to manage these risks. The council and the Proper Officer should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.
25. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
26. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements



Audit opinion

27. We have given an unqualified opinion that the financial statements of East Ayrshire Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March and of the income and expenditure for the year then ended.

Other information published with the financial statements

28. Auditors review and report on other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.

Legality

29. Through our planned audit work we consider the legality of the council's financial transactions. This includes obtaining written assurances from the Proper Officer. There are no legality issues arising from our audit which require to be reported.

The audit of charities financial statements

30. The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) sets out the accounting and auditing rules for Scottish charities. These required, for the first time in 2013/14, a full audit of all registered charities accounts where a local authority or some members are the sole trustees.
31. East Ayrshire Council had seven funds which were subject to the full charities financial statements audit for 2013/14.
32. Auditors of registered charities' statement of accounts have responsibilities to:
- audit and express an opinion on whether the charity's financial statements give a true and fair view and are properly prepared in accordance with charities legislation
 - read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
 - report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).
33. We have given an unqualified opinion on these matters in the

2013/14 financial statements of the seven registered charities administered by East Ayrshire Council.

34. In our report to trustees we highlighted that:
- Four of the trusts remained dormant, with no donations, expenditure or payment of grants.
 - The council were unable to locate certificates in support of investments held by one of the trusts.
35. The council is in discussion with OSCR to progress reorganisation proposals to wind up dormant trusts and redistribute the funds. The council has written to stock investor intermediaries to request duplicate investment certificates.

Group accounts

36. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations.
37. East Ayrshire Council has an interest in a Common Good Fund, East Ayrshire Leisure Trust and several Joint Boards. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £14.532 million.
38. The net assets of the group at 31 March 2014 totalled £481.674 million, compared to £208.732 million in 2012/13. The movement is mainly due to the transfer of Police and Fire

Financial statements

functions to the new authorities from 1 April 2013 and the council no longer requiring to incorporate Police and Fire in its group accounts. The non inclusion of these bodies increases the Group Balance Sheet by £284 million due to the council no longer requiring to account for its share of the Police and Fire pension liabilities.

Accounting issues arising

Presentational and monetary adjustments

39. A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the unaudited financial statements.

Whole of government accounts

40. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidation pack for audit by the deadline. This has been audited and the audited return submitted to the Scottish Government.

Report to those charged with governance

41. We presented to the Governance and Scrutiny Committee, on 11 September 2014, our report to those charged with

governance (ISA 260). The primary purpose of that report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main points are set out in the following paragraphs.

42. **Equal pay claims** - The ultimate cost to the council of the claims made under the Equal Pay Act 1970 remains uncertain. As the tribunal process unfolds the extent of the Council's eventual liability will become clearer. The council's equal pay provision at 31 March 2014 adequately reflects the potential liability. The council have disclosed a contingent liability for any additional future claims that may potentially arise pending the outcome of the test legal cases.
43. **Severance Payments** - Severance payments of £7.860 million were incurred in 2013/14 as part of the council's efficiency improvements and cost reduction measures. This includes a provision of £6.103 million in respect of employees whose employment will terminate in 2014/15. The full year savings to be made in relation to these expenses are not realised within the 2013/14 financial Statements but will be realised in future years as part of the councils Transformation Strategy. This accounting treatment is in accordance with accounting standards.
44. **Open Cast Mining Operators** –There is a contingent liability in the 2013/14 accounts in respect of emerging issues relative to the various opencast coal sites in East Ayrshire following the liquidation of two former mining companies. During the year,

Financial statements

and subsequent to the financial year end, the Council received bond monies as a result of settlements made in relation to these sites. We are satisfied with the accounting treatment of the bond monies received. Further details are reported at paragraphs 81 to 99.

Outlook

45. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). New standards apply from 2014/15 which will effect the group financial statements and include a change to the definition of control. This is likely to require a reassessment of the group boundary and potentially further consolidations and disclosures.
46. Highways assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code requires highways to be measured for the first time on a depreciated replacement cost basis. This represents a change in accounting policy from 1 April 2016 which will require a revised opening balance sheet as at 1 April 2015 and comparative information in respect of 2015/16. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets. The council should ensure it is planning ahead to allow full compliance with the Code.
47. The revised Local Authority Accounts (Scotland) Regulations 2014 apply for financial years 2014/15 onwards. The regulations set out in more detail what is required in respect of financial management and internal control. The council has considered the implication of these regulations for the accounts.

Financial position

48. The council reported a general fund accounting deficit on the provision of service of £21.565 million in 2013/14. Adjusting this balance to remove the accounting entries required by the Code, together with transfers from other reserves resulted in an adjusted decrease in the council general fund balance by £7.420 million. This incorporated severance the payments of £7.860 million incurred during the year referred to at paragraph 43.
49. The council set a break even budget in 2013/14. The budget included the utilisation of balances brought forward of around £17.5 million. This utilisation consisted of £5.904 million used from department's earmarked balances, £7.306 million used to meet severance payments, and £4.254 million used from the general fund. Actual expenditure incurred in 2013/14 was £9.358 million less than budget.
50. The council spent less than was budgeted for against its revised revenue budgets across Educational and Social Services, Finance and Corporate Support, Neighbourhood Services, and Central Services. Key variations in performance against budget include:
- Reduced employee costs, mainly relating to the timing of filling vacancies and management action in preparation of future year's efficiencies.
 - Reduced supplies and services costs, mainly due to the in year line by line budget review process of service budgets and centrally held budgets including the change fund and income contingency (£4.1 million).
 - Funding that has been earmarked for carry forward in areas such as the Scottish Welfare Fund, DWP funding and re-profiled European funded employability expenditure.
51. The Housing Revenue Account had a surplus of £3.059 million resulting in a closing balance for 2013/14 of £6.342 million. This surplus arose due to the reduction in a legal provision, reduced debt charges, and lower than expected void rent lost. The balance of £6.342 million has been earmarked in full for future investment in the housing improvement programme.
52. The council's budgetary process enables departments to earmark under spent funds for utilisation in the following financial year. This forms part of the committed element of the general fund balance. These commitments are identified for specific purposes: either due to differences in the timing of expenditure; or where there are plans for service delivery which will be delivered at a later date.
53. The council has a robust financial review process for the use of earmarked funds and performance against budget allocation. This includes scrutiny by the Cabinet and Governance & Scrutiny Committees as well as the Corporate Management

Financial position

Team. We are satisfied that the council has demonstrated a strong commitment to its fiscal responsibilities in the current year and has taken appropriate steps to ensure that services are appropriately funded in future years.

54. Usable reserves are part of a council's strategic financial management and councils will often have target levels of reserves. As shown in Exhibit 1, the overall level of usable reserves held by the council decreased by £10.164 million compared to the previous year and totalled £49.538 million at 31 March 2014.

Exhibit 1: Usable reserves

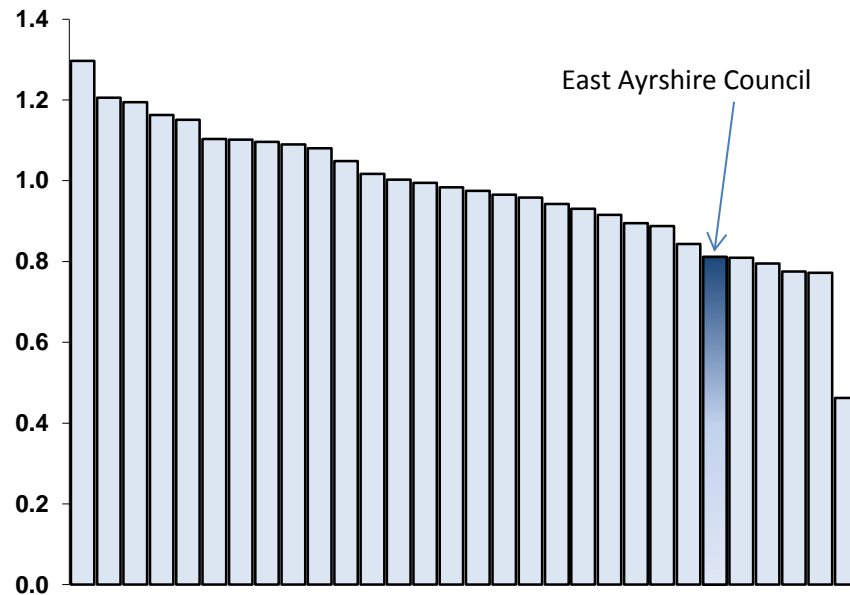
Description	31 March 2012	31 March 2013	31 March 2014
	£ million	£ million	£million
General Fund	34.658	35.446	28.026
Housing Revenue Account	2.325	3.283	6.342
Repairs & Renewal Fund	9.104	8.280	6.735

Description	31 March 2012	31 March 2013	31 March 2014
	£ million	£ million	£million
Capital Fund	13.481	12.694	8.435
Total Usable Reserves	59.652	59.703	49.538

Source: East Ayrshire Council 2013/14 financial statements

55. From an analysis of Scottish councils' unaudited 2013/14 accounts (exhibit 2), over half of all councils utilised reserves brought forward, with around half of all councils ending 2013/14 with lower levels of reserves than they had at the start of 2012/13.

