



South Ayrshire Council

Annual report on the 2013/14 audit

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

October 2014



Contents

Key messages	3
Introduction	7
Financial statements	9
Financial position	14
Governance and accountability	23
Best value, use of resources and performance	30
The audit of charitable trusts	37
Appendix I – Summary of local audit reports 2013/14	40
Appendix II – Summary of Audit Scotland national reports 2013/14	41
Appendix III – Significant audit risks	42
Appendix IV – Action plan	46

Key contacts

Fiona Mitchell-Knight, Assistant Director

fmitchell-knight@audit-scotland.gov.uk

Dave Richardson, Senior Audit Manager

drichardson@audit-scotland.gov.uk

Sarah Lawton, Senior Auditor

slawton@audit-scotland.gov.uk

Audit Scotland
4th floor (South Suite)
8 Nelson Mandela Place
Glasgow
G2 1BT

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

Key messages

Financial statements

- Unqualified auditor's report on the 2013/14 financial statements.
- Unqualified auditor's reports on the nine charitable trusts administered by the council.

Financial position

- An underspend of £7.708m against service budgets partly due to unexpended earmarked reserves brought forward from 2012/13.
- Usable reserves have decreased by £1.581m to £43.965 m.
- HRA underspends exceed £11m over 5 years. The budget requires a fundamental review.
- The council is in a strong position to meet future financial challenges.

Governance & accountability

- The council has implemented a new more performance focussed political governance structure.
- Systems of internal control operated effectively.
- The council has an effective internal audit function and sound anti-fraud arrangements.

Best Value, use of resources & performance

- The council has responded positively to the findings and serious concerns expressed by the Accounts Commission after the 2014 Best Value audit.
- It has made progress in creating a framework for Best Value, but it is too early to assess the impact of this on the effectiveness of performance management and the pace of improvement.

Outlook

- Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care. Effective arrangements for Best Value will be essential for efficient use of available resources, and strong governance and leadership will be needed to achieve continuous improvement.

Financial Statements

1. We have given an unqualified audit opinion that the financial statements of South 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 unqualified audit opinions on the 2013/14 financial statements of nine charitable trusts audited under the provisions of the Charities Accounts (Scotland) Regulations 2006.
3. Overall, the council reported an underspend against budget of £7.642 million. Underspends were recorded across all services, the most significant of which were in Resources, Governance and Organisation and Economy, Neighbourhood and Environment.
4. The Housing Revenue Account (HRA) has continued the pattern of underspending against its expenditure budget noted in previous years. For 2013/14, the underspend amounted to £3.369 million or 11.5% of the original budget. Underbudgeted income of £0.142 million increased the total underspend to £3.511 million. It is our view that budget setting for the HRA is fundamentally unsound. We have recommended that Housing Services re-examine its budget building methodology and its demand models with the assistance of the Finance Service and ensure that a credible budget is in place for 2015/16.

Financial position

5. The general fund balance as at 31 March 2014 decreased by £1.532 million, to £22.926 million. This balance is made up of earmarked commitments of £12.748 million and an unallocated balance of £10.178 million. The HRA balance as at 31 March 2014 decreased by £1.145 million, to £13.455 million. This balance is made up of earmarked commitments of £12.862 million and an unallocated balance of £0.583 million.
6. The council held net assets of £288.115 million at 31 March 2014 and usable reserves amounted to £43.965 million.
7. The council set its 2014/15 budget and indicative budgets for 2015-16 and 2016/17 in December 2013 with updates approved in March 2014. The 2014-15 budget assumes savings of £4.593 million with efficiency requirements of £5.270 million and £8.278 million in 2015/16 and 2016/17.
8. The council's capital programmes have been subject to considerable slippage in previous years. Following a reorganisation of the responsibilities for delivery of the capital programme the council delivered an enhanced capital programme during 2013/14. In effect it regained some of the ground lost in previous years.
9. Although the persistent under spending against budgets has significantly contributed to the level of reserves the council is now in a strong position to meet future financial challenges.

Governance and accountability

10. The council has recently reviewed its scrutiny arrangements and implemented a new governance structure. Although it is too early to make a firm judgement on the effectiveness of the new structure, it looks to have a tighter focus on the key issues of governance and service performance.
11. During 2014 two failures of the council's email system gave rise to serious concerns. The council's response was to employ external expertise to assess the current resilience of the council's systems and report back on the necessary remedial steps.
12. In all other aspects the council's governance and accountability arrangements were operating satisfactorily.
13. The council is well advanced in implementing the integration of health and social care agenda. The Shadow Integration Board has been convened, a director appointed and the council has resolved that all of its social care services will be delegated to the joint board.

Best Value, use of resources and performance

14. The Accounts Commission published a report on South Ayrshire Council, Targeted Best Value Work, in February 2014. The Accounts Commission's findings expressed concerns

about the council's inability, over a number of years, to fulfil and sustain its statutory Best Value responsibilities.

15. The council has shown a positive attitude in responding to the report findings and recommendations. It acknowledged and accepted the Accounts Commission's findings, and there is clear evidence of action being taken aimed at addressing the weaknesses identified. A review of progress highlighted that the council has started to address all the recommendations raised in the report. A Council Plan has now been approved along with supporting Service Improvement Plans. A revised political governance and management structure is in place.
16. The council has introduced new arrangements for the scrutiny of performance through the new Service and Performance Panel. Its remit is to review and monitor the council plan and service and improvement plans.
17. The new structures and arrangements provide the council with the opportunity to place a greater focus on achieving Best Value. However, the arrangements need time to be fully embedded within the council before their effectiveness can be assessed. Continuous improvement will also need to be a long-term focus of the council, requiring full involvement of members and officers to maintain progress.

Outlook

18. The council will continue to operate in an environment which is

Key Messages

subject to sustained pressure to deliver more with less. Major reforms to the welfare system and health and social care are already presenting significant financial and governance challenges. The potential for a changing political and fiscal landscape following the independence referendum adds a further layer of uncertainty in the coming years. 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.

19. The council has made clear progress in creating a framework to deliver on its Best Value duties. It must now turn its attention to further developing, refining and implementing its plans and processes to ensure that it achieves the benefits of the work done so far. Developing a new culture of continuous improvement, and ensuring a shared organisational purpose that embeds strategic priorities across services to individual staff members, will be a critically important but longer term task.

Introduction

20. This report is a summary of our findings arising from the 2013/14 audit of South 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 and includes a separate section on the findings from our audit of charitable trusts administered by the council.
21. Our responsibility, as the external auditor of South 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.
22. The management of South 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.
23. This report is addressed to the members of South Ayrshire

Council and the Controller of Audit and should form the basis of discussions with the Audit and Governance Panel 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.

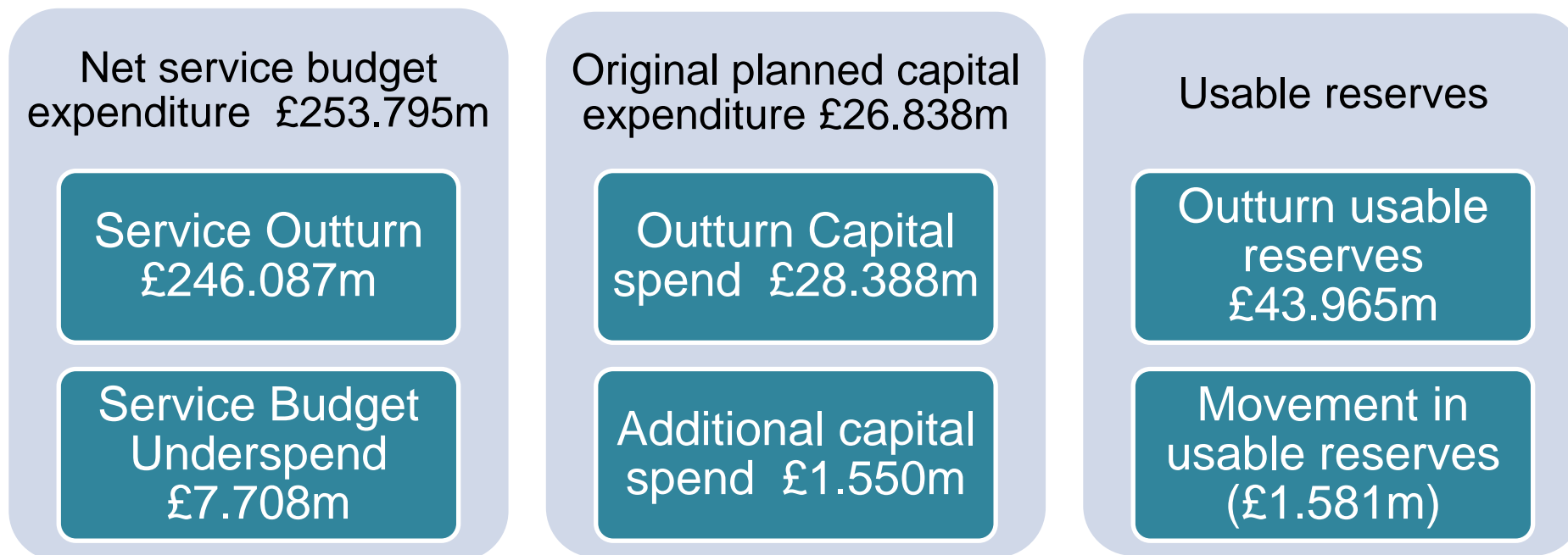
24. This report will be published on our website after it has been considered by the council. The information in this report may be used for the Account's Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
25. 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 South Ayrshire Council.
26. 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

Introduction

risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

27. **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".
28. We recognise that not all risks can be eliminated or even minimised. What is important is that South Ayrshire Council understands its risks and has arrangements in place to manage these risks. The council and executive officers group should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
29. 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.
30. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements



Audit opinion

31. We have given an unqualified opinion that the financial statements of South 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.

