



East Ayrshire Council

Annual audit report to
Members and the
Controller of Audit

September 2015

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Accounts Commission has appointed Fiona Mitchell-Knight as the external auditor of East Ayrshire Council for the period 2011/12 to 2015/16.

This report has been prepared for the use of East Ayrshire Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

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 Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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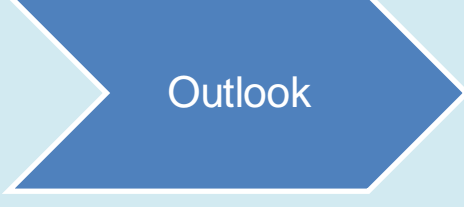
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Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• Unqualified auditor's report on the 2014/15 financial statements.• Unqualified auditor's reports on the eight charitable trusts administered by the council.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• Financial management is effective with a budget setting process in place to deliver services in line with the council's priorities.• Services reported expenditure underspends of £11.410 million for the year, with £10.215 million of this being earmarked for future commitments. The earmarked element of the general fund increased from £18.651 million in 2013/14 to £23.418 million in 2014/15.• The general fund reported a surplus of £5.627 million and the HRA reported a surplus of £2.771 million. Usable reserves have increased by £8.624 million to £58.162 million.• 2014/15 was the third year of the council's five year transformation strategy. The strategy sets out sustainable savings of £34.654 million over the five year period to 2016/17.• The council reported efficiency savings of £8.524 million for 2014/15, resulting in sustainable efficiencies of £15.343 million for the first three years of the strategy. There is no funding gap forecast over the five year period.• A new transformation strategy covering the period 2017-2022 is being developed to cover the longer term when funding is expected to reduce.

 <p>Governance and transparency</p>	<ul style="list-style-type: none">• The council has effective governance arrangements in place.• Systems of internal control operated effectively during the year.• The council has an effective internal audit function and anti-fraud arrangements.• Local residents have access to information on how the council delivers services and performs against its priorities• The council has made excellent progress in the integration of Health and Social Care Services. The Independent Joint Board (IJB) was formed in April 2015. By this time the IJB strategic plan was approved, and due diligence of the budget transferred to the IJB was carried out.
 <p>Best Value</p>	<ul style="list-style-type: none">• The new Community Plan covering the period from 2015 to 2030 provides the council's priorities.• A well developed framework is in place for monitoring and reporting performance against these priorities.• The Transformation Strategy provides the framework for reviewing and changing the way that services are delivered.• The Ayrshire Roads Alliance (ARA) was established in April 2014, providing a shared roads service between East Ayrshire Council and South Ayrshire Council. Planned savings are £8.634 million over the next ten years.
 <p>Outlook</p>	<ul style="list-style-type: none">• Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care.• East Ayrshire Council must continue to challenge how it delivers services into the future to respond to these pressures.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of East Ayrshire Council. The report is divided into sections which reflect our public sector audit model.
2. 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.
3. Our responsibility, as the external auditor of East Ayrshire Council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.
6. Appendix **IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the 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.
7. 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.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

Audit opinion	<ul style="list-style-type: none"> We have completed our audit and issued an unqualified independent auditor's report.
Going concern	<ul style="list-style-type: none"> The financial statements of the council, its group and the associated charitable trusts have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council, its group and associated charitable trusts ability to continue as a going concern.
Other information	<ul style="list-style-type: none"> We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.
Charitable trusts	<ul style="list-style-type: none"> We have completed our audit of the 2014/15 financial statements of the charitable trusts administered by East Ayrshire Council and issued an unqualified independent auditor's report for each of the relevant trusts.
Group accounts	<ul style="list-style-type: none"> East Ayrshire Council has accounted for the financial results of one subsidiary and four associates in its group accounts for 2014/15. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £17.516 million.
Whole of government accounts	<ul style="list-style-type: none"> The council submitted a consolidation pack for audit by the deadline. This has been audited and the certified return will be submitted to the Scottish Government.

Submission of financial statements for audit

9. We received the unaudited financial statements on 30 June 2015, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided high quality support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Governance and Scrutiny Committee on 26 March 2015.
11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is of central importance to our audit approach. 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 and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the

audit and how we addressed each risk in arriving at our opinion on the financial statements.

13. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

14. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
16. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of East Ayrshire Council, we set our planning materiality for 2014/15 at £4.030 million (1% of gross expenditure). Performance materiality was calculated at £3.023 million, to ensure that uncorrected and undetected audit differences do not exceed our planning materiality

level. Our plan highlighted that we would report all misstatements greater than £0.040 million.

17. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels, and adjusted our materiality according to actual unaudited gross expenditure. Planning materiality was adjusted to £4.251m and performance materiality to £3.188m.

Evaluation of misstatements

18. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements. None of these had an impact on the general fund balance reported to members in June 2015 when the unaudited accounts were presented.
19. A small number of presentational adjustments were identified within the financial statements during the course of our audit. This is a normal part of the audit process. These were discussed with relevant officers who agreed to amend the unaudited financial statements.

Significant findings from the audit

20. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
21. During the course of the audit we identified the following significant issues.

Significant findings from the audit

Issue	Resolution
<p>Equal Pay Provision: As reported in previous years, the ultimate cost to the council of the claims made under the Equal Pay Act 1970 remains uncertain and it is likely that resolution of the issue will take some time. As the tribunal process unfolds, the extent of the council's eventual liability will become clearer. The council's Equal Pay provision at 31 March 2015 is considered to adequately reflect the potential liability. Actual settlements are subject to the outcome of several national test legal cases. The council have disclosed a contingent liability for any additional future claims that may potentially arise pending the outcome of the test legal cases.</p>	<p>The potential equal pay liability will continue to be reviewed on an annual basis.</p>
<p>International Accounting Standard (IAS19) pension liability:</p> <p>The pension liability represents the difference between the expected future payments to be made to former employees of the council and their spouse in the form of pension payments, and the underlying value of pension fund assets to meet this cost. The calculation of the liability is assessed by professional actuaries each year and is an estimated figure.</p> <p>There has been a further increase in the pension liability of £51.912 million, from £182.704 million at 31 March 2014 to £234.616 million at 31 March 2015. This is due to falling bond yields being only partially offset by better than expected investment performance. The falling bond yields leads to a lower discount rate (i.e. the net price of inflation) which leads to a higher value being placed on liabilities. Although the liability will continue to vary, this information is necessary for the council to ensure the pension fund remains affordable and adequately funded.</p>	<p>Assurance is obtained from the triennial valuations of the pension fund carried out by Strathclyde Pension Fund, which assures that the pension fund remains adequately funded. The financial statements have been prepared on the basis of these assumptions.</p>

Issue	Resolution
<p>Open Cast Mining Operators: The council have not included any liabilities in the 2014/15 accounts in respect of opencast coal sites in East Ayrshire, following the liquidation of two former mining companies. The council remain satisfied, based on legal advice taken, that there is no legal duty on the council to restore these sites. The council continues to fulfil its statutory role under the Environmental Protection Act 1990 in respect of any nuisance or contamination issues which might arise on any site, whilst noting that primary responsibility for such matters rests with the owners and occupiers. We are satisfied that no liability is required in the financial statements.</p> <p>During the year 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.</p>	<p>Members will continue to receive regular information on restoration activity and the impact that this has on the annual accounts as appropriate.</p>

Issue	Resolution
<p>Council Dwelling Valuations: - Accounting policy 1.14 states that assets under construction are valued in the accounts at cost, whereas council dwellings are valued using the basis of existing value for social housing. This is an accounting requirement. 56 council dwellings were completed during the year and transferred from assets under construction to council dwellings in the balance sheet at 31 March 2015. In the unaudited accounts these council dwellings continued to be included in the balance sheet at cost instead of existing value for social housing. An impairment review or a revaluation of these properties should have been carried out when they became operational.</p> <p>The audited accounts have been adjusted to reflect this. The effect of this impairment review was to lower the accounting value of these houses by £5.933 million, and to lower the depreciation amount previously charged to the Housing Revenue Account (HRA) by £0.237 million. This additional net charge of £5.696 million to the HRA results in a deficit of £4.895 million being reported on the HRA Income and Expenditure Statement. The unaudited accounts reported a surplus of £0.801 million. Depreciation and impairment are not statutory charges in the HRA therefore this additional impairment charge is reversed in the Movement in Reserves Statement. There is therefore no overall effect on the year end HRA balance or general fund balance.</p>	<p>The council revalues all operational land and buildings on a five year rolling programme as noted in accounting policy 1.14. In future, this will be supplemented with properties with a significant value that have been transferred from assets under construction during the year.</p>

Issue	Resolution
<p>Non Distributed Costs (NDC). The Code of Practice on Local Authority Accounting requires depreciation or impairment relating to non operational buildings to be charged to NDC within the Comprehensive Income and Expenditure Statement (CIES). Depreciation relating to operational buildings requires to be charged to services and not to NDC. In the unaudited accounts, depreciation and impairment totalling £2.870 million on some operational buildings was charged to NDC when it should have been charged to services. This approach was taken because the buildings this charge related to are used by various services including central services to the public. This adjustment was made in the audited accounts and there is no overall impact on the general fund.</p>	<p>This has been adjusted in the audited accounts with services being allocated their share of this charge. Since NDC is credited by the same amount there is no overall impact on the net cost of services, the CIES or the general fund.</p>