Exhibit 2: Total Usable Reserves – Balances carried forward as a proportion of balances brought forward



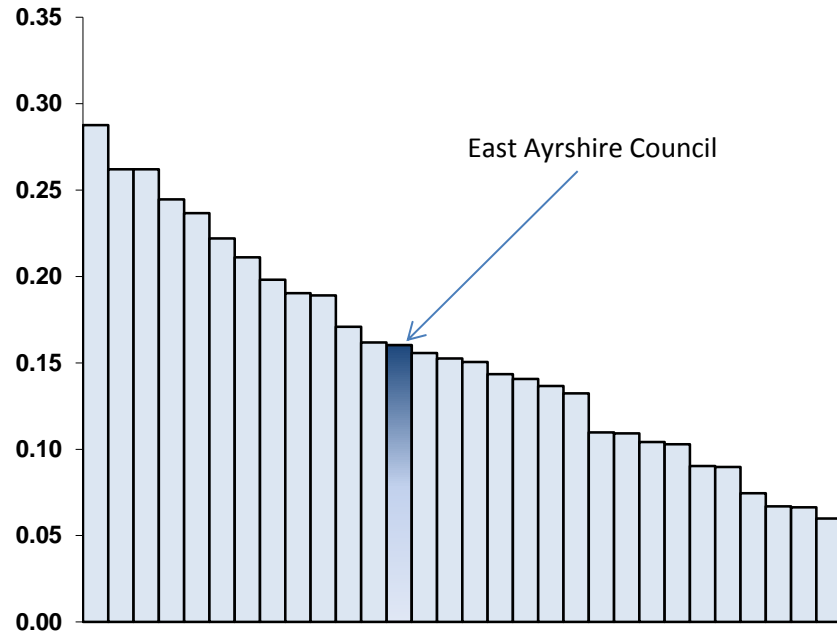
Source: Scottish councils' unaudited accounts 2013/14

statements audit. This exercise is now an annual feature of the council's budget process. As part of the budget process, members review the council's level of reserves so that they can make informed decisions about future service delivery options. This is facilitated by an annual review of the reserves strategy.

58. Exhibit 3 below presents the council's total usable reserves position in relation to net revenue stream for the year in comparison to other Scottish councils (net revenue stream being presented as general revenue grant, council tax, non-domestic rates *and dwelling rents*). East Ayrshire's position (16%) is slightly higher than the median level of 15%.

- 56. The council's reduction in usable reserves was mainly due to the application of balances during 2013/14 and the utilisation of the capital fund to finance new capital projects.
- 57. The Chief Executive and Executive Director of Finance and Corporate Support undertake a review of service balances immediately following the conclusion of the annual financial

Exhibit 3: Total Usable Reserves as a proportion of net revenue stream



Source: Scottish councils' unaudited accounts 2013/14

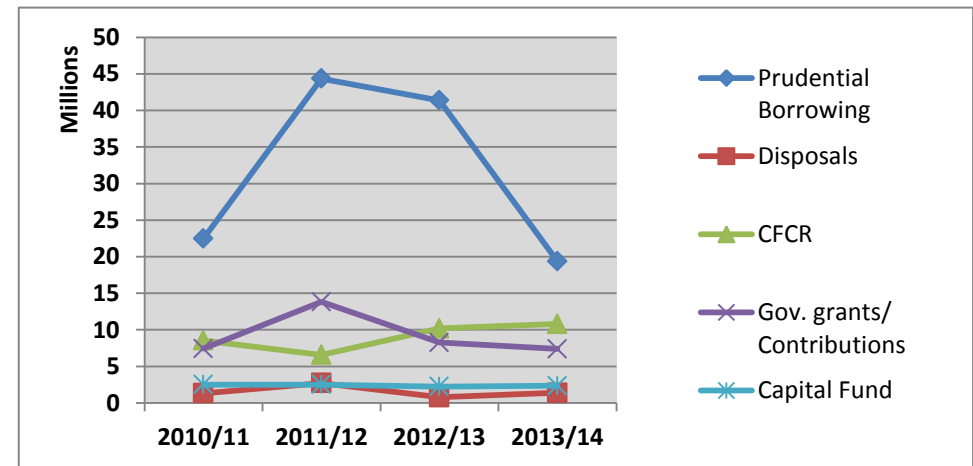
59. The general fund balance at 31 March 2014 is made up of earmarked commitments of £18.651 million and an unallocated balance of £9.375 million, or 2.9% of net budgeted expenditure. This position is in line with the council's policy of maintaining uncommitted reserves at between 2% and 4% as specified in the councils Reserve Strategy. Of the earmarked commitments, £14.527 million is committed for use within

departmental budgets and the remaining £4.124 million is committed to the Transformation Strategy Fund. The council's reserves strategy is set to reflect the key requirements of the transformation strategy.

Capital investment and performance 2013/14

60. The council spent £26.827 million on the general fund capital programme and £14.461million on the HRA programme. The capital programme was funded as shown at Exhibit 4 below:

Exhibit 4: Sources of finance for capital expenditure 2009/10 – 2013/14



Source: East Ayrshire Council Annual Accounts 2010/11 to 2013/14

Financial position

61. The budgeted general fund capital programme for 2013/14 was £28.404 million, meaning that actual was £1.577 million (5.6%) below budget. This underspend primarily relates to a number of projects that are progressing as planned on site, but spend is not in accordance with the original profile - including the Flowerbank Early Years (£0.737 million), the Kilmarnock Area Day Centre (£0.595 million), and Moorfield Industrial Estate projects (£0.358 million).
62. The HRA Housing Investment Programme incurred expenditure of £12.159 million against a budget of £14.000 million. Some slippage arose during the year due to unexpected delays in the appointment of contractors, such as the rendering programme which has been held over until 2014/15 due to issues with the tender award (£0.791 million), and a roofing contract being held over until 2014/15 due to resourcing issues (£0.287 million).
63. In addition to the HRA housing investment programme, the council also incurred £2.302 million in 2013/14 relating to new house building costs and housing vehicles purchased.
64. We are satisfied that a high level of capital monitoring is in place. Regular monitoring reports are presented to the Cabinet and the Governance and Scrutiny Committee. These highlight any contracts brought forward or deferred as circumstances require. The councils 'rolling' fourteen year capital programme to 2022/23 enables this flexibility, and ensures the programme continues to be aligned with overall strategic priorities.

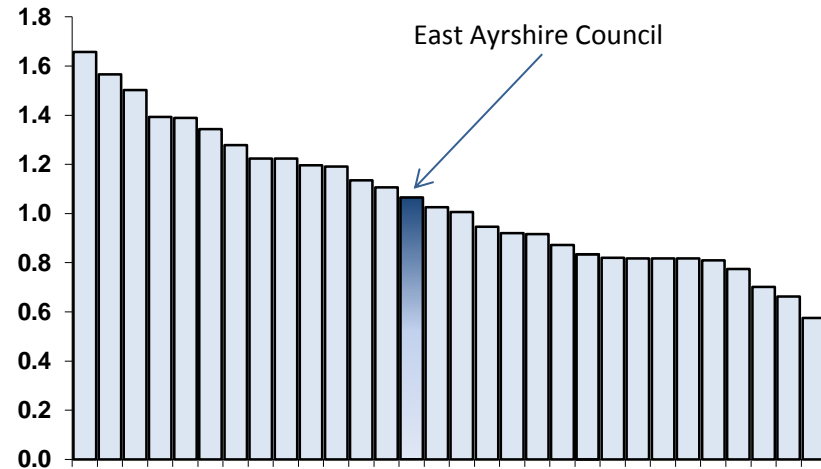
65. As shown in exhibit 4, this year has seen an increase in the use of capital receipts, and a decrease of Government contributions. The council used £10.804 million from the general fund and HRA to finance capital expenditure in 2013/14. This is a continuation of a similar trend in previous years. Despite significant capital expenditure in the last three years totalling £173.104 million, the council's external debt (excluding PFI) has increased by only £74.306 million since 31 March 2011.