Other information published with the financial statements

32. 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

33. We considered the legality of the council's business by way of a range of procedures, including the review of council papers and minutes, sample testing of transactions and obtaining written assurances from the Head of Finance and ICT (section 95 officer). There are no legality issues arising from our audit which require to be reported.

The audit of charitable trusts

34. We have given an unqualified opinion on the 2013/14 financial statements of each of the nine charitable trusts administered by South Ayrshire Council.
35. We have provided further background and comment in the appropriate section of this report.

Group accounts

36. South Ayrshire Council has accounted for the financial results of two subsidiaries and three associates in its group accounts for 2013/14. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £28.010 million.
37. The net assets of the group at 31 March 2014 totalled £316.125 million, compared to net assets of £64.378 million in 2012/13. The movement in the closing net asset balance is

mainly due to the transfer of police and fire services to new national authorities from 1 April 2013 and the consequent removal of police and fire service pension liabilities from the group balance sheet.

Accounting issues arising

Presentational and monetary adjustments

38. 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 to correct all errors. The effect of these adjustments was to decrease expenditure and increase net assets by £0.016 million.
39. The most significant change required was £0.723 million adjustment to the Housing Revenue Account. This was a result of a miscategorisation of capital expenditure as revenue. Due to the nature of the transactions (purchase for demolition and impairment charge to HRA) the effect on the HRA and Comprehensive Income and Expenditure Statement was neutral.
40. In addition, a number of non-monetary presentational misstatements or omissions were identified during the course of the audit which have been amended in the audited financial statements.

Financial position

41. There are no unadjusted errors or misstatements to bring to your attention.

Whole of government accounts

42. 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

43. We presented to the Audit and Governance Panel, on 24 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 issues raised, and not discussed elsewhere in this report, are set out in the following paragraphs.
44. **Approval of unaudited accounts:** The new Local Government 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, and in respect of the annual financial statements. The regulations require unaudited accounts to be submitted to the council or a delegated

committee by 30 June each year. The annual governance statement should also be approved by members prior to being signed. It has not previously been the practice to submit annual accounts to council (or relevant panel) prior to submission for audit.

45. While the council is mostly compliant with the amended regulations consideration will need to be given to the regulations to ensure full compliance in 2014/15.

Recommendation 1

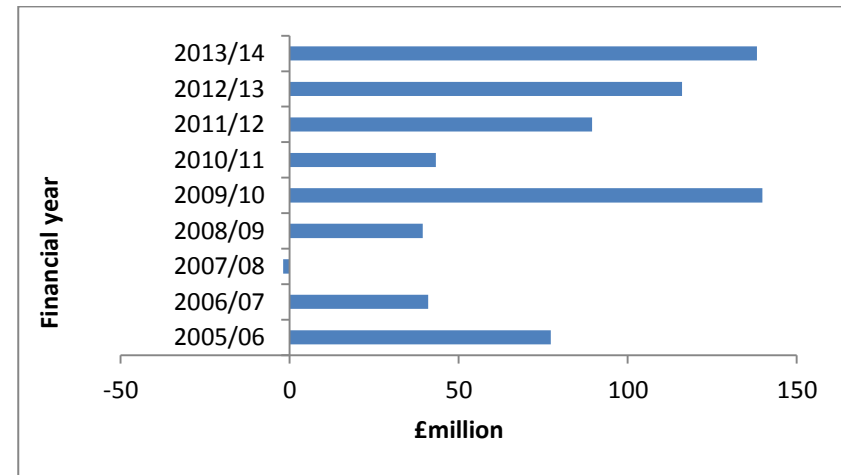
46. **Employee related claims:** In previous years, we commented that the council had made a provision to meet the costs arising from equal pay compensation claims. As a result of a recent decision by the European Court of Justice, the council revised its provision during the year to include potential claims arising from that decision. Based on current information the level of provision is considered to be adequate at this time, however, the ultimate cost to the council remains uncertain.
47. **Reduction in net assets:** The net assets on the council's balance sheet have decreased from £301.607 million in 2012/13 to £288.115 million in 2013/14, a reduction of £13.492 million. The principal reason for this decrease is the £22.123 million increase in the pension liability from £116.054 million to £138.177 million. This is also reflected in the balance sheet for the group.
48. The pension liability represents the difference between

Financial position

expected future pension payments and the underlying value of pension fund assets available to meet this cost. The valuation of pension fund assets and liabilities is assessed by professional actuaries each year and is dependent on a number of external variables, principally projected rates of return on assets, interest rates and mortality rates.

49. 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 in 2014 with new contribution rates in place from 1st April 2015. The volatility of the pension asset / liability in recent years is set out in at exhibit 1.
50. 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.
51. **Non-current asset valuations:** Audit testing identified a small number of assets with an incorrect valuation recorded in the asset register maintained by Property and Risk Services. The net effect of the errors increased the value of non-current assets in the balance sheet by £0.025 million.

Exhibit 1: Movement of pension (asset)/liability 2005-2014



Source: South Ayrshire Council audited accounts 2005/06-2013/14

52. **Group accounts:** The status of Ayr Renaissance as an associate was reviewed for group accounts purposes. It was considered more appropriate to consolidate the body as a subsidiary in 2013/14. The impact on the figures disclosed in the group accounts is neutral with no change to the group's net assets.

Outlook

53. 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). The main changes to the Code for 2014/15 affect the group financial

Financial position

statements and include a change to the definition of control. The introduction of the changes is unlikely to have a significant impact on the council's group accounts.

54. The council's highway assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code will require highways to be measured, for the first time, on a depreciated replacement cost basis. 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 make early preparations to ensure full compliance with the Code in 2016/17.

Recommendation 2

Financial position

General services

55. In December 2012 the council approved a net revenue budget for 2013/14 of £246.0 million which was subsequently revised to £252.5 million in February 2013. The budget was based on a band D council tax of £1,154. In setting its budget the council planned to use £1.307 million from unallocated reserves and £7.867 million from earmarked reserves.
56. In 2013/14 the council spent some £384.133 million on the provision of services to the public. Its income totalled £369.653 million, resulting in a deficit on the provision of services of £14.480 million. After adjustments to reflect the difference between the accounting deficit and statutory requirements the decrease in usable reserves was £1.581 million.
57. Overall the council reported an underspend against budget of £7.642 million. Underspends were recorded across all services, the most significant of which were in Resources, Governance and Organisation and Economy, Neighbourhood and Environment.
58. The underspend in Resources, Governance and Organisation amounted to £3.661 million. The underspend of £0.646 million against the employee costs budget was a significant element of the underspend, which officers attributed to the non filling of vacant posts.
59. However, the most significant element of the underspend was £1.253 million in respect of the central repairs budget. Officers acknowledged the underspend as unsatisfactory and provided a detailed explanation for the underspend, essentially a resourcing issue. Officers expect that the structural changes introduced and the development of improved processes will bring about future improvements in delivery.
60. Economy, Neighbourhood and Environment reported an underspend of £2.768 million for 2013-14. The most significant underspend was £1.704 million on employee costs due to unfilled vacancies. Approval was granted for the carry forward of £2.662 million of funding for specific projects, a number of which are phased over several years, for example, £0.869 million for enterprise and tourism projects and £0.450 million Ayr Gaiety Partnership five year funding.
61. 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 and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.
62. The outturn of the general services budget is, broadly, satisfactory. However, there are a number of pockets of

Financial position

underspending/overspending against budget lines which require attention and where necessary adjustments to ensure that the budget approved is up to date and reflects the underlying cost of the service level required.

Recommendation 3

Bed and breakfast accommodation costs

63. In our annual report of 2012/13 we noted that a significant cost (in excess of £2 million over a five year period) was being absorbed by the council's general fund in respect of bed and breakfast accommodation provided to homeless persons. We recommended that the council reviewed its strategy for the provision of temporary accommodation. Housing Services moved with commendable speed to prepare a new strategy, based on the leasing of properties through a private sector company.
64. The new arrangements will, however, take some time to take full effect. The cost to the general fund during 2013/14 was some £0.335 million. South Ayrshire Council remains amongst the highest spenders in this respect. We will continue to monitor progress and report in future years' annual reports.

Housing Revenue Account

65. 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. The HRA budget was set on 18 December 2012 based on a council resolution of November 2011 which approved a fixed rent increase of 5.2% for the years 2012/13 to 2014/15.
66. We have commented in previous years on underspends recorded against budget. The table at exhibit 2 sets out the 2013/14 and cumulative five year underspends on the HRA. It is our view that budget setting for the HRA is fundamentally unsound. The Housing Service should re-examine its budget building methodology and its demand models with the assistance of the Finance Service and ensure that a credible budget is in place for 2015/16.

Recommendation 4

67. Variance explanations, for the HRA, recorded in budget monitoring reports are in some cases difficult to understand and frequently provide no activity based explanation for variances. Senior management should ensure that, in budget monitoring reports, members are being provided with adequate explanations, based on underlying activity, for all significant variances.