Future accounting and auditing developments

Revisions to the Code of Practice

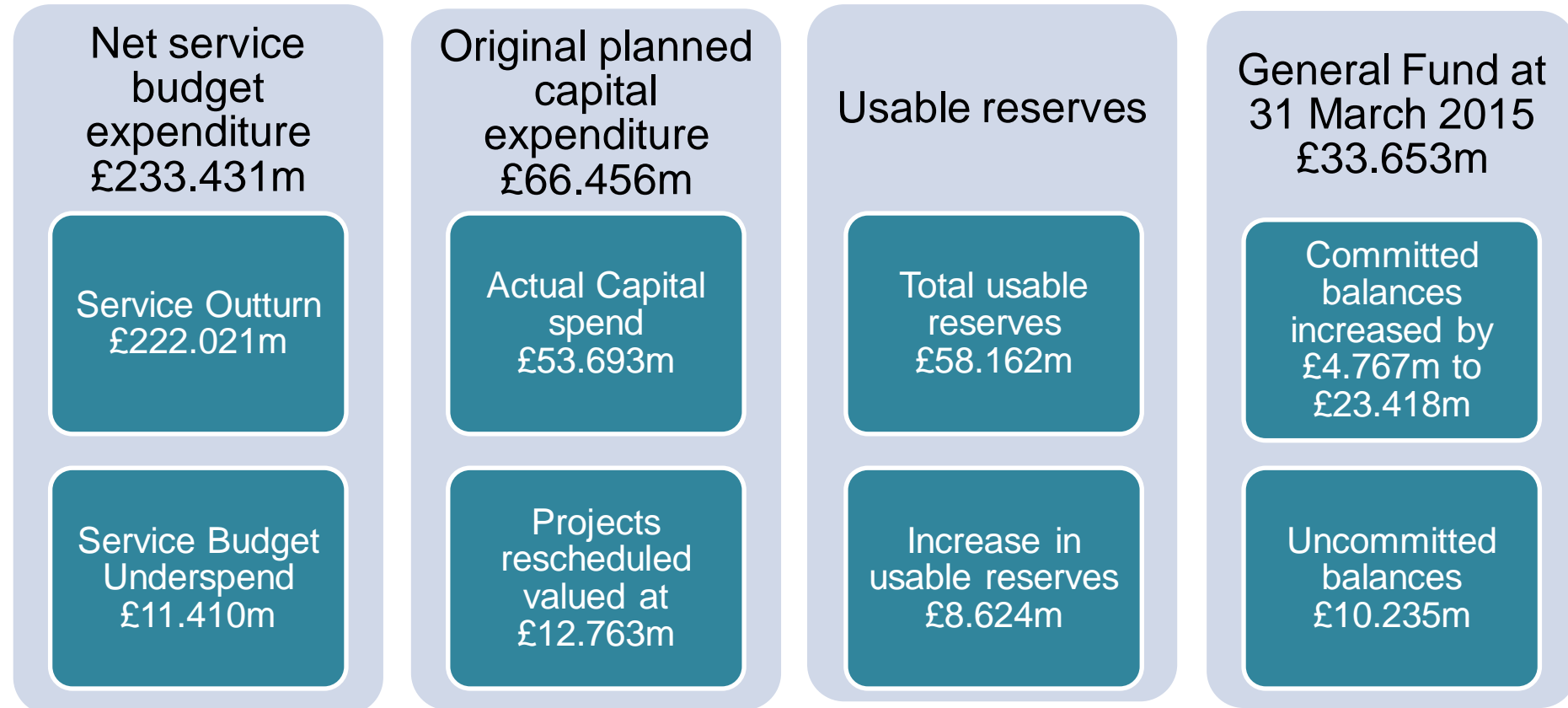
22. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. The following paragraphs set out the most significant changes to accounting requirements introduced by the 2015/16 Code.
23. **(IFRS) 13 Fair value measurement:** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. In addition, the 2015/16 Code requires surplus assets to be measured at fair value in accordance with IFRS 13. The council is to reflect the new requirements in the 2015/16 financial statements.

24. **Transport infrastructure assets:** The council's highway assets are currently valued as infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code of Practice 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. Management have provided us with assurance that work to obtain the necessary information is progressing well.

Health and Social Care Integration

25. The East Ayrshire Integrated Joint Board (IJB) was constituted in April 2015, and was amongst the first in Scotland to reach this stage. The joint board will produce financial statements for 2015/16 in compliance with the Code. They will need to align with NHS Ayrshire and Arran reporting requirements. The council's auditors will audit the IJB financial statements from 2015/16. Arrangements are in place to progress this.

Financial management and sustainability



Financial management

26. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.
27. 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.

Financial outcomes

28. The council reported an underspend against budget of £0.524 million in its management accounts. This incorporates £9.886 million of unbudgeted expenditure that was committed and earmarked for future use but not incurred in 2014/15, and £1.000 million transferred to the repairs and renewals fund. Departments therefore reported an underspend against budget of £11.410 million.
29. The main underspends were in Central Services £5.486 million (or 13.1% of budget); Education Services £2.035 million (or 1.8% of budget); and Neighbourhood Services £1.919 million (or 5.4% of budget). This was reported to members in the East Ayrshire Performs summary report in June 2015. The underspends included:
 - The annual line by line budget review achieved savings of £1.512 million which were transferred from departmental budgets to be held centrally. In addition savings were identified across a range of centrally held budgets and a number of work stream savings were re-profiled.
- Education Services savings reflects reduced employee costs, particularly within early years teaching, and underspends on centrally held budgets. There were also underspends in the residential placements budget and a reduction in unitary charge costs.
- Neighbourhood Services savings relate mainly to savings in planning and economic development due to the timing of filling vacant posts, reduced supplies and services and savings in employability. There were also savings in housing and environment services principally due to the timing of filling vacancies, reduced sub contractor costs in outdoor amenities and reduced fuel costs.
30. The Management Commentary in the accounts shows how the management accounts underspend ties into the figures reported in the financial statements. Differences occur due to the accounting treatment required, timing of expenditure; or where there are plans for service delivery which will be delivered in future years.
31. The management accounts underspend of £0.524 million includes the use of £5.112 million of previous years balances utilised by services during 2014/15. Of the 2014/15 underspend in service expenditure, the council approved the earmarking of £10.215 million (or 3.2% of the net expenditure budget) for committed expenditure in future years. This amount is included as expenditure in the current year's management accounts, but not in the annual

accounts. This resulted in the general fund surplus of £5.627 million for 2014/15.

32. The housing revenue account (HRA) reported a surplus of £2.771 million (or 6.5%) in 2014/15. This arose due to savings in employee costs, reduced debt charges, and reduction in the rent arrears bad debt provision due to changes in Discretionary Housing payments.
33. The HRA has a reserve balance of £9.113 million at 31 March 2015. Of this, £6.686 million is committed toward specific housing projects, with the remaining balance to be used to fund other, as yet unspecified, housing improvement projects. The council achieved full compliance with Scottish Housing Quality standards by 31 March 2015.

Financial management arrangements

34. Auditors consider whether councils have established adequate financial management arrangements. We consider a number of factors, including whether:
 - the proper officer has sufficient status within the council to be able to deliver good financial management
 - financial regulations are comprehensive, current and promoted within the council
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance

- members provide a good level of challenge and question budget holders on significant variances.
35. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the council complies with the statement's five principles.
 36. The council's financial regulations are reviewed annually. We consider these are comprehensive and are available on the council's website.
 37. The annual budget setting process forms part of the annual review of the transformation strategy. The review covers the general services capital programme, general services revenue and the HRA. It serves to provide members with an overall update on the progress of the transformation strategy.
 38. The annual review provides members with an update on savings and efficiency targets, and whether the council is on track to achieve the desired level of savings for the overall budget gap for the five years from 2012/13 to 2016/17.
 39. Each year a 'line by line' review is also undertaken which identifies areas for possible savings within departmental budgets, and where spending can be re-phased due to changing priorities.
 40. Revenue budget and capital budget monitoring data is prepared monthly for budget holders. More summarised financial monitoring information is reported to members at the end of periods 4, 7, 10 and 13 through the 'East Ayrshire Performs' reports. These contain

both revenue and capital monitoring information and significant variances from budget are explained. Any changes to previously agreed budgets require to be agreed by members, including any re-profiling of efficiency programmes. Reports are comprehensive, with more detailed information being available to members if required.

41. The projected outturn reported in February 2015 (up to period 10 - January 2015) forecast a service expenditure underspend of £3.697 million. This is significantly less than the £11.410 million service underspend reported for the year. The increase in underspend related mainly to: additional government funding received late in the financial year that was not spent at the year end; and service underspends that will be carried forward into 2015/16. The additional underspends were listed and summarised in the East Ayrshire Performs report to period 13 that was reported to Cabinet and the Governance and Scrutiny Committee in June 2015. While some of these factors were not known until after period 10, it would have been helpful for Members if the possibility and probability of further variances emerging before the year end had been flagged up by services.