Treasury Management

66. High levels of debt may reduce a council's budget flexibility going forward as revenue resource has to be set aside to service that debt. The impact that debt levels have on net revenue expenditure will be affected by interest rates and repayment periods.
67. As shown in Exhibit 5, the council's net external debt (i.e. including PPP and investments) as a proportion of net revenue stream continues to remain in the middle range relative to other Scottish councils. The underlying borrowing requirement of the Council has increased marginally from 2012/13.
68. At 31 March 2014 the council had total external borrowings and long term liabilities of £283.10 million (2012/13 £269.282 million) excluding PPP liabilities. Of this, 75.84% is at a fixed rate of interest and 24.16% at variable rate. Gross borrowing of the council is within the authorised limit and operational

boundary set by the treasury management strategy.

Exhibit 5: Net external debt as a ratio to net revenue stream



Source: Scottish councils' unaudited accounts 2013/14

69. Audit Scotland has, on behalf of the Accounts Commission, recently completed a national review of borrowing and treasury management in councils. The national report is planned for publication in January 2015.

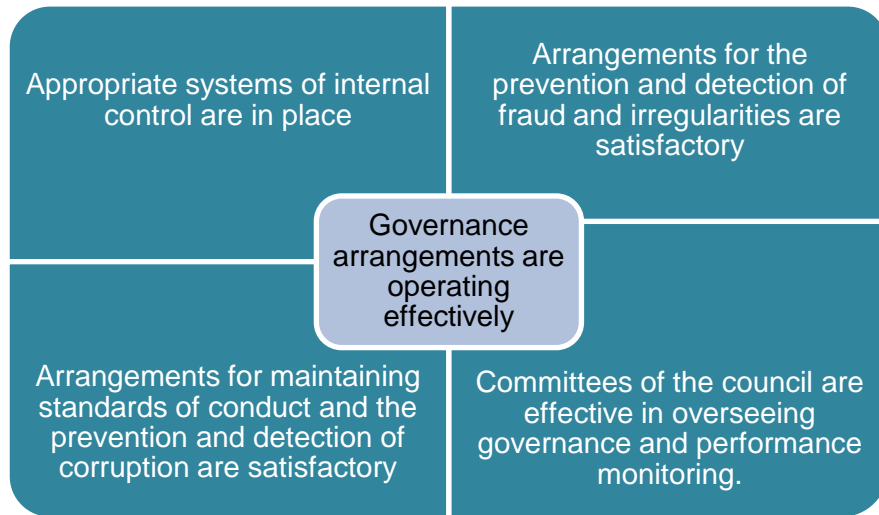
Outlook

70. The council's Transformation Strategy forms the basis for all key strategic decisions and how they impact the council's financial position. The strategy is designed to achieve

sustainable savings of £36.075 million over the four year period to 2016/17. The funding gap was £9.030 million when approving the 2013/14 budget. Further savings work streams were identified when approving the 2014/15 budget and the gap now stands at £1.017 million for the period to 2016/17.

- 71. The financial position for 2014/15, as reported to Cabinet in August 2014, anticipates the General Fund uncommitted balances to be £8.760 million (2.7%) at 31 March 2015, taking account of a current projected underspend of £0.035 million. The HRA is projected to be £0.934 million under budget.
- 72. The council is in the process of developing the new Community Plan which, it is anticipated, will be a 15 year plan for the period 2015 to 2030 with three year reviews. A key aspect of this work will be the identification of the council and its partners' key priority outcomes in the years ahead. The new plan and related Single Outcome Agreement will provide the strategic and performance framework within which future budget setting and strategic financial planning across each of the partner agencies will take place.
- 73. The council continues to operate in a funding environment which is subject to sustained pressure to deliver more with less. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings achieved in previous years.

Governance and accountability



74. Members of the council and the Proper Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of East Ayrshire Council and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

75. The corporate governance framework within East Ayrshire Council is centred on the council which is supported by the

following standing committees.



77. As part of our audit we reviewed the high level controls in a number of the council's systems that impact on the financial statements. This audit work covered trade payables, cash and cash equivalents, council tax billing and collection, and the e-procurement system. We also relied on previous years' audit work in relation to trade receivables, NDR billing and collection, housing rents, general ledger, and the treasury management system.

78. Our overall conclusion was that key controls within the council's main financial systems were operating satisfactorily

Governance and accountability

during 2013/14 and no significant risks were identified.

Internal audit

79. Internal audit provides members of the council and the Proper Officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where appropriate.
80. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place. We placed formal reliance on the work of internal audit in payroll testing. In terms of our wider scope of public audit, we obtained assurances from work carried out by internal audit work on other aspects of our Code responsibilities such as the council's governance and monitoring arrangements for East Ayrshire Leisure Trust, The Ayrshire Roads Alliance, waste management contracts and performance indicators.

Opencast mining in East Ayrshire

81. A number of local authority areas were impacted by the liquidation of the Scottish Coal Company Limited and Aardvark

TMC Limited in April 2013. We reported last year that this has a number of serious implications for the council and its communities, including the impact on the landscape, the environment and the economy within East Ayrshire as well as any potential financial consequences for the council.

82. In May 2013, the council's Cabinet approved a number of recommendations in response to emerging developments, which have been taken forward, since that time, by the Coal Team, an officer team led by the Depute Chief Executive. In September 2013 the council received an update on progress, as part of a 'Steps to Recovery' paper. This reported the aim of these steps, to minimise the consequences of the liquidation of the operators, and to maximise the potential for restoration of the sites through development opportunities and well managed opencast coal mining, together with details of actions taken to enhance compliance and to further master planning of the operational and legacy sites.

Independent review

83. In addition to the work carried out by the officer team, in June 2013, the council approved the terms of reference for an independent review into the processes and procedures regarding the management, implementation, monitoring and review of the planning processes in relation to opencast coal operations. This included a review of the circumstances that resulted in the failure by the coal operators to restore their

Governance and accountability

opencast coal sites on an ongoing basis in accordance with the restoration plans approved as part of the planning consent. The independent review team was lead by the former Chief Planner of the Scottish Government.

84. In January 2014 the report of the independent review was presented to a meeting of the Council. Following legal advice, a redacted version of the report was made public at that time.
85. The report refers to some positive findings which include the support of the local communities for opencast mining in the area, due to the jobs created by the industry. It comments that “if the policies at the local level, reflected in the East Ayrshire Open Cast Subject Plan (EAOCSP) had been applied they would have provided a robust framework for decision making and ensuring progressive restoration.”
86. The report then goes on to say that “these are far outweighed by major and persistent failings in procedure and practice”. These include:
 - staff resources were not commensurate with the regulatory challenges of the industry
 - monitoring progress on sites was wholly inadequate, and failed to identify failures to comply with the terms of planning permissions and legal agreements
 - there was a failure to appoint independent assessors, paid for by the operators, required by the East Ayrshire Open Cast Subject Plan
- lack of progress with restoration of existing sites was not highlighted when considering planning applications to extend sites
- the process for calculating and monitoring restoration guarantee bonds was wholly deficient and defective
- local forums did not provide effective challenge to the operators practices
- neither elected members nor senior management were provided with any accurate or authoritative assessment of the scale of the problem or the funding required to address it.
87. The lack of awareness within the senior management team of the environmental damage being caused and the financial implications of the operator’s actions was difficult to understand or explain. “There is no evidence to suggest that these issues were raised with the Director of Neighbourhood Services or the Chief Executive.” It concludes that the “failings are many and varied but at their core lie significant and ongoing individual, management and communication failings, particularly within the planning service.”
88. The Chief Executive presented, to the same meeting, a comprehensive report setting out the council’s response to the key findings and the recommendations included the report.
89. The council agreed that the Head of Human Resources would lead a formal disciplinary investigation into each instance of

Governance and accountability

failure to fulfil statutory or professional responsibilities in respect of matters identified in the review report. As part of this process an Assessment Panel of five Members concluded unanimously that there is no case to answer on the part of the Chief Executive.