Exhibit 2: HRA underspends 2009/10 - 2013/14

Budget line	Underspend 2013/14	Underspend 5 year total
	£'000	£'000
Employee costs	570	2,889
Property	2,205	5,195
Supplies/services	102	513
Transport	25	82
Administration	131	675
Support services	67	226
Agency payments	12	(482)
Transfer payments	23	92
Financing	234	1,922
Total	3,369	11,112

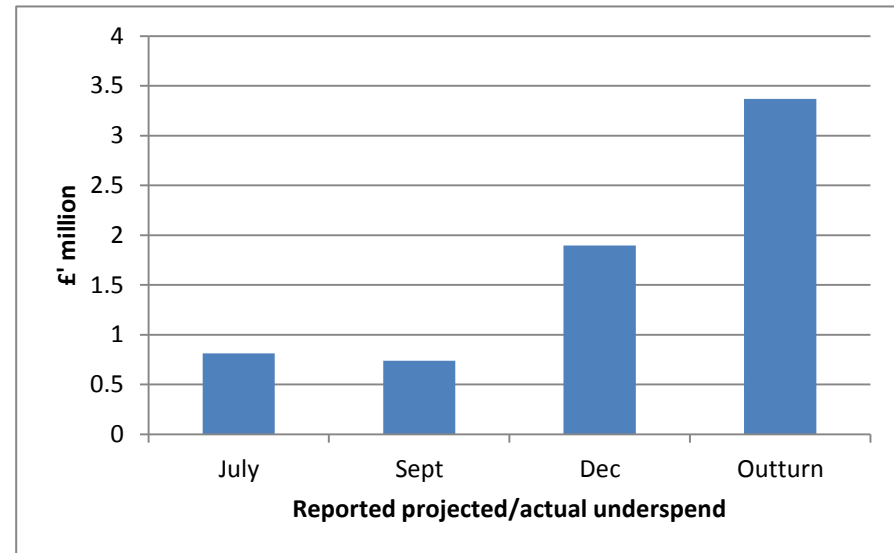
Source: South Ayrshire Council financial statements

68. The HRA base budget for 2013/14 was £29.368 million. Budget monitoring reports provide members with actual spend to period end and a projected year end outturn. The projected outturn figures reported during 2013/14 are set out at exhibit 3. It is to be expected that forecast outturn figures diverge from final actual amounts, however, the scale of the difference between actual and outturn and the large movements between later periods calls into question both the budget setting process

and the usefulness of information being provided to members.

Recommendation 5

Exhibit 3: HRA underspend projections 2013/14



Source: South Ayrshire Council budget monitoring statements

69. Capital from current revenue (CFCR) is a means of augmenting or substituting borrowing to fund capital expenditure. As such CFCR should form an integral part of the HRA capital investment and borrowing strategy. It is a revenue expense to the HRA and should form part of the HRA budget for the financial year. Earmarked CFCR has increased by £6.890 million over 2012/13. CFCR should be subject to the

Financial position

same budgetary control as any other budget line. The practice of hypothecating revenue budget underspends to fund future capital projects is not transparent and indicates a lack of planning in terms of housing capital investment.

Recommendation 4

70. Earmarked reserves are funds which councils choose to set aside to meet known or predicted commitments. Of the balance carried forward at 31 March 2014, the council has earmarked £12.862 million for specific capital and revenue expenditure. Exhibit 4 shows four identifiable earmarked amounts in reports made to members in respect of outturns on the HRA for the five years 2009/10 to 2013/14.

Exhibit 4: HRA earmarked reserve five year trend

	2009/10	2010/11	2011/12	2012/13	2013/14
	£'000	£'000	£'000	£'000	£'000
CFCR	5,502	6,380	7,056	2,425	9,315
Planned maintenance carried forward	298	358	323	95	573
Maisonettes North Ayr	4,964	3,561	3,189	3,095	1,972
Riverside House	204	529	572	572	493
Total	10,968	10,828	11,140	6,187	12,353

Source: South Ayrshire Council financial statements

71. Members should request specific assurances on how and

when specific projects will be delivered, what planned maintenance is being carried forward and when it will be delivered and what plans are in place to deliver those projects to be funded by CFCR.

Reserves

72. 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.
73. In July 2014, an updated reserves strategy was presented to members which continued to focus on the aim to hold unallocated general fund reserves of £8 million at 31 March 2014 which reflects CIPFA best practice guidance of holding 2% - 4% of revenue expenditure. The council's unallocated reserve stands at £10.187 million as at 31 March 2014 which is at the upper end of the best practice range.

Exhibit 5: Usable reserves

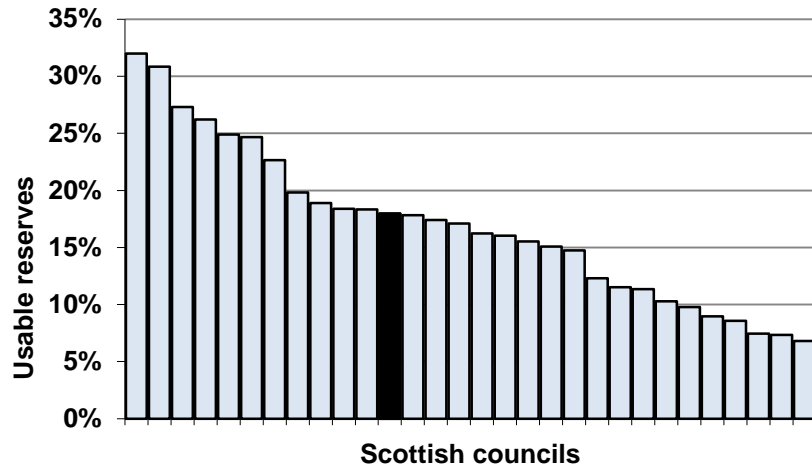
Description	31 March 2013	31 March 2014
	£ million	£ million
General fund	24.458	22.926
Housing revenue reserve	14.590	13,445
Repair and renewal fund	4.297	6.312
Capital grants unapplied	1.187	0.857
Capital receipts reserve	0.589	nil
Insurance fund	0.425	0.425
Total usable reserves	45.546	43.965

Source: South Ayrshire Council 2013/14 financial statements

74. The overall level of usable reserves held by the council decreased by £1.581 million compared to the previous year and totalled £43.965 million, exhibit 5. The General Fund balance includes £10.178 million of unallocated general fund reserves. Planned commitments from the general fund balance amounted to £12.748 million and include the workforce change fund, the efficiency and improvement fund, the affordable homes strategy and directorate expenditure commitments for 2014/15.

75. The council added additional funds to its repair and renewals fund during 2013/2014 to give a total balance at the year end of £6.312 million. Approval has already been given for draws of £2.636 million, leaving an uncommitted balance of £3.675m.
76. South Ayrshire Council's useable reserves (highlighted in black) now stand at £43.965 million. Exhibit 6 shows the comparative picture, across Scotland, of reserves as a proportion of net revenue stream.

Exhibit 6: Scottish councils: total usable reserves as a percentage of net revenue stream



Source: Scottish councils' unaudited accounts 2013/14 (excluding Orkney and Shetland Island councils)

Capital programme 2013/14

77. Capital expenditure for 2013/14 totalled £28.388million (2012/13, £18.512 million). Spend on the housing programme was some £12.549million (2012/13, £10.284 million) and on the general services programme was £15.839 million (2012/13, £8.228 million). The housing programme focused mainly on "major component replacement" 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 and roads and transport infrastructure.

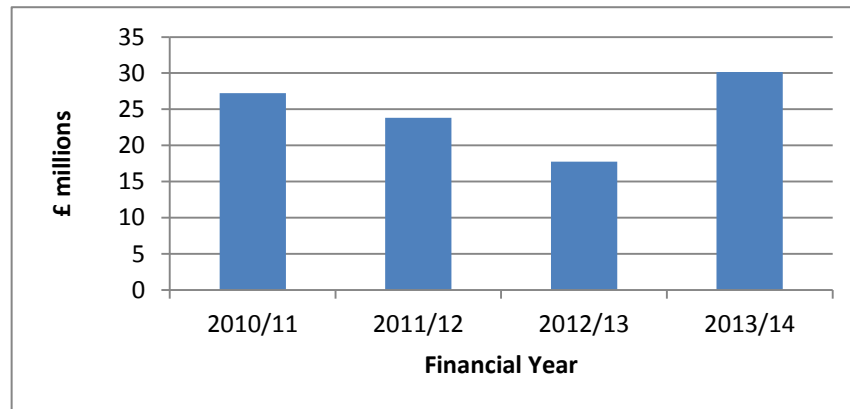
- 78. The council approved its general services capital programme for 2013/14 in December 2012. The budget was set at £15.283 million (2012/13, £12.980 million). Throughout the year further adjustments were made to the programme to reflect new expectations on project delivery and spend brought forward from 2012/13. This resulted in a final revised programme of £17.127 million.
 - Actual spend on the general services capital programme amounted to 104% (2012/13, 62%) of the original programmed expenditure (£15.283 million).
 - Actual spend on the general services capital programme amounted to 92% (2012/13, 91%) of the final revised programmed expenditure (£17.127 million).

- 79. The council approved its housing capital programme for 2013/14 in December 2012. The budget was set at £11.555 million. Throughout the year further adjustments were made to the programme to reflect new expectations on project delivery and projects brought forward from 2012/13. This resulted in a final revised programme of £14.664 million.
 - Actual spend on the housing capital programme amounted to 108% (2012/13, 72%) of the original programmed expenditure (£11.555 million).

