



# South 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](http://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](http://www.audit-scotland.gov.uk))

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

This report has been prepared for the use of South 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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# Key messages

## Audit of financial statements

- Unqualified auditor's report on the 2014/15 financial statements.
- Unqualified auditor's reports on the nine charitable trusts administered by the council.

## Financial management and sustainability

- The council's financial management arrangements are sound although continuing attention needs to be paid to budget setting and monitoring.
- General service budget underspends totalled £8.978 million, contributing to the increase in the general fund reserve of £2.225 million.
- Housing revenue account underspend was £0.755 million after a contribution of unspent budget to CFCR of £1.350 million.
- The Property and Risk Service has been restructured to improve delivery of the capital programmes.
- The council's financial position is sustainable currently and in the foreseeable future although rising demand, increasing costs of services and reductions to central funding will continue to place a strain on the council's capacity to deliver services at the current levels.

 <p>Governance and transparency</p>	<ul style="list-style-type: none"><li>• The council has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making and scrutiny.</li><li>• Appropriate systems of internal control are in place.</li><li>• The council operates in an open and transparent manner.</li><li>• The council has an effective internal audit function and sound anti-fraud arrangements.</li><li>• The council has made excellent progress in the integration of health and social care services. A Joint Board is now operational and a strategic plan approved.</li></ul>
 <p>Best Value</p>	<ul style="list-style-type: none"><li>• The council continues to develop its approach to Best Value.</li><li>• The Accounts Commission have requested a further follow-up report by June 2016.</li><li>• The council's public performance reporting is not as well developed as other Scottish councils.</li><li>• The council's procurement capability assessment rates it amongst the top five Scottish councils.</li><li>• The available results for performance indicators are mixed but generally indicate an improving picture.</li></ul>
 <p>Outlook</p>	<p>Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care. South Ayrshire Council's financial position will provide a cushion over the next few years. However, effective arrangements for Best Value will be essential to ensure efficient use of available resources, and strong governance and leadership will be needed to achieve continuous improvement.</p>

# Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of South Ayrshire Council. The report is divided into sections which reflect our public sector audit model.
2. 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.
3. Our responsibility, as the external auditor of South 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 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.
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

<b>Audit opinion</b>	<ul style="list-style-type: none"> <li>We have completed our audit of the financial statements of the council and issued an unqualified independent auditor's report.</li> </ul>
<b>Going concern</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Other information</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Charitable trusts</b>	<ul style="list-style-type: none"> <li>We have completed our audit of the 2014/15 financial statements of the charitable trusts administered by South Ayrshire Council and issued an unqualified independent auditor's report for each of the relevant trusts.</li> </ul>
<b>Group accounts</b>	<ul style="list-style-type: none"> <li>The council has accounted for the financial results of two subsidiaries and three 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 to £321.407 million.</li> </ul>
<b>Whole of government accounts</b>	<ul style="list-style-type: none"> <li>The council submitted a consolidation pack for audit by the deadline. This has been audited and the certified return submitted to the Scottish Government.</li> </ul>

## Submission of financial statements for audit

9. We received the unaudited financial statements on 26 June 2015, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team.

## 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 Audit and Governance Panel in April 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. 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 South Ayrshire Council we set our planning materiality for 2014/15 at £3.876 million (1% of gross expenditure). We report all misstatements greater than £0.100 million. Performance materiality was calculated at £1.938 million, to reduce to an acceptable level the probability of



uncorrected and undetected audit differences exceeding our planning materiality level.

17. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels. Our performance materiality level was reduced to £1.163 million to reflect concerns over the implementation of the upgrade of the Oracle ledger system during the year.

## Evaluation of misstatements

18. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements.
19. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The effect of these adjustments is to decrease expenditure on the consolidated income and expenditure account with a consequent reduction in the reported underspend for the year. On the balance sheet net assets increased by £1.129m.
20. The most significant change required was a £1.127 million adjustment to the valuation of the council's housing stock. Housing stock was revalued at 1 April 2014 but properties which were built and acquired by the council during the year were not included in the valuation submitted to finance for the preparation of the financial statements. The additional depreciation charges on these

properties resulted in increased charge to the Housing Revenue Account of £0.055 million.