90. The Head of Human Resources' investigation and consequential disciplinary proceedings are now concluded. These proceedings led to the dismissal of the Head of Planning and Economic Development in July 2014 and the demotion of the Minerals Officer in August 2014.

Financial implications

91. In January 2014 it was reported that independent mining engineers' estimated the total notional cost of restoration for East Ayrshire's mines as £161 million. The council has no intention that it will bear this cost or any sum of this nature. The council's view, supported by legal advice, is that it has no legal obligation to carry out restoration work on the vacant mines. The council successfully appealed a Court of Session Judicial Review which enabled the liquidator of the two coal companies to disclaim/abandon their ownership and responsibility for the sites which remain unsold.
92. Whilst the council view's is that it accepts no legal responsibility for restoration, it reports that it continues to fulfil its statutory responsibilities in respect of any health and safety or contamination issues which might arise. The costs of

fulfilling these responsibilities are not known but have been minimal to date, reflecting the council's position as the authority of 'last resort' in respect of such matters with the current owner/occupiers retaining primary legal responsibility in respect of each site. Development opportunities and alternative restoration solutions for the sites are being actively pursued by the council. The current situation is that there are six operational opencast mine sites, employing 404 employees, in the area. As well as the operational sites, the liquidators have reached agreement regarding the sale of four sites. Proposals are being developed with the council for the restoration of these sites.

93. The total value of the 24 bonds in place to address restoration work totals £28.656 million. However, it is unclear to what extent all of the bonds will be honoured. To date twelve bonds have been called formally and following negotiations settlement terms have been agreed in respect of 6 of these bonds, to a total value of £12.393 million. The council is in discussion with the bond providers for the remaining twelve bonds. The income from these bonds is reflected in the financial statements, as appropriate. The council intends to commence a tendering process (up to the value of the bonds received) to invite organisations to carry out restoration work. The application of the bond monies is to be kept under review by the council and spend will be prioritised in accordance with the principles approved by the council in the September 2013 Steps to Recovery report.

Governance and accountability

94. In May 2014 the council's Cabinet approved improved arrangements for setting up and monitoring of financial guarantees for such projects and extended their application to other projects which have the capacity to cause long term environmental damage including, for example, quarries and wind farms. It is reported that these arrangements reflect the emerging issues discussed as part of the Scottish Government's Consultation on Opencast Coal Restoration; Effective Regulation, triggered by the national issues arising from the liquidation of the operators.

Improvements made

95. A number of progress reports describing actions taken since the independent review have been discussed by the council. The latest June 2014 report reflects on the scale of the ongoing tasks, and details its priorities to focus activity on "operational opencast coal sites, which addressed the employment of a local workforce and compliant operations, and the calling of bonds which would help facilitate the restoration of both operational and non-operational sites."
96. The June report describes progress made in implementing a strengthened Compliance Monitoring Framework for planning applications /consents, for independent compliance assessment of active sites and for regular reporting of activity to the Planning Committee. The framework covers surface mines, quarries, landfill sites, onshore wind farms, electrical

infrastructure projects, and other similar projects. To support these arrangements and to respond to an increase in planning applications, three additional planning officers have been employed. The Coal Team and its officers will also be integrated into the Planning and Economic Development Service by the end of October 2014, with the Depute Chief Executive continuing to lead the council's Steps to Recovery programme.

Audit conclusions

97. The liquidation of the two opencast coal mining operators has had an impact on a number of Scottish councils since April 2013. Due to the scale of coal extraction interests in East Ayrshire it has had a significant impact on the council's priorities and activities since April 2013. The independent review refers to "major and persistent failings in procedure and practice," in the council's open cast mining operations. These failings meant that the council was unaware of the scale of the issues that would crystallise for the community and the council until the liquidation of the operators occurred.
98. Whilst it does not reduce the significance of the failings, since the council identified the issues arising it has provided a prompt and robust response through:
- appointment of the Coal Team led by the Depute Chief Executive
 - an independent investigation on the reasons for the failings

Governance and accountability

- holding specific officers to account for the failings through the disciplinary process
 - taking immediate action to plan and implement improvements in its arrangements for managing open cast mine activities and other similar projects in the future
 - negotiating the call in of financial guarantees over the open cast sites
 - increasing resources in the planning service to support the new arrangements
 - improving monitoring and reporting arrangements covering open cast mine operations
 - Working to ensure future proofing in respect of similar activities by the provision of appropriate financial guarantees and monitoring for not only opencast coal sites but for all activities which may have a similar impact.
99. The complexity and uniqueness of the current situation means that it is not possible to give a definitive view on the likely outcome for the council. The future of a number of the sites is still to be resolved. Any impact on the council's finances will have a consequent impact on the level of resources available for other council services. We will continue to monitor developments and the financial implications of this issue.

Recommendation No 1

ICT audit

100. Overall, the council has sound controls surrounding the

management of its ICT service.

101. The council's challenges include providing financially sustainable services and systems; the reconfiguring of infrastructure and facilities against a backdrop of increased user and Government demands; collaborative partnerships placing new demands on information security policy and arrangements; and the need to regularly maintain business continuity/ disaster recovery arrangements.
102. For the first time in 2012/13, councils had to apply to connect to the Public Services Network (PSN) to allow the sharing of electronic data with other public bodies, such as the Department of Works and Pensions. PSN accreditation is now required on an annual basis. Without accreditation the council could lose electronic access to a number of PSN networked services.
103. The council achieved PSN accreditation in November 2013 and September 2014. A number of major work streams were completed within very short timescales in order to achieve PSN requirements. The capital cost to the council of the 2014 application was over £2m. These will be funded through acceleration and reallocation of existing balances for ICT projects within the Council's 10 Year Capital Investment Programme.
104. The council have satisfactory arrangements to ensure its continuing PSN accreditation. This includes a PSN Project

Governance and accountability

Board, and the use of Prince2 and the council's ASTA project management system to manage the ongoing project. Progress updates are provided to the Corporate Management Team. The council have estimated that the cost for the 2015 submission will be £0.580 million with ongoing annual costs of £0.130 million per annum.

105. Going forward health and social care integration is likely to create new challenges for the council, especially if the NHS continues to be out with the PSN compliance framework.

Governance arrangements with the Joint Roads Service

106. The joint East and South Ayrshire Roads Alliance (Ayrshire Roads Alliance) is an innovative, sector leading partnership delivering a shared council roads and transportation service across both local authority areas, which commenced on 1 April 2014. The Ayrshire Roads Alliance reflects the recommendations of the Christie Commission on the future of public services in Scotland. A service plan is in place which covers key areas such as the structure, high level business objectives, governance, risk and scrutiny arrangements. This gives the Ayrshire Roads Alliance its strategic direction for service delivery over the coming years. Appropriate scrutiny arrangements are in place to manage the budgets provided by East and South Ayrshire Council.

107. This shared service aims to ensure a consistent standard of

service delivery, while improving service efficiency and resilience, against a backdrop of reducing public sector budgets. The service is forecast to achieve £8.634 million joint savings over the first 10 years from reduced management and administration costs and better economies of scale, and involved the transfer of approximately 90 roads staff from South Ayrshire Council to East Ayrshire Council under TUPE.

Arrangements for the prevention and detection of fraud

108. The council's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.
109. East Ayrshire Council participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. Overall, we concluded that the council has positive and pro-active arrangements in place for investigating and reporting data matches identified by the NFI. This included a working group, chaired by the Head of Finance, which monitored the implementation of NFI, including the review of all datasets.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

110. The arrangements for the prevention and detection of corruption in East Ayrshire Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

Integration of adult health and social care

111. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. The Act offers some flexibility on the partnership arrangements for the governance and oversight of integrated health and social care services.

112. The integration will be complex and challenging and the council will need to engage at the highest level with NHS Ayrshire and Arran to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose. This will require:

- The establishment of a local integrated partnership and related governance arrangements.
- Integrated budgets for health and social care.
- Joint responsibility for strategic and locality planning in the area served.