Financial position

- Actual spend on the housing capital programme amounted to 85% (2012/13, 88%) of the final revised programmed expenditure (£14.664 million).
80. In previous years we have reported on poor performance against the council's capital programme for both housing and non-housing elements. The outturn for 2013/14 represents a considerable improvement in delivering the original programme. Exhibit 7 shows the level of capital expenditure from 2010/11 to 2013/14.

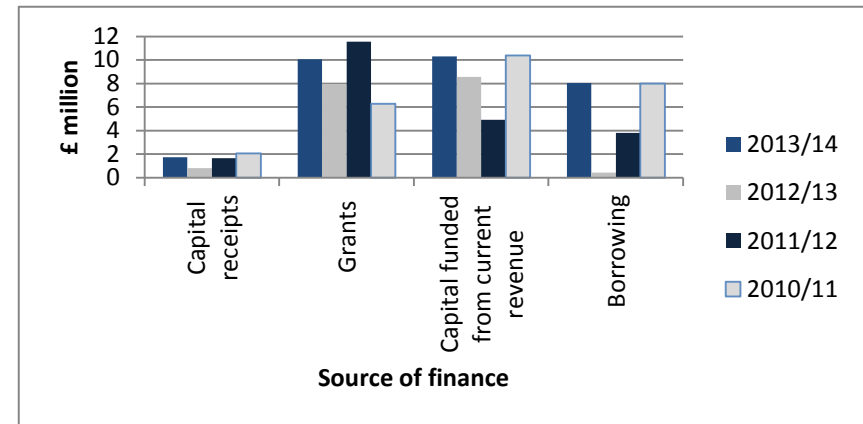
Exhibit 7: Capital expenditure 2010/11-2013/14



Source: South Ayrshire Council financial statements

81. The council funded its capital programme through government grants, capital receipts, capital funded from current revenue and borrowing. Exhibit 8 shows the sources of capital expenditure funding for the period 2010/11-2013/14.

Exhibit 8: Sources of capital funding 2010/11-2013/14



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

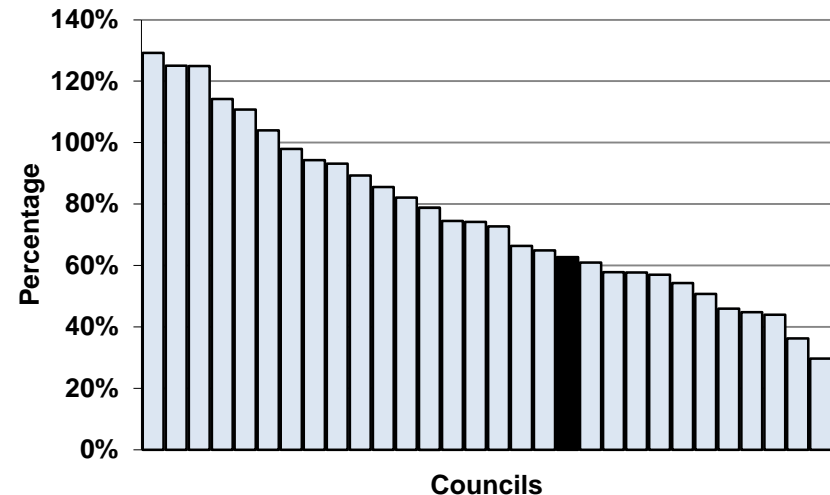
82. In December 2013 the council set itself ambitious targets for its 2014/15 capital programme, with the general services programme set at £28.429 million and the housing programme at £20.036 million. These budgets have subsequently been revised to £37.406 million and £24.799 million respectively. The latest capital programme monitoring reports covering the period to 31 July 2014 reported expenditure of £2.851 million on general services and £1.604 million on housing services. The low level of spend as at 31 July indicates that there may be difficulty in achieving the capital programmes. The Leadership Panel have requested that a review of the programmes be undertaken.

Treasury Management

83. At 31 March 2014 long term borrowing stood at £178.1 million, an increase of £0.9 million on the 2013 borrowing level of £177.2 million. During the same period, short term borrowing reduced from £10.1 million to £4 million. This is in line with the councils Treasury Management Strategy for 2013/14, which was to make use of internally generated funds before using long term borrowing facilities. Interest payable and similar charges fell by £0.126 million in 2013/14 to £14.517 million.
84. While the council's borrowing fell slightly during the year, its investments increased by £9.841 million to £42.695 million. These investments were all held with either UK banks and building societies or other UK local authorities.
85. Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 9 (South Ayrshire Council in black) shows long term borrowing as at 31 March 2014 as of net revenue stream a proportion of the actual outturn for the year for all mainland councils in Scotland. The council's long term borrowing at around 60% of net revenue stream places it at the lower end of the scale.
86. Audit Scotland has, on behalf of the Accounts Commission, recently completed a national review of borrowing and treasury management in councils. This involved discussions with members and officers as well as visits to a number of councils.

The review focused on the affordability and sustainability of borrowing and governance arrangements and considered how councils demonstrate best value in their treasury management functions. The national report is planned for publication in January 2015.

Exhibit 9: Scottish councils' long term borrowing as a percentage of net revenue stream



Source: Scottish councils' unaudited accounts 2013/14 (excluding Orkney and Shetland Island councils)

Financial position

Icelandic bank debt recovery

87. In October 2008 the Icelandic bank Landsbanki Islands hf went into administration. The council had two deposits amounting to £5 million with Landsbanki at the time of administration. The council had been receiving repayments in line with the administrator's timetable, and the expectation was that the investments would be fully recovered by December 2019. We reported in our 2012/13 annual audit report that a market had opened up for these claims and that the council was exploring the opportunity to sell its remaining interest as a preferred creditor. In January 2014 the council sold the remaining claim through a competitive auction process. The council collected 92.39% of its principal debt through the distributions received from the administrator and the final disposal. While this represents a financial loss of around £0.380 million, the council has recovered its investment almost 6 years ahead of the administrator's schedule.

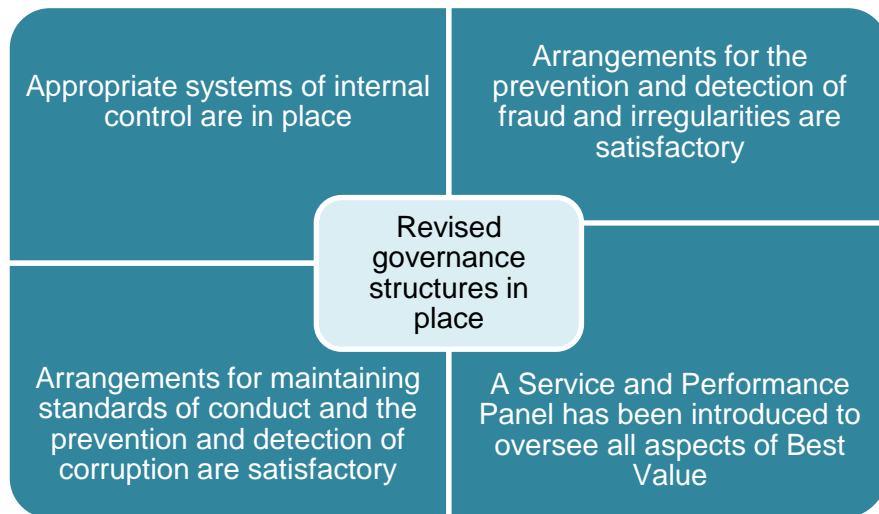
Outlook

88. The council set its 2014/15 budget and indicative budgets for 2015-16 and 2016/17 in December 2013. The 2014/15 budget was set at £246.037 million and assumes savings of £4.593 million. A number of efficiency measures have been agreed and are being implemented across the council. Some of the more significant measures include re-focussing homecare to those with the highest need and at greatest risk, contract

savings through cross directorate procurement efficiencies and a reduction in non-essential services, rationalisation of production kitchens and cleaning provision in council buildings, re-configuration of bed and breakfast provision and the rationalisation and streamlining of Human Resource structures and processes.

89. The council also set indicative budgets for 2015/16 and 2016/17 in December 2013 with updates approved in March 2014. The budgets require efficiency savings of £5.270 million and £8.278 million respectively. While the council has been proactive in its approach to identify savings opportunities, the realisation of these savings will become progressively more challenging year on year.
90. The revenue budget monitoring report for the period to 31 July 2014 showed an anticipated year end overspend of £1.792 million. This relates to an overspend on social care services, a report on which is being presented to members of the Leadership Panel to set out the reason for the projected overspend and the proposed action to mitigate the situation.

Governance and accountability



91. Members and management of the council are responsible for establishing arrangements for ensuring the proper conduct of the affairs of South Ayrshire Council and for monitoring the adequacy and effectiveness of these arrangements. Internal controls were operating effectively throughout the year.

Corporate governance

92. The Accounts Commission report of February 2014 found that

the council has an active audit committee, but that two of its three scrutiny panels met infrequently and lacked a clear remit to monitor and challenge service performance. As a result there were significant weaknesses in the scrutiny of council and service performance by elected members.

93. The council's improvement action plan included an action to 'review scrutiny arrangements to address weaknesses in the current arrangements'. A revised structure for scrutiny was agreed by council on 3 July 2014. The previous four Scrutiny Panels (the three Standing Scrutiny Panels and the Scrutiny and Governance Management Panel) were replaced with four new panels:

- Audit and Governance Panel
- Service and Performance Panel
- Partnership Panel
- Public Processes Panel

94. The council agreed remits for these panels and appointed Chairs in July 2014 and Vice Chairs in August 2014. These structures still need time to be fully established with only one meeting of the Audit and Governance Panel and Service and Performance Panel having taken place as at the end of September 2014. The other two panels met for the first time in October 2014.