Action Plan No 1

42. As auditors we attend a number of council and committee meetings each year. Members provide a good level of scrutiny and challenge, questioning and requesting further information from budget holders when they feel it is appropriate.

Conclusion on financial management

43. We are satisfied that the council has demonstrated effective financial management in the current year, and has taken appropriate steps to ensure that services are funded in future years.

Financial sustainability

44. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.
45. In assessing financial sustainability we consider whether:
- there is an adequate level of reserves
 - spending is being balanced with income in the short term
 - long term financial pressures are understood and planned for
 - investment in services and assets is effective.

Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

Reserves

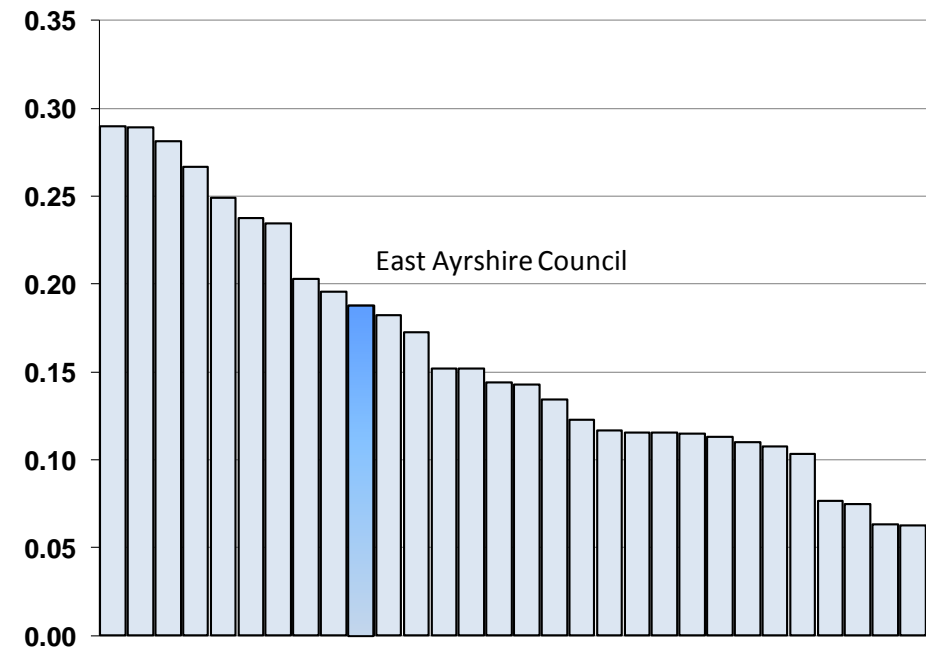
46. Exhibit 1 shows that the overall level of usable reserves held by the council increased by £8.624 million compared to the previous year, and totalled £58.162 million at the year end.

Exhibit 1: Usable reserves

Description	31 March 2013 £ million	31 March 2014 £ million	31 March 2015 £ million
General fund	35.446	28.026	33.653
Housing revenue reserve	3.283	6.342	9.113
Repair and renewal fund	8.280	6.735	6.510
Capital fund	12.694	8.435	8.886
Total usable reserves	59.703	49.538	58.162

Source: East Ayrshire Council 2014/15 financial statements

47. The increase in usable reserves is due to the accounting surplus generated by both the general fund and the HRA.
48. Exhibit 2 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 (18.8%) is higher than the median level of 14.4%.

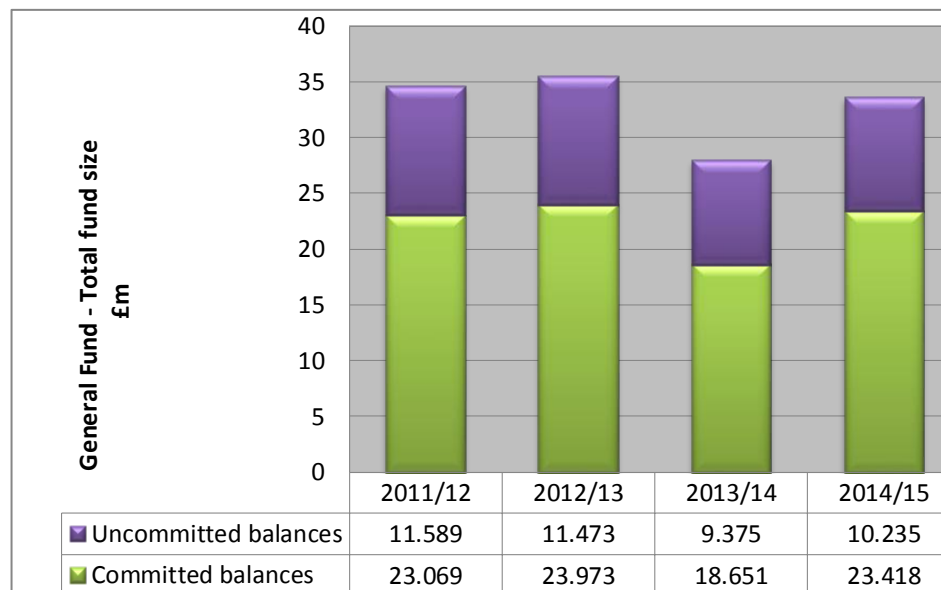
Exhibit 2: Scottish councils' Usable Reserves as a proportion of net revenue stream

Source: Scottish councils' unaudited accounts 2014/15 (excluding Orkney and Shetland Island councils)

49. The general fund reserve has no restrictions on its use. 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. The housing revenue reserve is intended to be used for the purposes described at paragraph 33.

50. The general fund reserve is made up of earmarked commitments of £23.418 million and an unallocated balance of £10.235 million, or 3.2 % of net budgeted expenditure. This is in line with the council’s policy of maintaining unearmarked balances between 2% and 4% as specified in the council’s reserves strategy.
51. The earmarked element of the general fund increased by £4.767 million during the year to £23.418 million at 31 March 2015. The earmarked balance has remained at this value for a number of years as highlighted in exhibit 3, and is currently around 7.3% of the net expenditure budget. Of the earmarked commitments, £19.763 million is committed for use within departmental budgets in the future and the remaining £3.655 million is committed to the Transformation Strategy Fund.
52. The Cabinet reviews the level of balances and earmarked funds held annually as part of the budget setting process, and after the audit process is complete. This gives members the opportunity to decide on the balance they wish to strike between spending money on current services with maintaining funds to support future service costs.

Exhibit 3: Level of committed balances within the General Fund



Source: East Ayrshire Council financial statements 2011/12 – 2014/15

Financial Planning

53. 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 £34.654 million over the five year period to 2016/17. When approving the 2015/16 budget and the indicative 2016/17 budget in December 2014, the council identified savings to meet the efficiencies required. There is therefore no funding gap for the period to 2016/17. The council reported that it has secured

efficiency savings of £15.343 million during the first three years of the transformation strategy.

54. The financial position for 2015/16, as reported to Cabinet in August 2015, anticipates the General Fund uncommitted balances to be £12.760 million (3.9%) at 31 March 2016, taking account of a current projected underspend of £0.113 million. The HRA is projected to be £0.617 million under budget.
55. The council plans to develop a new transformation strategy covering the period 2017-2022 during 2016. The council also intends to put in place a 10 year financial plan which outlines the key assumptions and priorities that underpin its financial plans.

Capital programme 2014/15

56. The council approved its general services capital programme and housing improvement programme for 2014/15 in December 2013. Actual spend on the general services capital programme amounted to £19.741 million. This was against a total budget allocation of £30.828 million. Expenditure in 2014/15 focussed mainly on: refurbishment, repair and reconfiguration of schools; delivery of various ICT projects; and regeneration, improvement and increasing efficiency in roads and transport infrastructure.
57. The council has a 'rolling' capital programme which allows for changes to allocations and time periods in which work is planned. Programmes may be impacted by changing priorities of the council, consultation with communities, and the availability of contractors and equipment to carry out intended work. The value of projects re-

phased into future years represent approximately 36% of the general fund capital budget.

58. The underspend against the 2014/15 budget is mainly due to delaying the start of a number of projects or activities within a project. This is due to re-phasing, rather than project work slipping once commenced. Our audit work in connection with the management of major capital contracts (referred to in the "Best Value" section of this report) concluded that project management, for projects in progress, is well managed.
59. Projects included in the 2014/15 budget that were delayed include:
 - refurbishment and component renewal work at education establishments (£1.469 million)
 - A71 Road Improvements (£1.432 million)
 - Dalrymple Primary School (£1.156 million)
 - Energy Efficiency programmes (£0.905 million).
 - Dalrickey landfill site (£0.527 million)
 - Drogan Primary School (£0.523 million)
 - Galston town centre regeneration (£0.300 million)
 - New Cumnock demolitions (£0.287 million).
60. The council should ensure that the re-phasing of these and other projects in the 2014/15 general services capital plan does not have a significant impact on the council's strategic priorities and service delivery. We understand that a review of the phasing of capital projects has been carried out during 2015/16.