113. The East Ayrshire Health and Social Care Partnership will be the joint and equal responsibility of the health board and council, who will delegate functions and budgets to the partnership.

114. The partnership will have one integrated budget for delivering services, and will be led by the Director of Health and Social Care, who will report jointly to the Chief Executive of NHS Ayrshire & Arran and the Chief Executive of East Ayrshire Council.

115. An East Ayrshire Transition Board was initially established to ensure services and employees affected by changes were both prepared and informed. A Shadow Integration Board has been in operation from April 2014 in preparation for the implementation of the Integration Joint Board in 2015.

116. Children and Families Services, Criminal Justice, Older Peoples Services, Alcohol and Drugs Services and Learning Disability and Mental health Services will transfer to the East Ayrshire Health and Social Care Partnership from East Ayrshire Council.

117. Progress in developing plans has been well managed. A clear timeline for the implementation of various stages to full integration has been agreed with NHS Ayrshire and Arran. This includes the initial establishment and membership of the Transition and Shadow Integration Boards, the timing of when services are to be included in the integration, the confirmation

Governance and accountability

of management and operational arrangements, and the communication of plans to employees and service users. We are satisfied that arrangements are sufficiently advanced to be able to deliver integration on time.

Welfare Reform

118. The council recognises the impact that the changes to the UK welfare system could have on resources and service provision. 2013/14 was a period of significant change with council tax benefits being replaced by the new Council Tax Reduction Scheme and the introduction of the Scottish Welfare Fund. Councils continue to face uncertainties over the roll out of the Universal Credit and there is the potential for further changes depending on the level of power to be devolved to the Scottish Parliament following the outcome of the Scottish independence referendum.
119. The council has been effectively monitoring and planning ahead to mitigate against the impact of the reforms. The Council's multi agency Welfare Reform Working Group provides routine and very detailed reports to the Corporate Management Team, Cabinet, and the Governance and Scrutiny Committee on risks and mitigation action the group are taking. Action taken by the Council to help mitigate the impact of the welfare reform agenda includes the creation of a £0.705 million Welfare Reform Fund, allocation of additional funding to Citizens Advice Bureau to provide additional support

to those impacted by welfare reforms and additional staffing within the neighbourhood housing teams.

120. The council's Transformation Strategy highlights the action the council plans to take to ensure that it will continue to deliver key services with less money. The council has agreed to protect the benefit service from budget reductions until the migration date to Universal Credit is made clearer.

Housing benefits performance audit

121. Audit Scotland carried out its third risk assessment of the council's benefits service in 2014, with the first having taken place in March 2010 and the second in May 2012. Since our previous risk assessment, the service has experienced significant change arising from national factors such as the implementation of the Council Tax Reduction Scheme, Scottish Welfare Fund, the removal of the Spare Room Subsidy and DWP's Automated Transfers to Local Authority Systems (ATLAS). Additional local changes over recent years include office relocations, management restructures, introduction of a generic team model and the migration to a new IT system.
122. A key challenge for the service has been long-standing staff vacancies. Audit Scotland raised this risk during the previous risk assessment and highlighted the need to fill the six vacancies as a matter of urgency. A further risk identified in the May 2012 audit was that the additional funding the council had received from DWP since 2009, solely for the purpose of

Governance and accountability

processing the increased benefits claims made as a result of the economic downturn, had not been used.

123. While both these risks have been addressed, there were delays in doing so associated with the issues mentioned in paragraph 121. This resulted in the council delivering a very poor service to those customers claiming HB during this time. Its processing performance for the first nine months of 2013 placed it amongst the worst across Great Britain. Delays in processing changes of circumstances can result in claimants being overpaid from the date of the change until the date it is processed. The subsidy claim requires such delays and overpayments to be separately classified. Application of a formula then determines a threshold value for each council, which limits the level of subsidy that can be claimed. During 2012/13, additional subsidy of £0.369 million could have been claimed and in 2013/14 a further £0.376 million could have been claimed if processing delays had not been experienced.
124. Management information shows that the council's performance has now been improving since November 2013. Further improvement is required in the area of business planning and a clear strategy to retain experienced staff until the migration to Universal Credit (UC) should be developed.
125. Despite the extensive backlog of work the service had to clear, there has always been a focus on accuracy and we are satisfied that this has been maintained at a good standard over this period. In addition, the council's multi agency Welfare

Reform Working Group provides routine and very detailed reports to the Corporate Management Team, Cabinet, and the Governance and Scrutiny Committee on risks and mitigation action the group are taking.

126. An improvement action plan highlighting the steps the council intends to take to address the 15 risks identified in our risk assessment report was prepared by management in July 2014 and agreed with Audit Scotland. This includes measures to prevent such a situation recurring. An update has been requested by February 2015 and internal audit plan to carry out a review of progress made in delivering the action plan in early 2015.

Recommendation No 2

Outlook

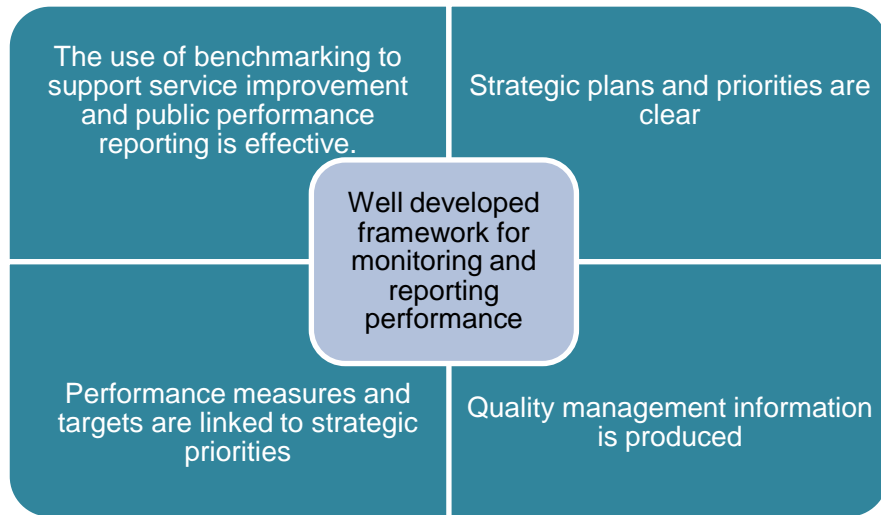
127. Councils continue to face rising demands for services alongside managing major reforms in welfare and health and social care. There is now a greater need than ever for strong governance and leadership. The integration of health and social care is a complex and challenging process and the council will need to work with partners to ensure that the unified service is in place by 1 April 2016.
128. There are to be major changes in councils' responsibilities for the investigation of fraud. The new Single Fraud Investigation Service (SFIS) is a national fraud investigation service within

Governance and accountability

the Department for Works and Pensions which will take over the responsibility for the investigation of housing benefit frauds. The investigation of the Local Council Tax Reduction Scheme and corporate frauds will remain within councils. The SFIS will be implemented across councils on a phased basis during the period July 2014 and March 2016 and will see the transfer of staff from councils to the DWP. There is a risk that council arrangements for the prevention and detection of fraud may be weakened due to the loss of experienced investigators to the SFIS.

129. Within East Ayrshire, the council has already transferred all of its benefits fraud and investigation team to the DWP. The council are developing their revised arrangements for residual fraud arrangements.

Best value, use of resources and performance



130. Local authorities have a statutory duty to provide best value in those services they provide directly as well as those provided through agreements with Arm's Length External Organisations. This requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. There is also the duty to report performance publicly so that local people and

other stakeholders know what quality of service is being delivered and what they can expect in the future.

Arrangements for securing Best Value

- 131. The Cabinet has an approved transformation strategy which governs the council's strategy for achieving best value. This currently runs until 2017. Effective partnership working will continue to be at the heart of the overall transformation agenda in East Ayrshire, to ensure that the council continue to deliver best value and outcomes for local communities.
- 132. The arrangements for ensuring best value are co-ordinated by the Policy, Planning and Performance division. Within this framework, all services carry out regular self evaluation reviews using self assessment tools appropriate to each service. This service also co-ordinates a variety of linked functions to support the management and reporting of key performance activities. The division has responsibility for co-ordinating arrangements for the production and review of the Community Plan, which is the key strategic document for the delivery of public services in East Ayrshire and is the council's Corporate Plan.
- 133. The division co-ordinates and participates in the identification and conduct of best value service reviews across all council departments. The service reviews are an integral part of the redesign of council services in recent years. These reviews have contributed to the council's financial efficiency savings

Best value, use of resources and performance

whilst ensuring that services are capable of meeting the needs of users within available resources.