## Significant findings from the audit

21. 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.
22. During the course of the audit we identified the following significant issues that, in our view, requires to be communicated to you.

## Significant findings from the audit

Issue	Resolution
<p><b>Employee related claims:</b> In previous years, we commented that the council had made a provision to meet the costs arising from equal pay compensation claims.</p> <p>As a result of a recent decision by the European Court of Justice in 2014, the council revised its provision in 2013/14 to include potential claims arising from the decision of the Court. The Court decision concerned what elements of an employees' remuneration were to be included in the calculation of holiday pay. For 2014/15 the provision has been maintained at the 2013/14 level.</p>	<p>In December 2014, the Employment Appeal Tribunal (EAT) made a significant ruling on how holiday pay should be calculated for employees who work overtime. The ruling concerned mainly the principle of the inclusion of non-guaranteed overtime as part of the holiday pay calculation. However the EAT also limited claims for underpayment of holiday pay to three months of the most recent underpayment. This ruling may be challenged in court and modifications made to the judgement.</p> <p>The government has also introduced regulations to clarify some of the issues. These regulations limit any backdating to two years.</p> <p>We consider that this is the current position and the provision should be recalculated based upon this information. However, management consider that the position is not yet settled and that there are sufficient uncertainties surrounding the issue which require maintenance of the provision at its current level. In this respect, we note that the key case (Lock v British Gas) is now the subject of an appeal by the employer. Given the unsettled position, consequent difficulty in estimation and the non-material nature of the amount we have accepted management's position on this for the 2014/15 financial statements. Management have agreed that the position will be reviewed in the light of developments during 2015/16.</p>
<p><b>Pension fund liability:</b> The pension fund liability on the balance sheet has risen from £138.177 million to £180.080 million. This has caused a large movement in the net assets on the balance sheet.</p>	<p>For information only. See paragraph 69 for further explanation. The pension liability is reviewed annually by Strathclyde Pension Fund actuaries.</p>

Issue	Resolution
<p><b>Trusts registered as charities:</b> In our report to those charged with governance of trusts registered as charities in 2013/14 we drew trustees' attention to two issues which we considered to be of importance. In summary:</p> <p><b>Public benefit</b></p> <p>With the exception of the Robert Hamilton Smith Trust, the Mary and Hugh Reid Trust and the McKechnie Library Trust (not applicable), no payments were made by the other six trusts to beneficiaries during the financial year.</p> <p><b>Transfer of mandates from previous trustees</b></p> <p>Following the transfer of the administration of three trusts to the council in 2012/13, the council has experienced some difficulty in tracing and obtaining appropriate mandates from previously nominated account/bond holders.</p>	<p>These issues remained during 2014/15. Officers of South Ayrshire Council continue to work on behalf of the trustees to resolve the issues. Further details can be found in the relevant section of this report.</p> <p>Following discussions with the Office of the Scottish Charity Regulator a scheme of amalgamation was agreed and presented to the council in June 2015. Once implemented this should allow funds to be used for the benefit of the relevant residents and organisations.</p> <p>Officers of the council are continuing to work to obtain the necessary authorisations to allow income to be released to the trustees.</p>