61. Actual spend on the housing capital programme was £13.396 million in 2014/15. This was slightly in excess of the budget of £12.917 million. In addition to the above, the council budgeted for £22.711 million for general housebuilding. Actual spend against this was £20.556 million.
62. The housing improvement programme focused mainly on major component replacement, and the general housebuilding programme on new build council houses.

Workforce Management

63. Effective workforce management is essential to ensure 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.
64. Workforce planning arrangements are an integral part of the council's strategic planning process. These include regular review of management and staffing structures, targeted succession planning, organisational development plans intended to ensure staff are equipped for current and future requirements, and proactive knowledge retention whenever approving severance programmes.
65. Each service plan contains workforce development plans which recognise the staffing requirements of the future.

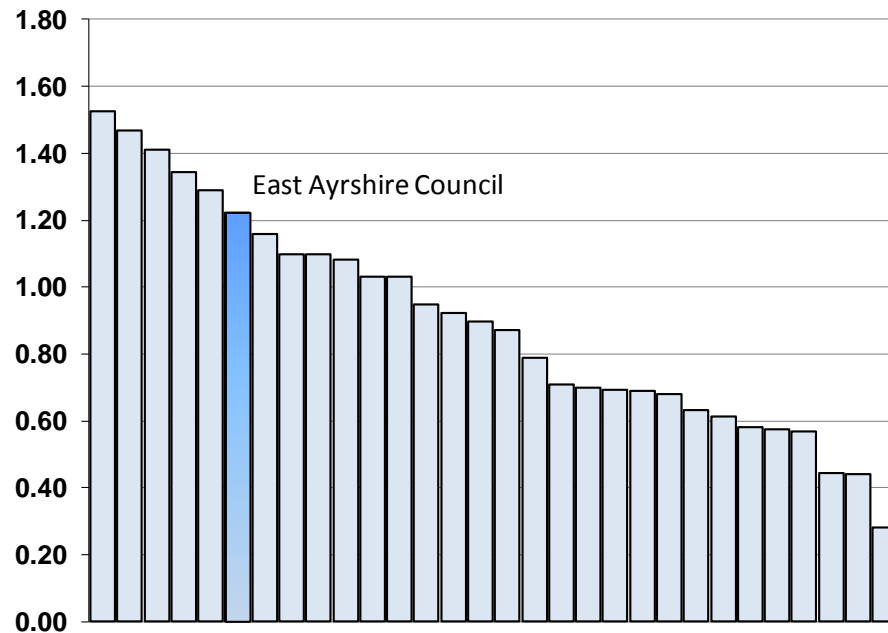
Treasury Management

66. At 31 March 2015 long term borrowing stood at £327.888 million, an increase of £58.401 million on the 2014 borrowing level of £269.481

million. During the same period, short term borrowing increased from £13.622 million to £14.634 million. The increase in long term borrowing is partly due to the Council borrowing £35.000 million at a favourable long term rate of 2.99% to finance its medium term capital expenditure plans. Gross borrowing of the council is within the authorised limit and operational boundary set by the treasury management strategy.

67. Interest payable and similar charges increased by £1.706 million in 2014/15 to £19.612 million. Whilst the increased borrowing resulted in additional interest charges for the council, it has been projected that total interest charges will be approximately £1.950 million less in the period to 2024/25. The council's average rate of borrowing decreased from 5.06% in 2013/14 to 4.77% in 2014/15.
68. Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 4 shows long term borrowing as a proportion of net revenue stream for all mainland councils in Scotland. The council's position relative to other Scottish councils has increased in 2014/15 as a result of the increased borrowing.

Exhibit 4: Scottish councils' long term borrowing as a percentage of net revenue streams



Source: Scottish councils' unaudited accounts 2014/15 (excluding Orkney and Shetland Island councils)

Pension liability

69. The net assets on the council's balance sheet have decreased from £467.142 million in 2013/14 to £406.961 million in 2014/15, a reduction of £60.181 million. A principal reason for this decrease is the £51.912 million increase in the pension liability from £182.704

million to £234.616 million. This is also reflected in the balance sheet for the group.

70. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. At the last triennial valuation the Strathclyde Pension Fund was 94.3% funded and had assets of £13.949 billion. The next valuation will take place in 2017 with new contribution rates in place from 1st April 2018. It is expected that new contribution rates will increase convergence between the pension liability and the underlying assets.

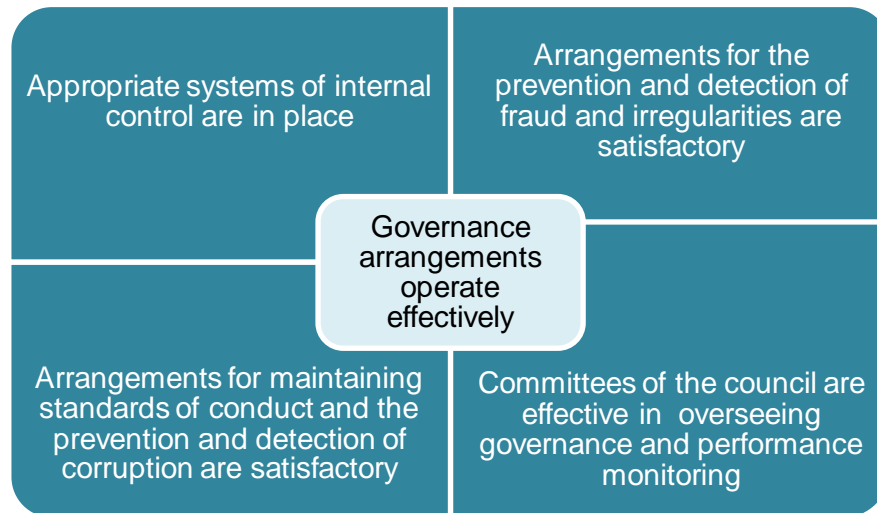
Conclusion on financial sustainability

71. The council has an adequate level of reserves, is containing its expenditure within annual budgets and is achieving the necessary efficiencies in order to meet the current projected funding gaps reported in its financial plans up to 2016/17.
72. The council recognises it needs to forecast and deliver efficiencies, over the medium and long term, if it is to manage ongoing financial pressures. The council's planned new Transformation Strategy and ten year financial strategy will address this.
73. Overall we conclude that the financial position is sustainable currently and in the foreseeable future, although rising demand for and costs of services may place a strain on the council's capacity to deliver services at the current levels.

Outlook

74. Councils face increasingly difficult financial challenges. In the context of overall reductions in public sector budgets, between 2010/11 and 2013/14, Scottish Government funding for councils decreased by 8.5 per cent in real terms to £10.3 billion. At the same time, demand for council services has increased, largely due to population changes. Increased pension contributions and national insurance changes will create further cost pressures on the council.
75. In common with many other councils, East Ayrshire Council faces continued financial pressures over the next few years. With further funding reductions expected, tough decisions will be required to balance budgets, particularly in areas such as Social Services, which are expecting increasing demands on service provision. These decisions must be based on a clear understanding of the current, and longer term financial position and the longer-term implications of decisions on services and finances.
76. 2016-17 budget proposals will not be produced until after the UK Government's spending review in late November. The Scottish Government is anticipating a reduction in the block grant available to fund devolved services like health, education, local government, and law and order.

Governance and transparency



- 77. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements. We concluded that the council has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.
- 78. Citizens should be able to hold the council to account about the services it provides. Transparency means that citizens have access

to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources. We concluded that the council’s practices are open and transparent.

Corporate governance

- 79. The council has a longstanding committee structure in place which is underpinned by clear roles for members and officers; and procedural documentation regarding decision making. Based on our observations and audit work our overall conclusion is that the governance arrangements within East Ayrshire Council are operating effectively.

Local code of corporate governance

- 80. The council has developed and adopted a local code of corporate governance which reflects the key components as set out in the CIPFA/SOLACE “Delivering Good Governance in Local Government Framework”. The local code is subject to annual review by the Governance and Scrutiny Committee. This, together with the annual governance statement for 2014/15 and the corporate governance improvement action plan, are published on the council’s website.
- 81. The council has developed a scoring matrix to provide a level of consistency on progress against the core principles contained in the local code. The improvement action plan progress report, which is also presented to the Governance and Scrutiny Committee,

reported that the council achieved or made good progress against 11 of the 12 actions contained in the 2014/15 local code.

Internal control

82. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.
83. We reported our findings to the Governance and Scrutiny Committee in June 2015. No material weaknesses in the accounting and internal control systems were identified which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. Our findings included a number of recommendations to enhance the control system in operation.

Internal audit

84. Internal audit provides members and management of the council with independent assurance on 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.
85. 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 for accounts payable system and the NDR billing and collection system. In respect of our wider governance and performance audit work we also reviewed the findings and considered other areas of internal audit work. This included the Ayrshire Roads Alliance costing system, follow up of the housing benefits improvement action plan, performance indicators, ICT data protection and community asset transfers.