Use of resources

134. As reported above, the council's transformation strategy 2012-2017 identifies various work streams aimed at achieving the savings outlined in the 2014/15 budget, whilst managing the impact on service levels and policies. These include:

- The East Ayrshire Leisure Trust which was formed on 1 July 2013 (savings target £2.094 million).
- Reviewing primary and secondary schools free school transport entitlements, and social work free transport entitlements (savings target £0.560 million).
- The Property and Estate Rationalisation work stream, aims to reduce the number of operational buildings by 25% (savings target £2.246 million by 2016/17).
- A review of admin and clerical services (savings target £1.5 million).
- Development of an integrated education and care provision for children with complex needs as an alternative to purchasing external placements (savings target £1 million)
- Better integration of health and social care to increase the focus of re-ablement and promotion of independent living (savings target £2.269 million).
- The East Ayrshire Council and South Ayrshire Council

shared roads service from 1 April 2014 (savings target £8.634 million over 10 years).

135. During 2013/14 the council introduced a voluntary redundancy programme as part of achieving efficiencies across service provision. Severance payments of £7.860 million relating to 262 employees were incurred during 2013/14 with most scheduled to leave the council's service in 2014/15. These all require to achieve a pay back period of no more than two years. A Project Board chaired by the Head of Human Resources has overseen the process including assessment of each case and the cumulative effect to ensure that there will be minimal impact on services.
136. The decision to approve applications will become more difficult as the workforce shrinks and the potential impact on service delivery is amplified.

Performance management

137. East Ayrshire Council gathers comprehensive performance information in order to monitor and improve services. The East Ayrshire Community Plan and the Single Outcome Agreement are the main strategic tools used to plan for, and report on performance of these services.
138. Individual services use service plans and performance indicators to assess whether targets are being met. Some of these indicators are set nationally by the Scottish Government,

Best value, use of resources and performance

while others have been set by the council in relation to local communities and needs.

139. Both National and Local performance indicators are used to measure continuous improvement, alongside benchmarking exercises with other councils in Scotland.
140. Comprehensive performance reports are provided to the Governance and Scrutiny Committee and Cabinet which cover financial performance, efficiency measures, treasury indicators, progress of the Capital Programme, absence management, complaints, health and safety and risk management. These reports appropriately cover performance against strategic priorities and objectives.
141. Additionally, the council's Electronic Performance Management System (EPMS) monitors performance indicators across a four- weekly, monthly, quarterly or yearly basis providing detailed information to be used by service departments. A full review of EPMS is being progressed, which will be linked to the council's Management Review and the comprehensive review of the Community Plan being taken forward in 2014/15.
142. We are satisfied that appropriate arrangements were in place within East Ayrshire Council for 2013/14, and that this information is used to focus attention on key areas with a view to continuous performance improvement.

Overview of performance targets in 2013/14

143. Of its 66 indicators, comprising 25 former national Statutory Performance Indicators (SPIs) and 41 local indicators, the Council has reported on 60 indicators to date. A total of 132 performance measures related to these 60 indicators were reported in 2013/14, and progress has been measured against the previous year as follows:
 - Improving progress: 83 (62.9%)
 - Maintaining progress: 6 (4.5%)
 - Improvement required: 43 (32.6%)
144. The Community Planning/Single Outcome Agreement Annual Performance Report 2013/14 comprises 90 performance measures. Progress has been measured against a total of 89 measures from the 2011/12 baseline position and is summarised as follows:
 - Improving progress: 62 (69.7%)
 - Maintaining progress: 1 (1.1%)
 - Improvement required: 26 (29.2%)
145. There is one performance measure which is not reported as comparable data and is not available at this time.
146. Remedial action to address the areas identified for improvement have been considered by the council and the Community Planning Partnership Board at their respective meetings in October 2014, and will be further considered by

the Governance and Scrutiny Committee.

Statutory performance indicators

- 147.** The Accounts Commission has a statutory power to define performance information that councils must publish locally and it does this through its annual Statutory Performance Information Direction. Since its 2008 Direction, the Accounts Commission has moved away from specifying individual indicators and has focused on public performance reporting and councils' requirement to take responsibility for the performance information they report.
- 148.** The audit of Statutory Performance Indicators in 2013/14 is a new national two stage process. The first stage requires auditors to ascertain and appraise councils' arrangements for public performance reporting and the completion of the Local Government Benchmarking Framework indicators. This focuses on three statutory performance indicators (SPIs) namely:
- SPI 1: covers a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
 - SPI 2: covers a range of information relating to service performance
 - SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.
- 149.** The second stage involves an assessment of the quality of the information being reported by the council to the public. An evaluation of all Scottish Local Authorities' approaches to public performance reporting (PPR) has been carried out by Audit Scotland's Performance Audit and Best Value section, the results of which were reported to the Accounts Commission in June 2014.
- 150.** Individual assessments were also reported to councils' Chief Executives, Leaders and Chairs of Audit Committees. These highlighted the extent to which their PPR material either fully, partially or did not meet the criteria used in the evaluation. The results for East Ayrshire Council for 2012/13 were reasonable, with 38% fully, 52% partially and 10% not meeting the criteria. A further evaluation of councils' approaches to PPR is due to be carried out by Audit Scotland in spring 2015. The council is currently working to ensure full compliance with the future requirements for public performance reporting.
- 151.** Our work during the year concluded that East Ayrshire Council continue to meet the requirements of SPI 1 and 2. Each of the areas required to be reported are covered in local performance indicators. Plans for collection and reporting of indicators remain unchanged from previous years and it is our view that the authority is taking reasonable steps towards collation of performance indicators.

Assurance and improvement plan 2014-17

152. The Assurance and Improvement Plan (AIP) covering the period 2014 to 2017 was prepared by the Local Area Network (LAN) of scrutiny partners. This has been published on Audit Scotland's website and was submitted to the Governance and Scrutiny Committee in June 2014.
153. The conclusion of this year's shared risk assessment was that there were no scrutiny risks identified which required specific scrutiny by the LAN. The Scottish Housing Regulator noted that no scrutiny is required on the council's housing service, but highlighted that due to the downward trend in tenant sustainability in relation to homelessness (57.2 per cent), which is the lowest sustainability rate in the country and 6.2 per cent lower than the previous year, they plan to obtain further information on these areas through the issue of a self-assessment to the council. The council has been in discussion with the Scottish Housing Regulator in this regard. We will revisit these areas as part of the Shared Risk Assessment process for 2014/15.

Local performance audit reports

154. In 2013/14 we carried out two targeted follow-up audits to assess progress in areas that had been reported nationally by Audit Scotland, namely:
- Arm's-length external organisations (ALEOs)

- Major capital investment in councils.
155. **Arm's-length External Organisation (ALEOs):** This was a targeted follow-up study carried out across all local authorities in Scotland. A key aim of the study was to provide the Accounts Commission with a position statement on councils' use of ALEOs and, on progress since the *'Arms-length External Organisations: Are you getting it right'* report published in 2011. More specifically, we carried out a high level assessment of the governance arrangements that the council has in place for overseeing ALEOs.
156. The council has established just one significant ALEO. This is East Ayrshire Leisure Trust (EALT). Service level agreements are in place which clearly document the rights and responsibilities of both the council and EALT. These agreements, together with the trust's Business Plan 2013-16 provide details regarding the performance information that the trust requires to provide. The performance of the Trust is reported to the Cabinet and the Governance and Scrutiny Committee as part of the regular East Ayrshire Performs report.
157. We consider that there is a solid framework in place for monitoring the financial and service performance of EALT.
158. **Major capital investment in councils:** Audit Scotland's national report on *Major capital investments in councils* published in March 2013 assessed how well councils direct,

Best value, use of resources and performance

manage and deliver capital investments. The report focused on major capital projects i.e. those with an individual value exceeding £5 million. Local follow-up audits were carried out at all 32 councils in Scotland.