95. The Audit and Governance Panel is chaired by an Independent

Governance and accountability

councillor who is not a member of the current administration, this is in line with good practice principles for audit committees. The Chair of the Public Processes Panel, while not a member of the Leadership Panel, is a member of the current administration. As the remit of this panel is to consider 'call-ins' from the Leadership Panel and could cover holding portfolio holders and chief officers to account, there is a risk that scrutiny is not seen as completely separate from the council administration. The council should assure itself that, in the light of advice from officers, this meets best practice in scrutiny that the review of structures set out to achieve.

96. In August 2014 the council agreed its revised Scheme of Delegation and Standing Orders to reflect these revised arrangements. The council also agreed a revised Audit Handbook and introduced a Scrutiny Handbook to support the new scrutiny arrangements.
97. Since the Accounts Commission's report the council has taken action to respond to the weaknesses in previous scrutiny arrangements. The new structure should form the basis from which the council can deliver an effective corporate governance framework. However, it is too early to assess the effectiveness of these new arrangements as the revised structure and scrutiny tools have still to be fully implemented and embedded.

Internal control

98. 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 payroll, trade payables and the council tax billing and collection system. We also confirmed the existence of key financial controls in trade receivables, main accounting system, cash income and banking, non-domestic rates billing and collection, housing rents, treasury management, housing benefit and council tax reduction scheme and capital accounting arrangements to ensure that they continue to operate in accordance with our understanding.
99. Our overall conclusion was that the key controls within the council's main financial systems were operating satisfactorily, and no significant risks were identified.

Internal audit

100. Internal audit provides members and management of the council 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 possible.

Governance and accountability

- 101.** Our review of internal audit concluded that the internal audit service operates largely in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.
- 102.** On 30 January 2014 the Corporate and Community Planning Standing Scrutiny Panel agreed to the proposal that the council's Internal Audit Service participate in the Scottish Local Authority Chief Internal Auditors Group (SLACIAG) scheme for external assessment, this will move the council's service closer to full compliance with PSIAS. The Audit Services/Programme Review Manager has, however, advised that areas of non-compliance are being kept under review and it may be the case that he may recommend to the panel to opt to remain non-compliant in some areas.
- 103.** The areas of non-compliance with PSIAS did not impact on the range and quality of the work performed. We were able to place formal reliance on aspects of the work of internal audit in several accounting systems including:
- Capital contracts: Interim payments.
 - Cash income and banking: Reconciliations.
 - Non-domestic rates: Recovery and enforcement.
 - Debtors: Licencing income.
 - Main accounting: Coding, cash and bank balances.

- Treasury management: Loans and reporting.
- Housing rents: Arrears management.
- Payroll: System of real time information to HMRC.

- 104.** In terms of our wider responsibilities under the Code in relation to governance and performance we have also been able to place formal reliance on selected aspects of the work of internal audit in the following areas:

- Performance indicators
- Council tax: welfare reform issues
- Unified benefits: welfare reform issues

ICT audit

- 105.** In 2014 we reviewed the background to two significant ICT failures of the council's email system. The incidents were reported to the Leadership Panel who expressed serious concerns and requested updates at future meetings to advise on the work programme required to resolve the issues. Six actions were recommended to the panel including an independent review of ICT resilience, a staged plan for reducing mailbox sizes and a review of all service business continuity plans.
- 106.** The work programme has been initiated with the appointment of an external contractor, to review the resilience and capability

Governance and accountability

of the council's ICT service provision. This work will be carried out in three phases with the aim of establishing in phase one, the current position, in phase two, development of an ICT strategy for going forward and in phase three, making recommendations on how to progress the required work programme to achieve a successful outcome.

107. In parallel with the external review the ICT service have developed new guidance on the use and archiving of email within the council, and are putting in place plans to reduce the size of mailboxes. Prior to circulation of guidance the council are currently provisioning additional storage capacity to cope with the additional archiving that will result from this more balanced approach for storage and recovery of email messages.
108. Another of the six recommendations was to review business continuity plans for outages and service interruption. The external contractor will consult with ICT staff, around business continuity planning as part of the resilience assessment and make appropriate recommendations.

Arrangements for the prevention and detection of fraud

109. The council's arrangements in relation to the prevention and detection of fraud and irregularities were found to be satisfactory.

National Fraud Initiative in Scotland

110. 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.
111. South 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.
112. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI. We will monitor progress against NFI 2014/15 during the year, and comment as necessary in our report to members in 2015.

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

113. The arrangements for the prevention and detection of corruption in South Ayrshire Council are satisfactory and we are not aware of any specific issues that we need to record in this report.
114. Internal audit were involved in a number of investigations into allegations of fraud during the year. There were no significant system failures identified from the investigations completed.

Correspondence referred to the auditor by Audit Scotland

115. No correspondence was referred to us for local investigation.

Integration of adult health and social care

116. 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. Integration will be complex and challenging and the council will need to engage at the highest level with the 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 requires:

- 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.
117. The Scottish Government has set two prescribed dates; 1 April 2015 for the approval of integration schemes, and 1 April 2016 for the delegation of functions. There is a further statutory requirement for the first strategic plans to be prepared by 31 March 2015 to allow the integration start date of 1 April 2015 to be achieved.
118. The model adopted for delivery is the joint board model. The Integration Joint Board is a full and equal partnership between South Ayrshire Council and NHS Ayrshire and Arran and will operate within the wider context of community planning and the existing council and NHS strategic frameworks, including joint arrangements such as the Single Outcome Agreement. In March 2014 the council approved the transfer of all social work services to the joint board.
119. South Ayrshire Council has been working with colleagues in NHS Ayrshire and Arran to meet the integration deadlines. The Shadow Integration Board is well advanced in meeting the required timescales.

Welfare Reform

120. The council recognises the impact that the changes to the UK welfare system will 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 Universal Credit and there is the potential for even further reforms following the Scottish independence referendum.
121. The council has been monitoring developments and planning ahead to minimise the impact of the reforms. The introduction of welfare reform changes from 1 April 2013 is having a very significant impact on the workload of officers across Revenues and Benefits and Housing and Customer Services. The main areas of impact have been in relation to under occupancy, reclassification of property, the benefit cap, discretionary housing payment applications and Scottish Welfare Fund applications. The council are liaising with tenants and local support organisations to mitigate the impact where possible.
122. Rent arrears continue to rise as a consequence of the reforms, especially as a result of the under occupancy rules. At 31 March 2014, 459 tenants were in arrears £153,657 as a direct consequence of under occupancy rules, and this had increased to 621 tenants with arrears of £173,459 at 30 August 2014.
123. The council received £0.262 million from the Scottish

Government to award discretionary housing payments to those most impacted by the introduction of welfare reform, allowing the council to award a total available of £0.655 million in 2013/14. The council expects to use the full amount available of £1.025 million for 2014/15.

124. The under occupancy rules are impacting on the council's ability to offer tenancies to homeless persons. The council reports that single person and couple households are opting to remain in temporary accommodation and wait for a one bedroom property to avoid being affected by size criteria/under-occupancy reduction in housing benefit.

Housing and council tax benefits performance audit

125. In September 2013, a focused review of the council's performance in respect of the speed of processing housing and council tax benefit claims was performed.
126. South Ayrshire Council's speed of processing performance had been consistently strong and over the three years up to March 2013 it has been in the top three Scottish performers for processing new claims. The review found that performance had slipped to 37 days to process a new claim, and 29 days for a change in claimant's circumstances. This deterioration put the council in the bottom quartile for processing time following a prolonged period of strong performance.

Governance and accountability

127. An action plan was prepared to address the issues identified. Management reported, to the June meeting of the Leadership Panel, that all actions had been completed. Speed of processing performance had improved for the quarter ended 31 March 2014. A significant effort to clear the backlog of new claims resulted in a reduction in processing times. The council expects to report further improved processing performance later in 2014.

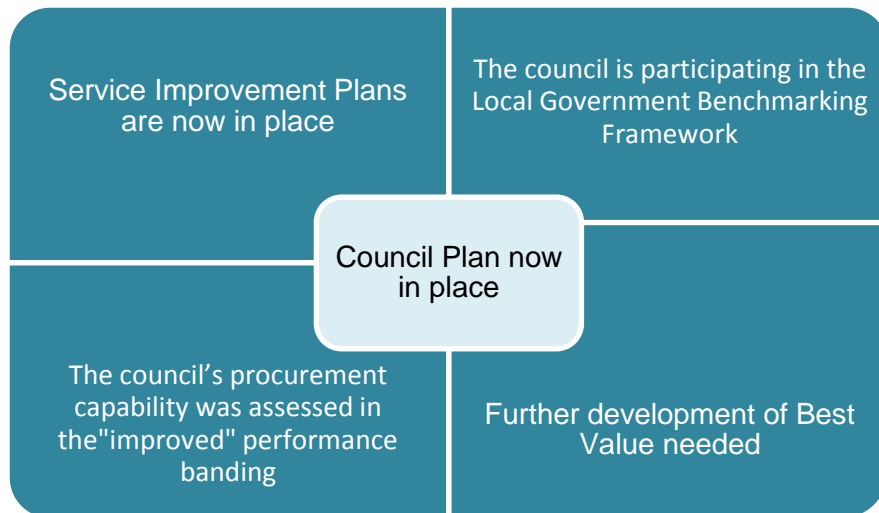
Outlook

128. 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 continue to engage at the highest level with partners to ensure that the unified service is in place by the statutory date of 1 April 2016.