Opencast mining in East Ayrshire

86. Last year we reported on the impact that the liquidation of the two opencast coal mining operators has had on the council since April 2013. We reported the outcome of the independent review into the monitoring and review of the planning processes in relation to opencast coal operations and the circumstances that resulted in the failure by the coal operators to restore their opencast coal sites on an ongoing basis.
87. We also reported on the council's prompt and robust response to minimise the consequences of the liquidations.
88. Since then the council has continued to keep members informed of progress, including the production of a Local Development Plan (LDP) and Minerals Local Development Plan (MLDP). It is anticipated that the LDP will be adopted in August 2016.
89. The Minerals LDP will be the basis for planning decisions for minerals related applications within East Ayrshire. This will

incorporate the publication of a Main Issues Report (MIR) which requires extensive consultation. The MIR is scheduled to be published in late 2016 and the MLDP is expected to be adopted in December 2018.

90. The council continues to have the view, based on legal advice, that it has no legal liability to restore open cast mine sites impacted by the liquidation, nor does it have a legal obligation to address safety issues beyond those contained in the Environmental Protection Act 1990.
91. By 31 March 2015, the council had received £13.901 million restoration bonds, with a further £1.9 million received in July 2015, relating to some of the sites operated by the two operators that went into liquidation. While no spending had taken place by the year end, a number of procurement and contractual processes were completed, and the full value of bond monies received is included in the creditors balance at the year end. The council is continuing to take steps to recover the remaining bond monies at other sites, however, it is becoming clearer that they will not recover all of the £28.656 million total value of the bonds that were in place when the coal operators went into liquidation.
92. Since March, the council has reported that there are three sites where mining and restoration work is being carried out. One of these sites is also the subject of further historical restoration work using the proceeds of bond income. The council's Cabinet considered a detailed update report on bonds at its meeting on 24 June, and this identified all monies received to date. Restoration

contracts have now been awarded and works are ongoing on two sites, with discussions ongoing relative to restoration and aftercare works for further sites where bond monies have been received.

93. To address the national issues raised the council is a member of the Scottish Government led Ministerial Task Force. The council contributed to the publication of a task force report entitled "Surface Coal Mine Restoration – Towards Better Regulation", containing 29 recommendations for affected local authorities to consider and endorse. The council is now satisfied that it is applying the "best practice" in the recommendations in relation to the operational review of opencast mining operations. The council also considers that the principles have been extended across all major environmental developments including onshore wind, quarries and landfill. Updates on progress regarding coal mining operations and restoration are provided regularly to the Planning Committee and periodically to the Cabinet.
94. The council remains satisfied that it continues to respond in the most appropriate manner to issues relating to opencast coal.

ICT audit

95. The council has satisfactory arrangements in place regarding data security and protection. It has a number of processes in place to protect the council against threats and weaknesses, which are reviewed on a regular basis. Our audit work this year has not raised any areas of specific concern which would require further work to be completed. Outstanding actions identified as part of our 2013/14 ICT

review were presented to the Governance and Scrutiny Committee in December 2014. These have subsequently been implemented or are in progress.

Arrangements for the prevention and detection of fraud

96. The council's arrangements in relation to the prevention and detection of fraud and irregularities are satisfactory.

National Fraud Initiative in Scotland

97. The National Fraud Initiative (NFI) in Scotland brings together data from councils, 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.
98. The NFI exercise is not considered to be a high priority at East Ayrshire Council due to the risk based analysis of results from previous NFI work, which generated only £23,806 in recoveries in 2010/11 and £17,245 in 2012/13. The council do, however, recognise the deterrent effect that it has, and are in the process of enhancing their approach to fraud prevention. Resources have

been identified to develop a corporate anti fraud response ensuring that NFI forms part of the council's overall approach towards fraud prevention.

99. Overall, we consider that the council has not engaged in the NFI process to the same level as previously. This is largely due to key officers prioritising alternative areas of work to address wider performance issues while recognising the limited impact of NFI locally; and also due to reduced monitoring of the performance of other services involved in submitting and following up datasets / matches.

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

100. 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.

Transparency

101. Local residents should be able to hold the council to account for the services it provides. Transparency means that residents have access to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources.
102. East Ayrshire Council produces an annual performance report. This aims to summarise performance in relation to Statutory Performance Indicators (SPIs) as well as progress and achievement

on joint activity with Community Planning Partners. This helps to encourage dialogue and accountability between local communities and their council.

- 103. The council consulted widely on its new community plan. This feeds into the annual review of the council's transformation strategy. This enables local communities and stakeholders to have an input on what council priorities should be over the coming years. Members of the public can also attend council meetings and have ready access to agenda papers through the council's website. Council papers provide comprehensive information on all aspects of performance including SPIs and the council's own performance monitoring arrangements.
- 104. Financial reporting at the council is open and sufficiently detailed. Annual financial statements, alongside regular financial monitoring reports are available as public documents, and are open to scrutiny from members.
- 105. We have concluded that the council is open and transparent in the way it conducts its business, with the public able to attend all council meetings and the publication of the Annual Performance Review.

Freedom of Information requests

- 106. The council responded to 1,098 freedom of information (FOI) requests during 2014/15, an increase of 191 from 2013/14. Of these, 86.8% were responded to within the statutory timescales of 20 days. This has improved from 83.7% in 2013/14. The council is currently developing a new database which will help focus on

continued improvements in response rates across all services. The database is expected to be introduced during 2015/16.

Following the public pound

- 107. Last year we reported that the council had a solid framework in place for monitoring the financial and service performance of its Arms Length External Organisations (ALEOs). This conclusion was based on the arrangements between East Ayrshire Council and East Ayrshire Leisure Trust Limited. This is the only significant ALEO in which the council has an interest.
- 108. In January 2015 the Accounts Commission sent a letter to councils encouraging them to apply good practice more consistently across ALEOs, and more widely where the council provide funding to third parties.
- 109. In East Ayrshire, services that authorise payments to third parties are responsible for monitoring the arrangements and for ensuring that these are used for their intended purpose. Our review of council minutes identified that payments to third parties are generally notified to members for noting or approval.
- 110. We are satisfied that the council is meeting the good practice contained in the letter issued by the Accounts Commission. We will review this arrangement as part of the 2015/16 audit.

Integration of 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.
112. The council has made excellent progress to date. The jointly prepared Integration Scheme required by the 2014 Act has been approved by the council, the Health Board, and the Scottish Government. The scheme sets out the functions that are to be delegated to the Health and Social Care Partnership.
113. The integration scheme includes the services that each of the three Ayrshire partnership will lead. For example, the East Ayrshire Health and Social Care Partnership (EAHSCP) will lead the delivery of Primary Care (including dental) services. Further work will be required in respect of the allocation of lead partnership services across the Ayrshire partnerships to fairly and effectively monitor, manage and share risks.
114. A Strategic Planning Group was formed in August 2014 to develop the Strategic Plan for the Partnership. This, in effect, is the business plan for the partnership. The Integrated Joint Board, which was formed in April 2015, approved the Strategic Plan on this date. East Ayrshire was amongst the first partnerships in Scotland to reach this stage.
115. The Health and Social Care Partnership will be responsible for coordinating the *wellbeing theme* of the community plan. Key outcomes therefore align with the community planning partnership targets. There is also alignment to the Community Plan since national health and wellbeing outcomes, including the three national outcomes for children, have been adopted as the performance framework for the partnership. These are incorporated into the partnership's strategic plan and a delivery action plan is in place to monitor progress.
116. The 2015/16 budget allocation for these services is £205.767 million: this comprises £71.632 million for council services; and £134.135 million for NHS services. This incorporates efficiency savings of £4.064 million.
117. A process of due diligence was carried out by the IJB s95 officer which analysed historic spend patterns, projected resource requirement and current efficiency initiatives to support a judgement on the adequacy of delegated resources to the H&SCP. This confirmed that, subject to effective risk mitigation in respect of existing and future budget pressures, as well as the successful delivery of approved efficiency savings, the initial resources delegated to EAHSCP is sufficient to deliver the Strategic Plan outcomes.
118. Internal Audit did not provide an opinion on the due diligence process as recommended by the Scottish Government in their Guidance for Integration Financial Assurance. The final guidance issued by the Scottish Government was not issued until after the Health and Social Care Partnership was formed.
119. Given the needs led nature of Health and Social Care Services, budgets will need to be kept under close scrutiny. Projected outturn

against budget and the achievement of efficiency savings will be subject to ongoing monitoring and review and will be reported to the IJB at regular intervals. It is important that any budget variations, together with remedial proposals are brought to the attention of the IJB and the council at the earliest opportunity. The council should also ensure the IJB is effective in delivering the council's health and social care objectives.

Action Plan No 2

Welfare Reform

- 120. Welfare Reform has major implications for the council and its community. It is estimated that Welfare Reform will result in a loss to the East Ayrshire economy of £43 million per annum.
- 121. The council provides discretionary housing payments (DHP) to mitigate the impact of the under occupancy charge. It also provides Scottish Welfare Fund (SWF) payments for community care grants and crisis grants. These grants are managed by setting a priority level for assessing applications. In 2014/15 the DHP budget was £1.433 million and the SWF budget was £0.926 million.
- 122. Total rent arrears increased from £1.551 million in 2013/14 to £1.849 million at 31 March 2015.
- 123. The rollout of Universal Credit began in February 2015 for single working age persons who would have otherwise been eligible for income based jobseekers allowance, including those with existing housing benefit and working tax credit claims. East Ayrshire is amongst the fourth tranche of sites to be rolled out with Cumnock

and Kilmarnock Job Centre Plus offices accepting universal credit claims from February 2016.