159. We made use of the good practice guide checklist that accompanied the national report to assess how the council has responded to the report and to assess the quality of capital information provided to elected members.
160. The council has long term capital investment programmes for general services and HRA which run to 2023 and 2019 respectively. These are encompassed within this Transformation Strategy which is the main corporate document for managing the council's finances. All capital investment decisions are agreed within the context of their contribution to the achievement of a designated work stream within the Transformation Strategy. Changes in priorities and amendments are reflected in the annual reviews of the capital programme.
161. Overall, we consider there that the council has a robust financial governance framework for capital investment including good quality reporting to members. East Ayrshire Council is one of nine councils selected by Audit Scotland for a second stage assessment of the council's management of its capital investment programme. We aim to complete this by November 2014.

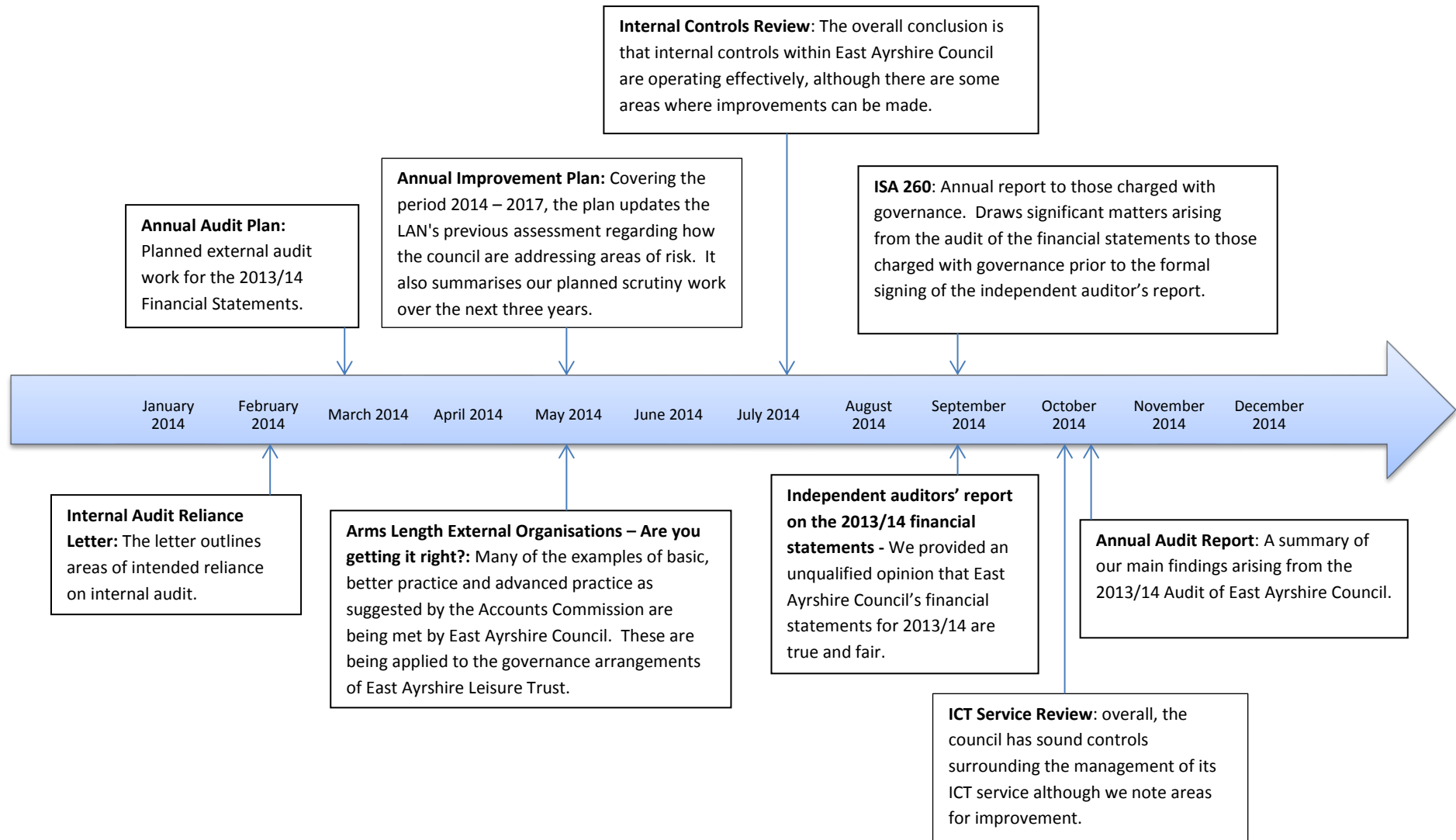
National performance audit reports

162. The Council has embedded arrangements for the consideration of the issues and recommendations raised within our national reports. These include providing a position statement of the council's position regarding the key points raised in the national report. These are reported to and discussed at appropriate Governance and Scrutiny Committee meetings.
163. A summary of national performance audit reports, along with local audit reports, is included in Appendices I and II.

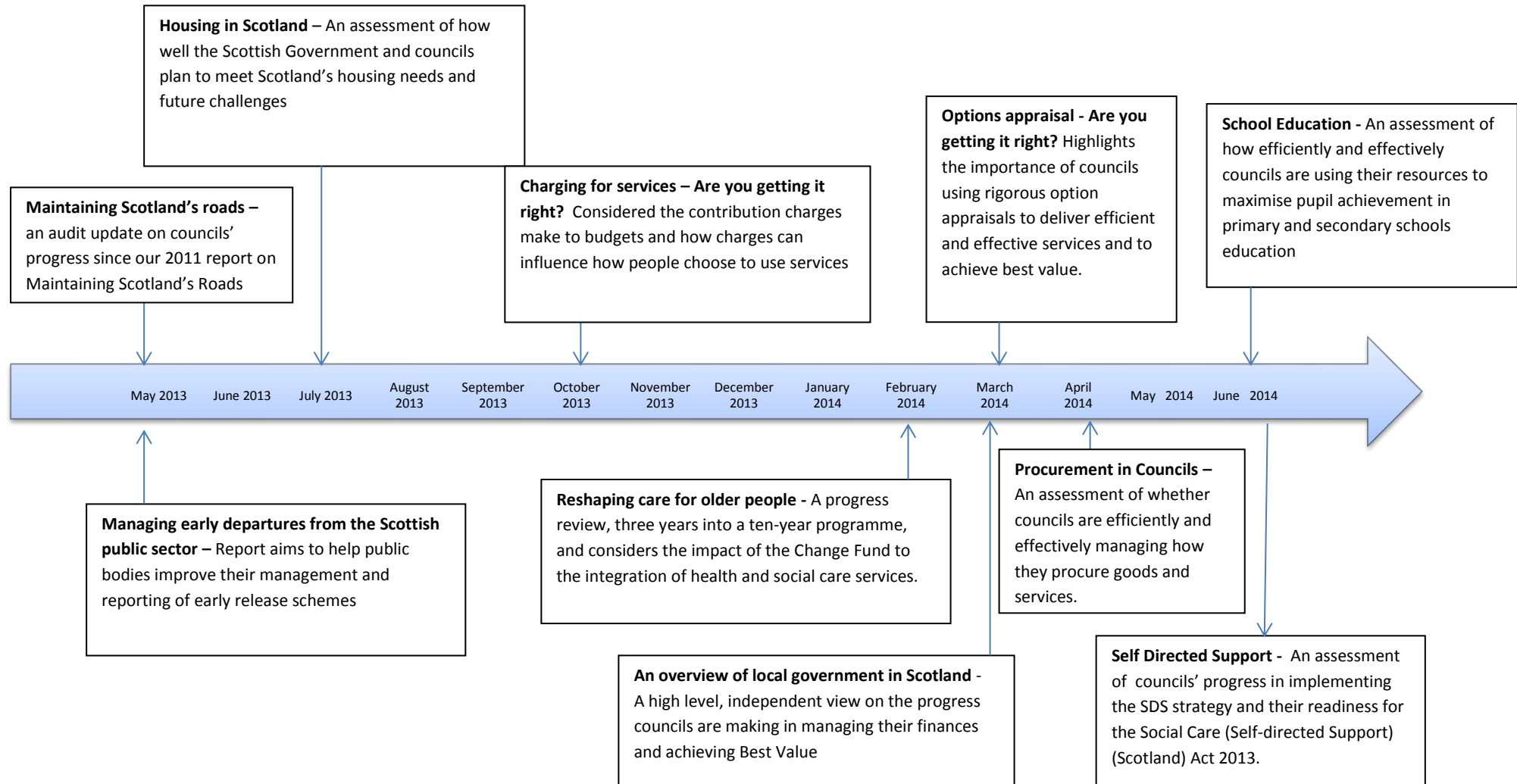
Outlook

164. As choices on how to address funding gaps become increasingly difficult, councils will have to focus on making the best use of available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities.