129. There are major changes in councils' responsibilities for the investigation of fraud relating to benefits. The new Single Fraud Investigation Service (SFIS) is a national fraud investigation service, within the Department for Works and Pensions, which

will take over the responsibility for the investigation of housing benefit frauds. The investigation of local council tax reduction scheme and corporate fraud cases will remain the responsibility of councils. South Ayrshire Council staff transferred to SFIS in October 2014. Management advise that the council have retained two whole time equivalent staff, for fraud investigation, to mitigate the risk that the council's arrangements for the prevention and detection of fraud may be weakened.

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 Arms 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 Accounts Commission published a report on South Ayrshire Council, Targeted Best Value Work, in February 2014. The Accounts Commission's findings expressed their concerns about the council's inability, over a number of years, to fulfil and sustain its statutory Best Value responsibilities of continuous improvement in leadership and culture, performance management and scrutiny.
132. The council has responded positively to the report findings and recommendations. It acknowledged and accepted the Accounts Commission's findings, and there is clear evidence of action being taken aimed at addressing the weaknesses highlighted. Following the report the council created a Best Value working group, comprised of senior officers and members from across political parties, to identify what action needed to be taken and to monitor progress. A review of progress highlighted that the council has started action against all the recommendations made in the report.
133. A key element of the action plan was the agreement of the Council Plan in March 2014. This plan outlines six strategic objectives: That South Ayrshire Council will work to maximise the potential of:

Best value, use of resources and performance

- Our local economy
- Our children and families
- Our adults and older people
- Our communities
- Our environment; and
- To improve the way that we work as a Council.

134. The council recognises that this is an evolving process and that it still has work to do in refining its vision and developing more tangible strategic objectives. The council should use the Council Plan as a core building block in developing a clear direction for the council, and to start to measure and monitor performance against this. The council should also have a clear plan in place for how and when the strategic objectives will be reviewed and refined.

Performance management

135. The Council Plan is aligned with the Single Outcome Agreement for South Ayrshire and outlines how the council contributes to partnership working in the area. The council has also developed 11 Service and Improvement Plans (SIPs), which incorporate actions and sub-actions as to the contribution that services will make to deliver the council's strategic objectives and outcomes. This should provide a

framework to cascade the council's strategic objectives throughout the organisation.

136. SIPs reflect clearly Council Plan outcomes and detail specific actions and contributions by services, and provide a solid platform for taking forward the broad objectives of the Council Plan at service level. The SIPs include measures and specific actions by which services will achieve the council outcomes. Councillors display a good awareness of the strategic planning framework.

137. The SIPs are supported by performance indicators that will measure the council's progress in delivering the intended outcomes. It is intended that service performance will be monitored through six monthly reports on the SIPs to the Service and Performance Panel, the first of these are to be reported in November 2014. A half-yearly report on the Council Plan is due to be considered by the full council at its meeting in December 2014. Executive directors are meeting regularly with heads of service to consider performance against the SIPs. As the Council Plan is reviewed and refined the SIPs will need to remain relevant to the current priorities of the council.

138. These new arrangements provide the council with the opportunity to place a greater focus on service performance and continuous improvement. However, they are only now becoming operational with the Service and Performance Panel meeting for the first time in September 2014. The

Best value, use of resources and performance

arrangements need time to become fully embedded within the council before their effectiveness can be assessed.

139. The council is participating in the Local Government Benchmarking Framework (LGBF). The framework aims to bring together a wide range of information about how all Scottish councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them. All the LGBF measures have been incorporated into the Council Service and Improvement Plans and a full report on progress against the measures was reported to the Leadership Panel in April 2014.

Use of resources

Asset Management

140. The council's balance sheet as at 31 March 2014 discloses an aggregate valuation in excess of £645 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.

141. The council is currently revising and updating its corporate asset management plan following a revision of the staffing structure within its asset management team. The plan was originally scheduled for completion by 30 September 2014 but this has been revised to December 2014. The council should ensure that it delivers its comprehensive asset management plan by the revised target date.

Workforce Management

142. Effective workforce management is essential for ensuring that the council maximises the effectiveness of its employees. A workforce strategy is key to setting out how the council will ensure it has appropriately skilled people in place to deliver its services. The council is currently in the process of reviewing its workforce strategy and is actively looking at ways to facilitate better working.
143. The council introduced a Maximising Attendance policy which sought to address the increasing problem of a poor absence rate in the council. The 2013/14 performance indicators show that there has been an improvement in absence rates in 2013/14 from 7.7 days to 7.1 days for teachers and 11.6 days to 11.0 days for other employees. This is the lowest absence rates the council has had for 6 years and is being attributed to the impact of the maximising attendance policy. There is clearly some way to go in terms of further reducing absence across the council but the steps taken and the results to date are encouraging.

Best value, use of resources and performance

144. In 2013/14 the council granted exit packages to 88 staff at a cost of £0.985 million (49 in 2012/13 costing £0.570 million). These reductions form part of the council's plans to achieve future financial savings.

Ayrshire Roads Alliance

145. From 1 April 2014 the council's roads services have been delivered through The Ayrshire Roads Alliance, a partnership with East Ayrshire Council. The new body delivers roads maintenance, design and infrastructure, traffic and transportation and road safety across South and East Ayrshire. The combination of the roads services of the two contiguous councils is an excellent example of sharing services. The new shared service is predicted to achieve joint savings in excess of £8 million over a ten year period.

146. The performance of the Ayrshire Roads Alliance is monitored by a joint committee which includes four members of South Ayrshire Council. In addition, the Partnership Panel, established in July 2014, will be responsible for the scrutiny of the performance of all shared services, including the Ayrshire Roads Alliance. The council should monitor the level and quality of services being delivered through the partnership on a regular basis to ensure that the arrangement is operating as intended and is meeting the needs of South Ayrshire residents.

Procurement

147. 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 2013) the council scored 65%. This continued a trend of year on year improvement from 19% in 2009 to the current position. This latest score takes the council comfortably into the "improved" performance banding. This is a considerable achievement in improving procurement practices over recent years. The council has expressed its commitment to improve procurement practices further to enable them to achieve maximum benefit from procurement efficiencies.

Overview of performance targets in 2013/14

148. A report was submitted to the Service and Performance Panel in September 2014 setting out progress against a series of performance measures. The layout of the reported data was clear and accessible, and the inclusion of brief narrative explanations for movements and responsible managers is noted as good practice.

149. The report indicated that performance had improved in 30% of indicators, maintained at previous levels in 6% of indicators and declined in 25% of indicators. There was no comparable information or data was not yet available for 39% of indicators, for example, examination success indicators were not available

Best value, use of resources and performance

at the date of preparation.

150. Overall positive performance trends were noted for management of employees, procurement, criminal justice, environmental health. Benefits, leisure and cultural services and roads and transportation indicators displayed overall negative trends. The other indicator sets either presented a mixed set of results or data was insufficiently complete to form a judgement.
151. Key citizen facing indicators exhibiting decline were; the cost of collecting council tax per dwelling; the time taken to process benefit claims and the percentage of tenants expressing satisfaction with the repairs and maintenance service.

Statutory performance indicators (SPIs)

152. Since its 2008 Direction, the Accounts Commission has moved away from specifying individual indicators and has focused on public performance reporting (PPR) and placed more emphasis on councils' responsibility for the performance information they report.
153. For 2013/14 three (SPIs) were prescribed:
 - SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
 - SPI 2: covering 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.
154. Overall we concluded that the council's arrangements for the preparation of SPIs was satisfactory.
 155. An evaluation of all Scottish councils' approaches to public performance reporting was carried out by Audit Scotland's Performance Audit and Best Value group during 2013/14 and reported to the Accounts Commission in June 2014. An individual assessment for South Ayrshire Council was issued to the Leader and Chief Executive in July 2014.
 156. The results for South Ayrshire Council were mixed, with 63% fully meeting the criteria, 33% partially meeting the criteria and 5% 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 report to the Accounts Commission cited the South Ayrshire Council's annual calendar, which includes PPR information as an example of good practice.

Assurance and improvement plan 2014-17

157. The 2014-17 Assurance and Improvement Plan (AIP) prepared by the Local Area Network of scrutiny partners for the council was submitted to South Ayrshire Council on 15 May 2014.

Best value, use of resources and performance

158. A number of areas were highlighted in the AIP where scrutiny was required. These were leadership and direction, governance and accountability and improving and transforming public services. These were considered as part of the Best Value work reported in February 2014, details of which are referred to earlier in this report.
159. We will revisit all of these areas as part of the Shared Risk Assessment process for 2015-18.

Local performance audit reports

160. A number of local performance audit reports are issued each year. A summary of those issued in 2013/14 is included at appendix I.

“Arms Length External Organisations – Are you getting it right?”

161. In July 2014, the local audit team issued its follow-up report to “Arms Length External Organisations – Are you getting it right?”. The review sought to identify whether the council had formally considered the How Councils Work report on ALEOs, how clear the council was about its reasons for delivering services through ALEOs, how well the council understands the financial commitment and risk to which it is exposed through ALEOs and where members or senior officers are appointed to

the board or equivalent of ALEOs, how clear are they about their roles?