- 124. Uncertainties remain which make it difficult for councils to plan effectively. In particular, the migration timeline from housing benefit to universal credit is uncertain. Initially, the council expects that only a small number of East Ayrshire residents will migrate to Universal Credit. This will increase in due course.
- 125. These uncertainties and the wider impacts of Welfare Reform means that the Council's Financial Inclusion Team, set up in 2013, is focussing on providing information, support, advice and representation to vulnerable residents. The council continues to work in partnership with the Citizens Advice Bureau (CAB), funding a number of posts to mitigate the impacts of welfare reform, and supporting CAB to relocate to larger town centre premises.
- 126. Overall, we are satisfied that the council is taking adequate steps to deal with the new regime and the consequent uncertainties this poses.

Housing and council tax benefits performance audit

- 127. Audit Scotland carried out its third risk assessment of the council's benefits service in 2014. This highlighted that the council experienced very slow processing performance in 2013. The processing delays resulted in overpayments of benefit for which the council could not claim subsidy.

- 128.** An improvement action plan highlighting the steps the council intended 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.
- 129.** Internal audit followed up the actions in the improvement plan. They concluded, in March 2015, that all issues raised had been fully or sufficiently implemented. We acknowledge a continuing improvement in the speed of processing new claims and changes in circumstances claims, which in 2014/15 was around (or in some cases above) the Scottish average. This is a big improvement on recent years. We also noted the good progress being made in respect of performance measurement and reporting, accuracy checking, action taken to sustain the service, the implementation of risk based verification and engagement with the Department for Work and Pensions (DWP) Performance Development Team in respect of intervention activity.
- 130.** These improvements in processing times along with regular monitoring of official error overpayments have resulted in no subsidy loss for 2014/15, although this is still subject to certification. This is a significant improvement on previous years. Overall, we are satisfied that the improvements made and the actions taken should continue to make a positive contribution to the benefits service. Hence, no further audit activity is required at this stage.
- 131.** The service recognises that, although intervention activity has commenced, the intervention strategy will not be fully implemented and embedded until December 2015. It also recognises that further

work is required in a number of areas. Improvement activity is being progressed to help ensure the service operates with the required level of resource and that officers are suitably skilled. The service is also continuing to work with the DWP in a number of national priority areas including the roll out of Universal Credit, the Fraud and Error Reduction Incentive Scheme and the ongoing development of the Automated Transfer to Local Authority Systems.

Local scrutiny plan

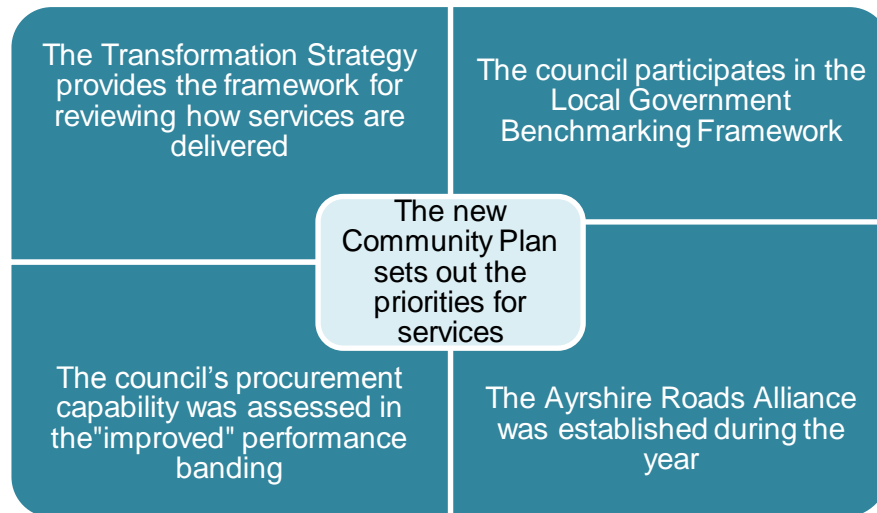
- 132.** The 2015/16 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners for the council was submitted to the Governance and Scrutiny Committee on 23 April 2015.
- 133.** No scrutiny risks were identified requiring additional scrutiny or audit work in 2014/15. A range of nationally driven scrutiny activity will be undertaken in 2015/16 the nature and timing will be reflected in the next scrutiny plan.

Outlook

- 134.** Councils will continue to operate in a changing environment within continuing financial constraints. Under these circumstances councils will be obliged to consider the delivery of services by different means. Good governance will be particularly important where council resources and service delivery are devolved to partnerships, joint working and third party organisations.
- 135.** It will be crucial that the council continues to ensure robust assurance and governance arrangements to deliver best value while

at the same time ensuring an appropriate level of accountability for public money. In 2015/16 community planning and health and social care integration will require particular focus on governance and assurance to ensure that the council's priorities are being achieved.

Best Value



136. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The council should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

Arrangements for securing best value

137. 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 2015-30, which is the key strategic document for the delivery of public services in East Ayrshire and is the council's Corporate Plan.

- 138. 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 whilst ensuring that services are capable of meeting the needs of users within available resources.
- 139. The council regularly reviews its senior management structure to ensure that it is fit for purpose, but also to ensure it is best positioned to achieve the priorities set out in the Community Plan and Transformation Strategy. This includes having clear roles and lines of accountability, and management arrangements that are flexible and able to respond to the changing environment the council operates in.
- 140. A smaller flatter structure, incorporating Health and Social Care, was put in place from April 2015. This now consists of two Depute Chief Executives and eight Heads of Service. This is intended to better reflect the community plan priorities within balanced senior manager portfolios. The structure is also intended to better meet the

requirements of new ways of providing services, such as shared service operations.

Procurement

141. The council participated in its sixth annual Procurement Capability Assessment (PCA) in September 2014. The council has continued to make steady progress and attained a score of 61% in 2014, compared to a score of 59% in 2013. The council achieved superior performance status in 2 areas, improved performance in 4 areas and conformance status in 2 areas.
142. The PCA assessment highlighted areas where further focus is required, such as:
- producing a strategy for all procurement activity over the value of £50,000
 - training of contract administrators
 - updating of all contract management documentation to ensure consistent working across the council
 - continual review of the spending profile of each service to identify all off-contract spend.
143. A procurement strategy action plan (2014-19) is in place which provides regular progress reports to members. This includes identifying where best practice exists, where there are gaps and where continuous improvements and efficiencies can be implemented.

Shared services

144. The Ayrshire Roads Alliance (ARA) was established in April 2014 as a shared service partnership between East Ayrshire Council and South Ayrshire Council. The aim is to achieve £8.634 million of savings over the first 10 years of the Alliance, through an agreed Benefits Realisation Strategy and Plan. This outlines the benefits that the integrated roads service will deliver and how these will be tracked. Savings will be realised from 2015/16.
145. The combination of the roads services of the two councils is an excellent example of sharing services.
146. The ARA is overseen by a joint committee, which receives four weekly performance scorecards. These are used to monitor the progress in meeting the ARA's objectives and facilitates the scrutiny arrangements for managing and reviewing budgets.
147. In the first year of operation the alliance reported an underspend of £0.231 million compared to its budget. We are satisfied that the costs attributable to East and South Ayrshire Council are properly allocated within the council's accounting records.
148. The ARA Joint Board will need to ensure it closely monitors both financial expenditure and service delivery over the coming years to ensure the expected savings are delivered as intended.

Performance management

149. East Ayrshire Council gathers comprehensive performance information in order to monitor and improve services. The new East

Ayrshire Community Plan 2015-30 is supported by three delivery plans which have a three year lifespan. These are: Economy and Skills; Safer Communities; and Wellbeing. Each of the delivery plans have set outcomes and priorities that are linked to the Single Outcome Agreement. These are the main strategic tools used to plan for, and report on performance of the council and its partners.

150. Individual services use service plans and performance indicators to assess whether targets are being met. Some of these indicators were initially set nationally by the Scottish Government, while others have been set by the council in relation to local communities and needs. Performance reporting for 2014/15 continues to focus on the existing 66 local SPIs and the 55 Local Government Benchmarking Framework (LGBF) indicators (which may be subject to revision).
151. All of the information generated by the LGBF is presented online and is summarised for members. A report to the Governance and Scrutiny Committee in March 2015 summarised council performance in each of the indicators over a four year period up to 2013/14 together with the ranking within Scotland and the quartile the council sits in. This showed that for 61% of indicators the council are in the top two quartiles in 2013/14, compared to only 43% in 2012/13. Improvement actions are reported for all indicators in the bottom quartile.
152. Regular 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.

153. 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.
154. We are satisfied that appropriate arrangements were in place within East Ayrshire Council for 2014/15, and that this information is used to focus attention on key areas with a view to continuous performance improvement.