Appendix I – Summary of East Ayrshire Council local audit reports 2013/14



Appendix II – Summary of Audit Scotland national reports 2013/14



Appendix III – Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
<p>Charitable Trust Accounting</p> <p>Separate financial statements and an audit are required, from 2013/14, for registered charities where the council is the sole trustee.</p> <p><i>There is a risk that trust deeds may not be in place or reflect the objectives of the charity; or that information required to be disclosed in the financial statements may not be available.</i></p>	<p>Work was completed to establish the status of each trust by reviewing each trust deed. We also established the arrangements put in place by the council for restructuring the trusts.</p> <p>The financial statements for each registered charitable trust were audited as part of our end of year procedures.</p>
<p>Group Accounts</p> <p>Changes to the group structure arising from the reformation of Police and Fire Services and the introduction of a new Leisure Trust will have an impact on the reporting requirements for 2013/14 in relation to group accounts.</p> <p><i>There is a risk that appropriate disclosures are not properly presented in the financial statements of the council and its group.</i></p>	<p>The arrangements for the Group Accounts at East Ayrshire Council were discussed and confirmed with officers throughout the year. We confirmed that Police and Fire Services have been properly eliminated from the council's group accounts.</p> <p>Assurances were obtained from the Leisure Trust's auditor regarding the governance arrangements in place.</p> <p>During our audit of the council's financial statements we confirmed that assets transferred to the Leisure Trust were appropriately recorded and disclosed.</p>

Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p>Equal Pay Provision</p> <p>The potential liability resulting from equal pay claims remains uncertain and is subject to the outcome of several national test legal cases.</p> <p><i>There is a risk that the ultimate cost to the council is significantly different from that provided in the financial statements.</i></p>	<p>The equal pay provision was audited as part of the financial statements audit process. The position with regards to equal pay was also discussed with senior officers in order to monitor any developments in year.</p> <p>There are good quality working papers in support of the equal pay provision.</p>
<p>Contingent Liability - open cast coal sites</p> <p>The Council disclosed a contingent liability in its 2012/13 financial statements to reflect the collapse of two coal operators within East Ayrshire and to highlight that the council had no legal liability in connection with this.</p> <p><i>The ultimate legal position is uncertain, and there is a risk that the council will incur significant costs should they "step in" to address some of the safety concerns.</i></p>	<p>The current legal position with regards to open cast mines was discussed with senior council officers as part of financial statements work completed. This confirmed the appropriateness of disclosures made within East Ayrshire Council's accounts.</p> <p>We reviewed senior counsel opinion confirming the council's view that there is no legal liability to restore the sites</p> <p>Obtained the current status of bond monies received to date.</p>

Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p>Financial Position - attainment of efficiency savings</p> <p>The Council plans to reduce its cost base by circa £36 million from its 2012/13 levels to achieve a funding gap of £1.017 million by 2016/17.</p> <p><i>There is a risk that the council will be unable to deliver the required level of efficiencies to meet the anticipated funding gap by 2016/17.</i></p>	<p>Budgetary control reports were reviewed throughout the year as part of the ongoing audit process. The council's financial plans were discussed with officers to ascertain progress in addressing predicted funding gaps over the coming years.</p> <p>Discussed any potential impact of budget changes to the transformation strategy, such as the ending of right to buy.</p> <p>Reviewed the current status of the council's Transformation Strategy to confirm that it still forms a basis for financing the council's strategic plans.</p>
<p>Financial Sustainability - impact on services</p> <p>The external effect of the current economic climate has seen a rise in demand for some council services combined with reductions in the amount of income received.</p> <p><i>There is a risk that the Council will not be able to sustain the required level of service provision to meet demand for its services within the current financial provision.</i></p>	<p>The impact of recent efficiency programmes, such as voluntary severance programme, was discussed with officers. The measures taken to manage the impact on services were reviewed.</p> <p>Updates to the risk register, recent complaints received and outcomes of the single outcome agreement were monitored throughout the year. Reports provided to members on revenue and capital spend were also reviewed.</p> <p>Reviewed the annual performance report.</p>

Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p>ICT Strategy and security arrangements</p> <p>The council did not achieve Public Sector Network (PSN) accreditation until its third application during 2013.</p> <p>The council will have to manage the product support for Microsoft XP which is being withdrawn in mid 2014.</p> <p><i>There is a risk that systems may not communicate effectively with other government bodies; and that some computer system applications may not be supported in the medium term.</i></p>	<p>A computer services review was completed covering a review of ICT strategies and plans, the council's readiness for future PSN accreditation, the approach taken to data security and protection, and product support arrangements.</p>

Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p>East Ayrshire Leisure Trust (EALT)- Governance arrangements</p> <p>The council established an arms length trust to undertake a range of leisure services previously provided by the Neighbourhood Services Department. This new organisation took over operations from 1 July 2013.</p> <p><i>There is a risk that the council:</i></p> <ul style="list-style-type: none"> • <i>does not have appropriate arrangements in place to monitor the level of service performance provided by EALT</i> • <i>transactions relating to the Leisure Trust are not kept separate from the council</i> • <i>assets/liabilities are not accurately transferred to EALT.</i> 	<p>The governance arrangements for monitoring performance of the trust against contractual agreements were reviewed. We also reviewed the service level agreements between the EALT and the council</p> <hr/> <p>We carried out a targeted follow up of Audit Scotland’s national report "Arms Length External Organisations: Are you getting it right?" (2011)</p>

Appendix IV – Action plan

Recommendation point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/23	<p>Opencast mining in East Ayrshire</p> <p>Following liquidation of the open cast mine companies many issues, including the future of remaining sites, the outcome of bond settlements, and the plans regarding how to use bond settlements as they are received are still to be resolved.</p> <p>Risk</p> <p>Any impact on the council's finances will have a consequent impact on the level of resources available for other council services.</p> <p>Recommendation</p> <p>The legal position regarding the liability to restore sites, together with the outcome of bond settlements and how these are used should be kept under constant review.</p>	<p>The Depute Chief Executive will continue to lead the council's Steps to Recovery Programme. There will, in accordance with the decisions of Council, in particular, 19 September 2013; 28 January 2014; and 26 June 2014, be reports on, inter alia:</p> <ul style="list-style-type: none"> • Review of the Minerals Subject Plan (Cabinet) (A) • Masterplans and restoration proposals (Cabinet/Planning Committee) (B) • Bond negotiations and settlements (Cabinet) (C) • Planning applications and relevant legal agreements and financial guarantees (Planning Committee) (D) • Compliance monitoring of operational sites (Planning Committee) (E) 	<p>Acting Exec Director of Neighbourhood Services (A)</p> <p>Depute Chief Executive/ Acting Head of Planning and Economic Development (B)</p> <p>Depute Chief Executive/ Acting Head of Planning and Economic Development (C)</p> <p>Acting Head of Planning and Economic Development (D)</p> <p>Acting Head of Planning and Economic Development (E)</p>	<p>October 2017 (A)</p> <p>As required (B)</p> <p>As required (C)</p> <p>As required and following sign off by the Depute Chief Executive (D)</p> <p>Quarterly (E)</p>

Appendix IV – Action plan

Recommendation point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
2/27	<p>Housing benefits performance audit</p> <p>The council experienced very slow processing performance in 2013. The processing delays resulted in overpayments of benefit that the council could not claim subsidy for. These issues are incorporated within an improvement action plan agreed with management.</p> <p>Risk</p> <p>Further backlogs or failure to implement the actions in the improvement plan could impact the council's ability to smoothly migrate to the Universal Credit requirements.</p> <p>Recommendation</p> <p>All of the actions contained in the improvement plan should be managed through to completion.</p>	<p>A detailed action plan was agreed with Audit Scotland to ensure the 15 identified risks were effectively mitigated. This is currently being implemented and is subject to regular and ongoing review by both senior management in the service and also the Corporate Management Team.</p>	Head of Finance	March 2015