162. The council’s only ALEO is Ayr Renaissance. Our review commented on the original set up of Ayr Renaissance and made some recommendations, principally relevant to any future ALEO set up.

“Major capital investment in councils”

163. The local audit team also reported its findings to the follow-up audit “Major capital investment in councils” in July 2014. This review sought to establish to what extent South Ayrshire Council had improved performance in managing its capital investment programme since the original report was issued in March 2013.
164. The review highlighted a number of areas of good practice as well as areas where improvements could be made.

National performance audit reports

165. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2013/14, a number of reports were issued which are of direct interest to the council. These are outlined in appendix II. South Ayrshire Council has processes in place to ensure that all national reports and their impact on the council are considered by members.

Outlook

166. In common with other councils, South Ayrshire Council faces the key challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. Savings have been made in recent years largely by reductions in the workforce. However, as choices on how to address funding gaps become increasingly difficult, councils will have to focus on making the very best use of all 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.
167. The council has made clear progress in creating a framework to deliver on its Best Value duties. It must now turn its attention to further developing, refining and implementing its plans and processes to ensure that it achieves the benefits of the work done so far. Developing a new culture of continuous improvement, and ensuring a shared organisational purpose that embeds strategic priorities across services to individual staff members, will be a critically important but longer term task.

The audit of charitable trusts

168. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and The Charities Accounts (Scotland) Regulations 2006. The 2006 regulations require charities to prepare annual accounts, and require an accompanying auditor's report where any legislation requires an audit.

169. The Local Government (Scotland) Act 1973 specifies the accounting and audit requirements for any trust fund where a local authority, or some members of the authority, are the sole trustees (ie only members of the authority are trustees).

170. Therefore, as a consequence of the interaction of Local Government (Scotland) Act 1973 with the charities legislation, a full and separate audit and auditor's report is required from 2013/14 for each registered charity where members of South Ayrshire Council are sole trustees, irrespective of the size of the charity.

171. Our duties as auditors of the charitable trusts administered by South Ayrshire Council are to:

- express an opinion on whether the charity's financial statements properly present the trusts financial position 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).

172. We have given an unqualified opinion on these matters with respect to the 2013/14 financial statements of the relevant charitable trusts administered by South Ayrshire Council.

173. However, as the 2012/13 financial statements were not audited, we are required to state in an "other matter" paragraph in the auditor's report on the 2013/14 audit, that the corresponding amounts are unaudited. Whilst they are not audited, we have gained assurance from the council's accounting records on the trusts' brought forward figures.

174. The members of South Ayrshire Council are trustees for a number of funds held in trust for the benefit of other individuals or purposes. In practice, although they are not the property of the council, the funds are administered through the systems of the council. At 31 March 2014 75 trusts with funds totalling some £1.1 million were under the administration of the council. The trusts are diverse in nature and range in net assets from a few hundred pounds to £0.369 million.

175. Members of South Ayrshire Council are sole trustees for nine trusts, registered as Scottish charities, with total assets of some £0.547 million, exhibit 9.

Exhibit 9: South Ayrshire Council: registered charitable trusts

Registered charitable trust	Scottish charity number	Net assets as at 31 March 2014
McCracken Trust	001702	£7,185
McClymont Trust	008495	£44,335
James and Jane Knox Trust	008856	£23,557
Glasgow Troon Benevolent Society Fund	009075	£4,069
Monkton and Prestwick Nursing Association Trust	009903	£24,017
McKechnie Library Trust	012759	£7,999
Mary and Hugh Reid Trust	014448	£47,404
Loudoun Trust	017166	£18,916
Robert Hamilton Smith Trust	022120	£369,746
Total net assets		£547,228

Source: Charitable trusts audited accounts 2013/14

176. The essence of a trust is that property is held by one person or a number of persons (trustees) for the benefit of others. The duties of trustees are more onerous than those of elected members. When acting as trustees, members need to ensure that they take decisions in the best interest of the trust and not necessarily the council. Trustees have an absolute duty to administer the trust estate in accordance with the terms of the trust, including accounting for the trust property to the beneficiaries.

177. The trustees and officers should consider introducing revised governance arrangements for trusts. New arrangements and guidance should include:

- provision for separate meetings of members when acting as charity trustees;
- provisions for receiving and approving accounts;
- lines of reporting between council officers and trustees;
- training and guidance on the duties of trustees.

Recommendation 6

178. In the case of the council's trusts the beneficiaries are, for the most part, a class of individuals, identifiable from the founding document. Given the age of some trusts the beneficiaries may no longer be easily identifiable in the simplistic terms of the documents of a bygone era. For example, the Loudoun Trust was set up, in the early 20th century, for the purposes of

Best value, use of resources and performance

“providing coals for the poor”. Historically, the lack of disbursements has resulted in a gradual accumulation of reserves over some considerable time.

179. We are advised by officers of South Ayrshire Council's Legal Service that one scheme of amalgamation and rationalisation (concerning four Prestwick charitable trusts) has been submitted to Office of the Scottish Charity Regulator (OSCR) for ratification. This will allow, through the alteration of objects and the merging and de-restriction of funds, increased flexibility in terms of potential beneficiaries and awards. In addition a rationalisation scheme is being prepared for two Girvan trusts and the future of the remaining trusts is also under consideration.
180. While we acknowledge that this represents good progress, the legal resource applied to the task is limited. Trustees and officers should consider the employment, at the trusts' expense, of further dedicated resources to obtain a speedier settlement and make these funds available for the benefit of the people of South Ayrshire.

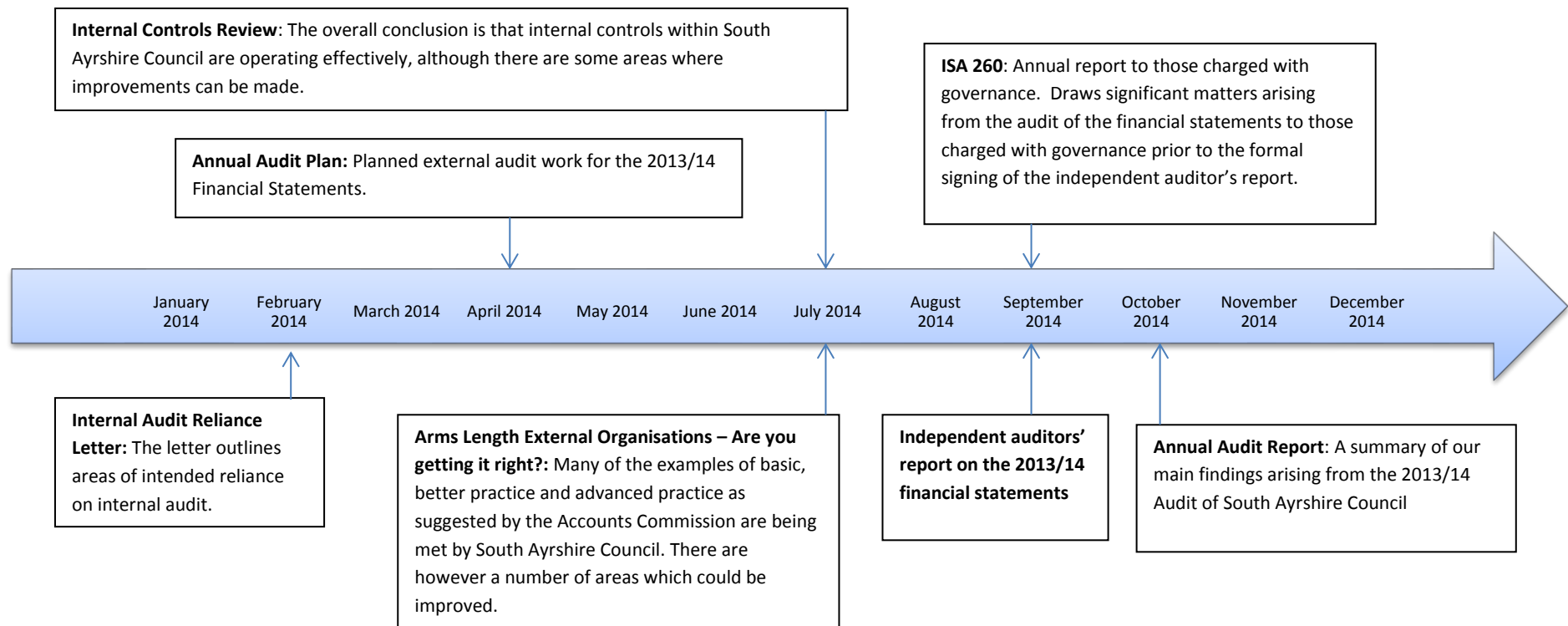
Recommendation 7

181. In the main, trust assets are in the form of either cash balances with South Ayrshire Council loans fund or external bond investments. The return on the investment in council's loans fund was of the order of 0.85% for 2013/14. Notwithstanding the low rates of return generally available, the rate of return