Overview of performance targets in 2014/15

155. The East Ayrshire Performs report to period 13 provided details of the council's performance for 2014/15 and the previous two years. Information was reported for most, but not all, of the council's performance indicators. This is due to a time lag in the production of the data and relates mainly to indicators that are collected by external agencies. This was reported to the Cabinet and the Governance and Scrutiny Committee in June 2015.
156. The council plans to publish its annual performance report in September. This will include performance relating to the former statutory performance indicators and local indicators. It will also include performance measures relating to the Community Plan/ Single Outcome Agreement.

157. Remedial action to address the areas identified for improvement will be considered in September 2015 at a joint meeting of the Council and Community Planning Partnership Board.

Statutory performance indicators (SPIs)

158. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.

159. For 2014/15 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.

160. Overall we concluded that the council's arrangements were satisfactory.

161. 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 2015 and reported to the Accounts Commission in June 2015. This followed a previous evaluation that was carried out in September 2014. An individual

assessment for East Ayrshire Council was issued to the Leader, Chief Executive, and Chair of the Governance and Scrutiny Committee in July 2015. This contains information that will help the council make further improvements in performance reporting.

162. In last year's assessment, councils were assessed as either 'fully', 'partially' or 'not' meeting requirements. For this year's evaluation we introduced a simpler and clearer assessment scale which also promoted a stronger focus on continuous improvement. This assessed councils as either fully meeting requirements or having an 'area for improvement'.

163. The change in methodology means it is not possible to make exact comparisons between the 2014 and 2015 assessments. It is clear, though, that the council is meeting its requirement to report publicly on its performance with 92% of indicators and themes fully meeting reporting requirements and 8% identified as having an area for improvement. This placed the council's public performance reporting within the best grouping of authorities in Scotland.

Local performance audit reports

164. During the year we completed a follow up audit to the Audit Scotland report '*Major Capital Investments in Council*' published in March 2013. The overall aim of this work was to determine the extent to which councils have improved performance in managing their capital investment programmes. In particular, the audit sought to establish whether: the council has sustainable capital investment plans which reflect strategic priorities; whether elected members are

provided with sufficient information to support effective scrutiny and decision-making; and whether there are effective governance arrangements in place.

- 165.** We concluded that the council has a well established capital investment strategy, around which long term capital investment is developed and aligned to council priorities. We are also satisfied that good project management frameworks are in place and members have access to detailed current information. Regular and transparent monitoring and reporting arrangements are in place, and governance arrangements to support the capital investment programme are satisfactory.
- 166.** The council have identified some areas for improvement. These include: improvements to data capture and business case presentation to achieve more consistency; enhancing risk registers to reflect programme level risks that may apply more widely; improved communications plans; and post project evaluations for each project board.

National performance audit reports

- 167.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the council. These are outlined in appendix III. The council has processes in place to ensure that all national reports and their impact on the council are considered by members. This generally includes comments on the council's position in relation to the key messages contained in the national reports.

Equalities

- 168.** The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
- 169.** The council, schools as providers of education, and East Ayrshire Licensing Board are listed as separate bodies under the 2010 Act, and each are required to publish a progress update on equality outcomes and a new mainstreaming report. The report for schools was incorporated into the council's report. This was published in April 2015. The East Ayrshire Licensing Board published a separate report in March 2015.

Outlook

- 170.** In common with other councils, East 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 and the reconfiguration of some services.
- 171.** 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. The council's regular review of its services and the effective performance management framework will be critical to its success in continuing to achieve its key priorities and maintaining best value.

Appendix I – Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Significant income streams East Ayrshire Council receives a significant amount of income in addition to Scottish Government funding.</p> <p>Risk The extent and complexity of income means there is an inherent risk that income could be materially misstated in accordance with ISA240.</p>	<ul style="list-style-type: none"> • Sound controls arrangements have been reported in previous years of the audit. • Internal audit reviews. 	<ul style="list-style-type: none"> • Controls testing of Accounts Receivables found no weaknesses in council systems. • No significant errors were identified through detailed testing of revenue transactions across each service area. • Testing of significant Grants proved satisfactory. • No significant issues were identified through focused testing of the Council Tax Income Account. • Our conclusion is that income streams are free from material misstatement.

Audit Risk	Assurance procedure	Results and conclusions
<p>Management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p>Risk</p> <p>Management’s ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • A sound system of budgetary control, including regular budget monitoring. • Regular updates of Standing Orders and Financial Regulations, which require approval by the Full Council. 	<ul style="list-style-type: none"> • No unusual or inappropriate transactions were identified as part of detailed testing of journal entries. • A review of accounting estimates did not show any instance of bias. • No significant transactions outside the normal course of council business were identified. • Focussed testing of regularity and cut-off assertions showed controls were operating effectively. • Our conclusion is that there is no management override of controls at the council.
<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>Risk</p> <p>There is a risk that the ultimate cost to the council is significantly different from that provided in the financial statements.</p>	<ul style="list-style-type: none"> • Officers, in consultation with the council's legal service, have reviewed the evidence available at the time of preparing the financial statements, in relation to legal decisions, to review the adequacy of the provision and ensured that is it valued appropriately. 	<ul style="list-style-type: none"> • Satisfactory working papers in support of the year end equal pay provision were provided.

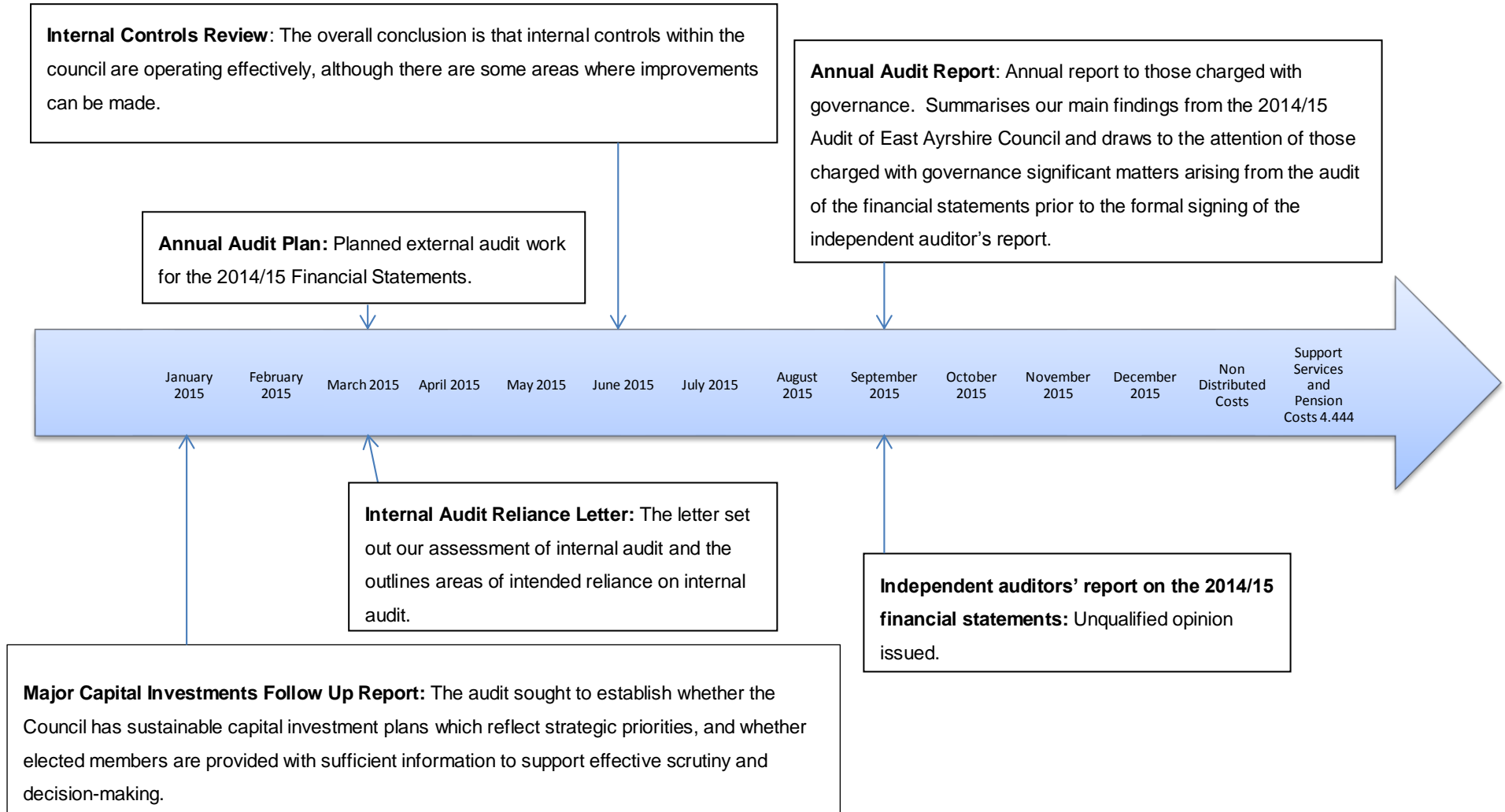
Audit Risk	Assurance procedure	Results and conclusions
<p>Group Accounts</p> <p>There may be changes to the group structure arising from amendments to The Code of Practice for Local Authority Accounting, reflecting the adoption of the following group accounts standards;</p> <ul style="list-style-type: none"> • IFRS 10 Consolidated financial statements • IFRS 11 Joint arrangements • IFRS 12 Disclosure of interests in other entities • IAS 28 Investments in associates and joint ventures (as amended). <p>Risk</p> <p>There is a risk that the council and its group are not properly presented in the financial statements.</p>	<ul style="list-style-type: none"> • Officers made appropriate arrangements for assessing the impact of group account standards, and reflected any changes within the Group financial statements. 	<ul style="list-style-type: none"> • The procedure for re-evaluating the group account boundaries was reviewed and seen to be adequate in determining the status of bodies included in the group accounts. • Our conclusion is that group account disclosures meet with our understanding of the new accounting standards.

Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor’s wider responsibility under the Code of Audit Practice		
<p>Open Cast Coal Sites</p> <p>Bond monies are now being received as a result of settlements made in relation to individual sites.</p> <p>Risk</p> <p>There is a risk that income received and the costs incurred at relevant sites are not appropriately accounted for within the financial statements.</p>	<ul style="list-style-type: none"> The council developed a business case highlighting what should be done with bond monies they have received. 	<ul style="list-style-type: none"> We confirmed that all bond monies received to 31 March 2015 have been identified and recorded in the accounting records. Bond income received but not yet spent has been appropriately reflected in the financial statements. Progress on sites where bond monies have been received is adequately reported to members. Our conclusion is that income received and costs incurred are appropriately accounted for within the 2014/15 financial statements.
<p>Ayrshire Roads Alliance (ARA)</p> <p>The Council will need to ensure the accurate processing of financial transactions that relate to either East or South Ayrshire Council, in accordance with work done and agreed budgets/business plans.</p> <p>Risk</p> <p>There is a risk that inaccurate coding of ARA transactions may lead to a misrepresentation of the financial performance of the venture.</p>	<ul style="list-style-type: none"> A separate ledger has been set up to identify transactions relating to each party. Internal Audit plan carried out work as part of their 2014/15 audit plan. This included a review of the “roads” costing system. 	<ul style="list-style-type: none"> Year end testing of a sample of transactions showed ARA transactions had been appropriately recorded in the ledger. Additional disclosure requirements around income and expenditure have been adequately included within the financial statements. Our conclusion is that ARA transactions have been correctly coded within the council accounts allowing an accurate representation of financial performance. The internal audit review of the roads cost manager system concluded that reasonable assurance can be taken from the controls examined in most areas tested.

Audit Risk	Assurance procedure	Results and conclusions
<p>Housing Benefits Performance</p> <p>The council has previously experienced processing delays and incurred overpayments of benefit for which it could not claim subsidy. An improvement action plan has been agreed with management.</p> <p>Risk</p> <p>If this is not effectively implemented there is a risk of further backlogs in service and losses in subsidy.</p>	<ul style="list-style-type: none"> • An improvement action plan has been agreed and is being addressed. • Internal audit have followed up the improvement action plan. 	<ul style="list-style-type: none"> • There was an improvement in the speed of processing new claims and changes in circumstances claims in 2014/15 to around the Scottish average. There should be no subsidy loss for 2014/15. • Good progress has been made in respect of performance measurement and reporting, accuracy checking, action taken to sustain the service, the implementation of risk based verification and engagement with the Department for Work and Pensions in respect of intervention activity. • We are satisfied that the improvements made and the actions taken should continue to make a positive contribution to the benefits service.

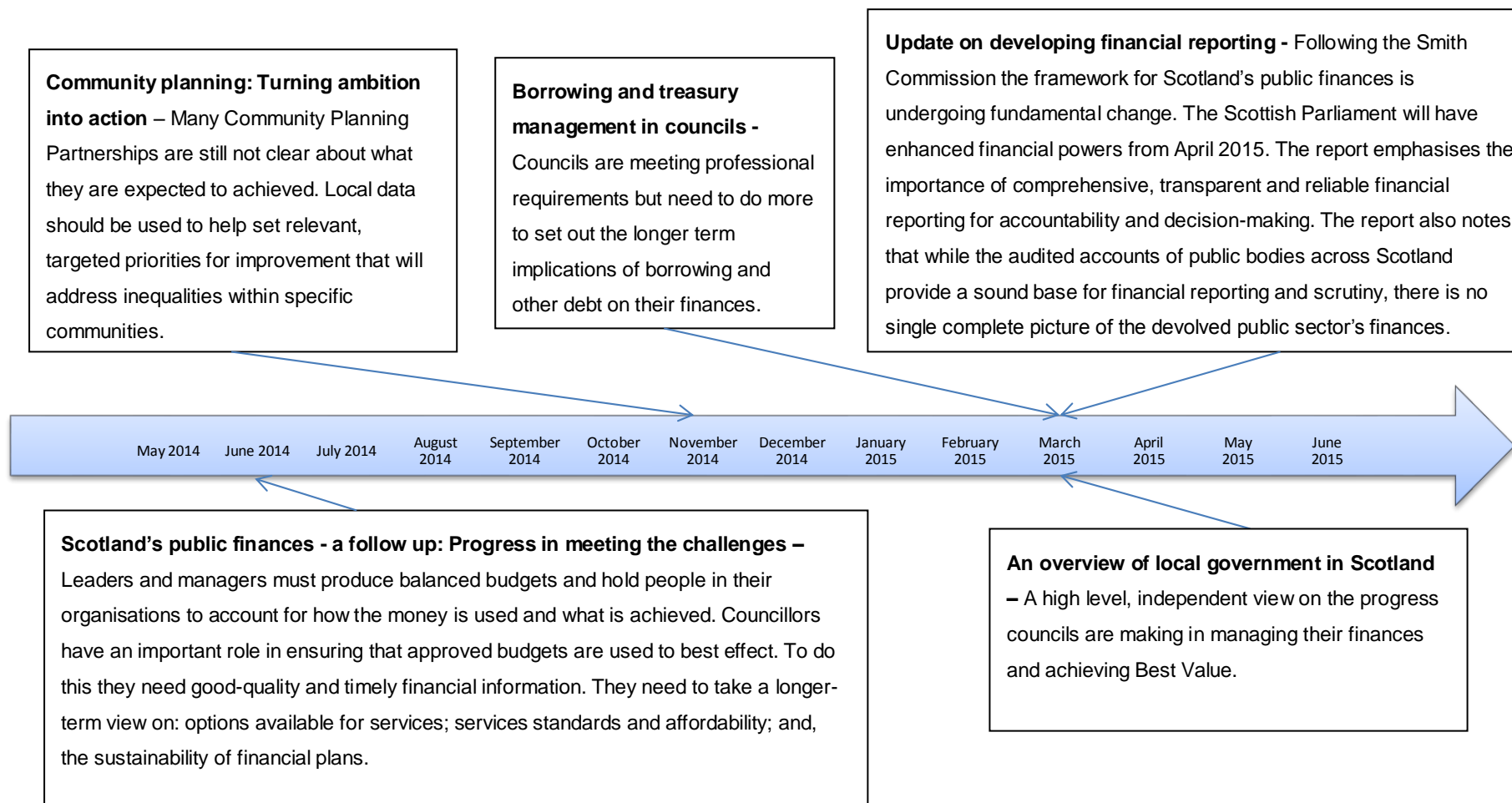
Appendix II

Summary of East Ayrshire Council local audit reports 2014/15



Appendix III

Summary of Audit Scotland national reports 2013/14



Appendix IV

Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 18/41	<p>Issue</p> <p>The forecast service expenditure underspend reported to members increased from £3.697 million at period 10 to £11.410 million at the year end.</p> <p>Risk</p> <p>Members are not made aware of the budget variances and actual outturn until late in the financial year.</p> <p>Recommendation</p> <p>To feed into budget reports, budget holders should inform the finance service of forecast expenditure that may not be incurred in the financial year at the earliest opportunity.</p> <p>Consideration should be given to how the possibility and probability of potential but uncertain variances could be included in East Ayrshire Performs reports.</p>	<p>Variance forecasting for East Ayrshire Performs will include sensitivity analysis to determine the range of possible outturn values and their probability. Where appropriate, forecast variances will be qualified by this information within the report.</p>	<p>Head of Finance & ICT</p>	<p>March 2016</p>

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 31/119	<p>Issue</p> <p>Whilst preparations have been good, the effectiveness of the IJBs in delivering health and social care services is unproven.</p> <p>Risk</p> <p>Given the needs led nature of health and social care services, there is a risk of overspends in the Health and Social Care Partnership budgets if scrutiny arrangements are not effective.</p> <p>Recommendation</p> <p>The council should closely monitor the operations of the IJB to ensure that services are delivered within budget.</p>	<p>The Head of Finance & ICT is the nominated Proper Financial Officer for the Health and Social Care Partnership and this will ensure that the Council is in a position to have close oversight of financial performance of the Joint Board.</p> <p>Financial projections for the Joint Board will be reported to the Council through East Ayrshire Performs.</p>	Head of Finance & ICT	March 2016