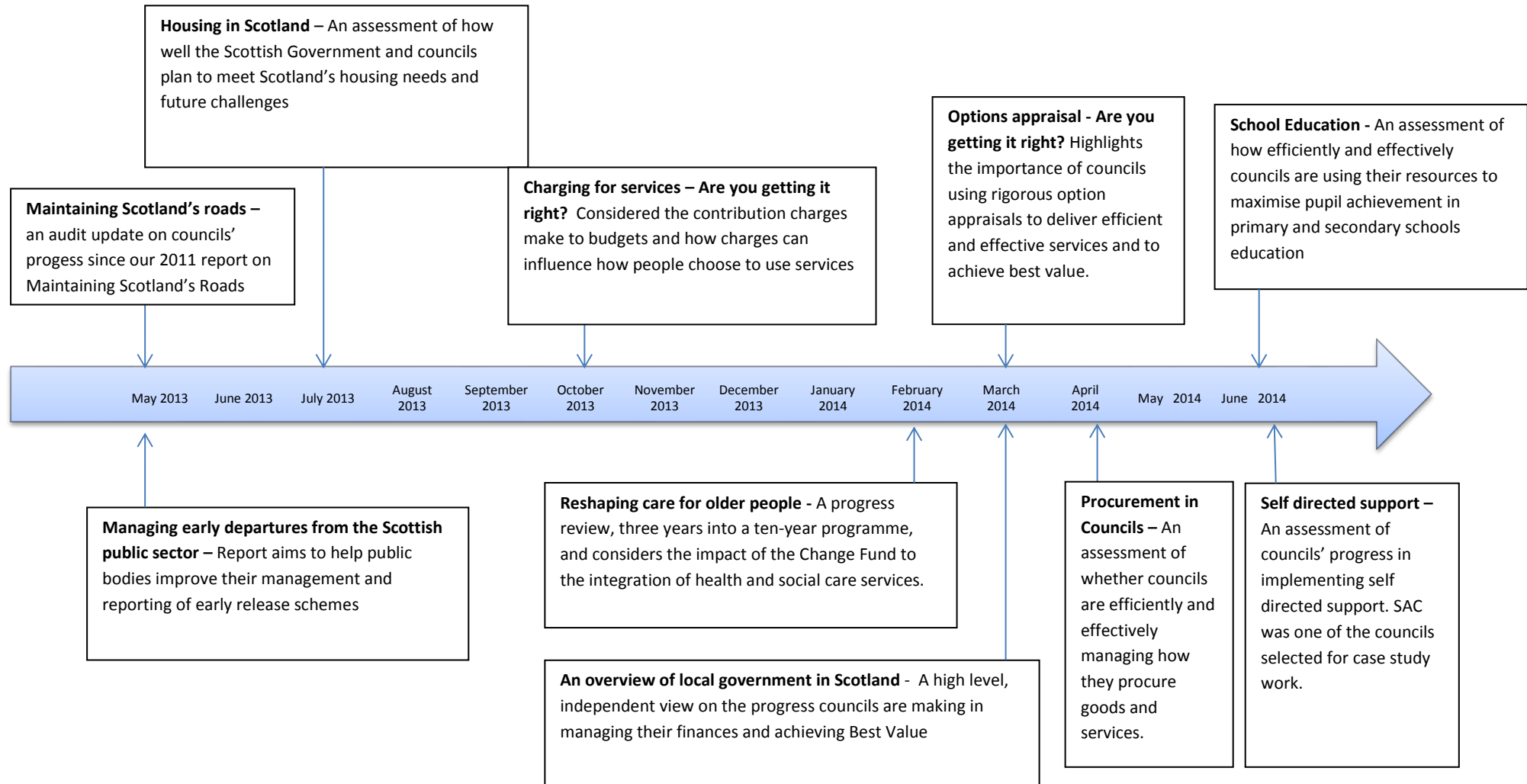
appears to be considerably less than that available in the market. While we acknowledge that there is a cost involved in an actively managed portfolio, trustees should assure themselves by means of a costs benefits analysis that they are obtaining, commensurate with risk, the best returns possible.

Recommendation 8

Appendix I – Summary of South 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>Financial management and sustainability</p> <p>The council has identified a funding gap of £18.591 million over the next three years to 2016/17. Difficult decisions will be required to ensure that the council is able to prepare a balanced budget throughout these years. Delivering services within constrained budgets will require robust financial planning and budget monitoring arrangements.</p> <p>Risk: The council is unable to agree and deliver savings measures and is unable to deliver services within budget.</p>	<p>Reviewed council papers and minutes to identify any potential areas of risk.</p> <hr/> <p>Monitored revenue and capital budget monitoring reports throughout the year to identify any significant variances between budgeted and actual spend to identify any potential issues.</p>

Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p>Financial Statements: Provisions</p> <p>The potential liability resulting from equal pay claims remains uncertain.</p> <p>Risk: The ultimate cost to the council is significantly different from that provided in the financial statements.</p>	<p>Reviewed most current information available to assess whether provisioning was justified.</p> <hr/> <p>Performed substantive testing of the provisions in the unaudited accounts as part of the audit of financial statements.</p>
<p>Financial Statements: Pension fund liability</p> <p>The pension liability included in the financial statements is an actuarial calculation based on information provided by the council. Any significant differences between the information provided to the actuary and the actual position with pension fund membership may result in material differences in the pension asset / liability in the financial statements.</p> <p>Risk: The financial statements may be materially mis-stated if accurate details are not provided to the scheme actuary at the year end.</p>	<p>Confirmed as part of the audit process that there were no significant changes between the information provided to the actuary by the council and the year end outturn on staff numbers.</p> <p>Confirmed the disclosures in the financial statements to the actuary report.</p>

Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p>Financial Statements: Charitable trusts</p> <p>South Ayrshire Council currently administers ten trust funds registered as a charity, where members are the sole trustees of the fund. These trusts will require an independent audit certificate for the year ended 31 March 2014.</p> <p>Risk: The requirements of charities legislation and accounting requirements are not met.</p> <p>Trust deeds unavailable.</p> <p>Fund use incompatible with trust deed specifications.</p>	<p>Liaised with the council's legal services early in the year to ensure early receipt of trust deeds.</p>
	<p>Liaised with the council's legal services early in the year to ensure early receipt of trust deeds or other governing documents as necessary..</p>
	<p>Reviewed the detail of the deeds and performed testing on the income and expenditure of each trust to ensure that transactions were in accordance with the purpose of the fund.</p>

Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p>Best Value Following Audit Scotland's targeted best value work the Accounts Commission issued a report and recommendations in February 2014 which required improvement as a matter of urgency.</p> <p>Risk: The council does not implement the council service plans and performance management arrangements as intended.</p>	<p>The local audit team is working with colleagues in Audit Scotland's Performance Audit and Best Value group to follow up progress against the issues raised in the report. A high level summary is included within the Best Value section of this report and a report by the Controller of Audit will be published after it has been considered by the Accounts Commission in December 2014.</p>

Appendix IV – Action plan

Para/page	Recommendation	Management action/response	Responsible officer	Target date
1 45/11	<p>Local Government Authority Accounts (Scotland) Regulations 2014</p> <p>The regulations require unaudited accounts to be submitted to the council or a delegated committee by 30 June each year. The annual governance statement should also be approved by members prior to being signed.</p>	The Head of Finance and ICT will ensure that the 2014/15 financial statements and Annual Governance Statement will be submitted for approval by council prior to 30 June 2015.	Executive Director Resources, Governance and Organisation and Head of Finance and ICT	June 2015
2 54/13	<p>Revaluation of highway assets</p> <p>The council should make early preparations to ensure full compliance with the Code in 2016/17.</p>	The Head of Finance and ICT will liaise with Ayrshire Roads Alliance to clarify required actions and set a timetable to ensure preparations are undertaken.	Head of Finance and ICT	November 2014
3 62/14	<p>General services budgeting</p> <p>Areas of persistent and significant variation from budget should be reviewed and where necessary adjustments made, to ensure that the budget approved is up to date and reflects the underlying cost of the service level required.</p>	The council budget process includes consideration of under/overspends and this will be factored in prior to budget setting in December 2014.	Corporate management team	December 2014

Appendix IV – Action plan

Para/page	Recommendation	Management action/response	Responsible officer	Target date
4 66/15 69/16	HRA budgeting The Housing Service should re-examine its budget building methodology and its demand models with the assistance of the Finance Service and ensure that a credible budget is in place for 2014/15.	The HRA business plan is being reviewed prior to setting the 2015/16 rent increase in December 2014. It is proposed to undertake a fundamental review following a member/officer working group during 2015/16.	Executive Director Economy, Neighbourhood and Environment and Head of Housing and Facilities	December 2014
5 68/16	HRA budget monitoring Senior management should ensure that members are being provided with adequate explanations, based on underlying activity, in writing, for all significant variances.	A review of the management information currently being presented as part of the budget management report will be undertaken.	Head of Housing and Facilities and Head of Finance and ICT	March 2015
6 177/38	Charitable trusts The trustees and officers should introduce revised governance arrangements for trusts.	Review Governance arrangements and report back to Elected Members in 2015 with any required changes.	Executive Director Resources, Governance and Organisation and Head of Legal and Democratic Services	March 2015

Appendix IV – Action plan

Para/page	Recommendation	Management action/response	Responsible officer	Target date
7 180/39	Charitable trusts Trustees and officers should consider the employment, at the trusts' expense, of further dedicated resources to obtain a speedier derestriction of funds.	A review of the options to address restriction of funds is already underway and will be presented to Elected Members in 2015.	Executive Director Resources, Governance and Organisation/Head of Legal and Democratic Services/ Head of Finance and ICT	March 2015
8 181/39	Charitable trusts The trustees and officers should consider whether the investment strategy is best value for trusts.	A review of the options to address restriction of funds is already underway and will be presented to Elected Members in 2015.	Executive Director Resources, Governance and Organisation/Head of Legal and Democratic Services/ Head of Finance and ICT	March 2015