## Future accounting and auditing developments

### Revisions to the Code of Practice

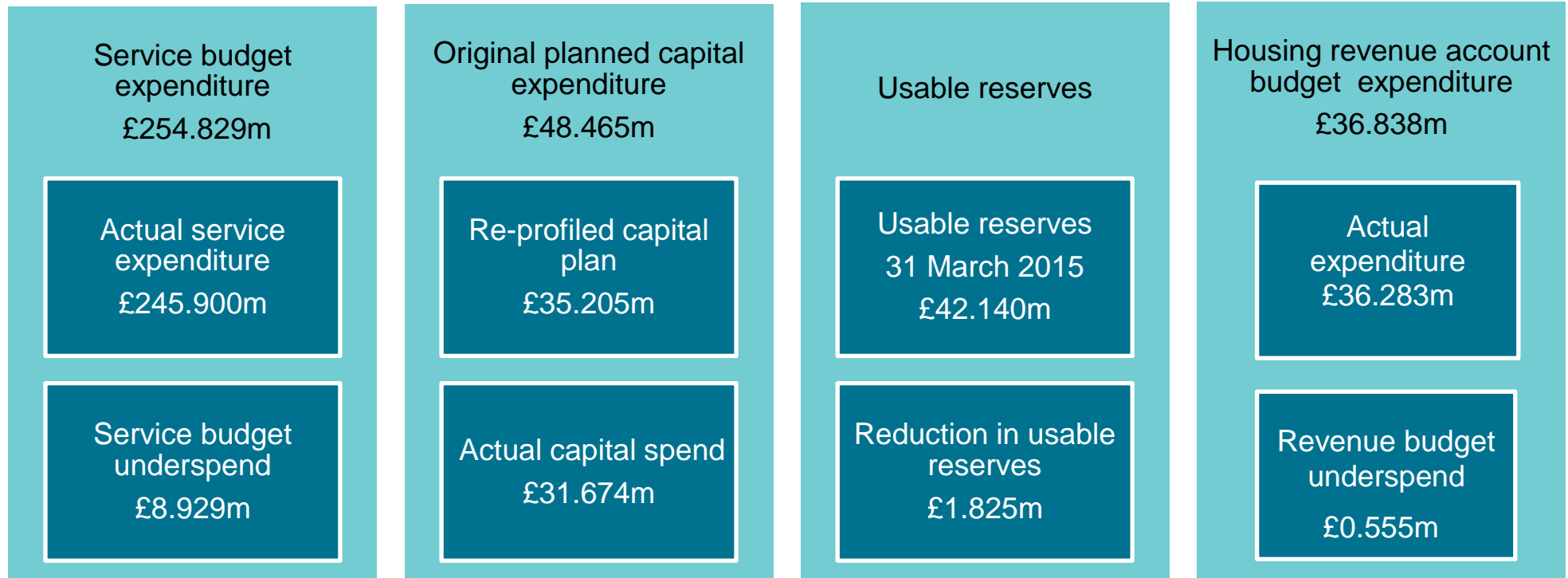
23. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. The following paragraphs set out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

### Health and Social Care Integration

26. From 1 April 2016 Integrated Joint Boards (IJBs) will be accountable for the provision of health and social care. The South Ayrshire Integrated Joint Board was constituted in April 2015, and was amongst the first in Scotland to reach this stage. The joint board will be required to produce financial statements for 2015/16 in compliance with the Code of Practice on Local Authority Accounting in the UK. The council's appointed auditors will audit the IJB financial statements from 2015/16.

# Financial management and sustainability



## Financial management

- 27. In this section we comment on the council’s financial outcomes and assess the council’s financial management arrangements.
- 28. 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

- 29. Overall the council reported an underspend against budget of £8.978 million. Underspends were recorded across most services, the most significant of which, at £4.006 million, was in Economy, Neighbourhood and Environment. Social Care Services was £0.831 (1%) million overspent.

#### Recommendation 1

- 30. In order to hold officers to account, members need to understand the factors that contribute to the accumulation of unplanned reserves and consider whether the outturn is consistent with their expectations of service quality and delivery. There has been a consistent level of underspending over the last three years, exhibit 1.

- 31. In light of this, the Chief Executive reviewed outturn variances across services and reported to the Leadership Panel in August 2015. The report identified recurring savings of £1.440 million.
- 32. The most significant element of the underspend was for employee costs, £4.887 million. The Chief Executive indicated in her report that payroll budgets and vacancy levels were currently being reviewed.

#### Exhibit 1: Net underspends

<i>Financial Year</i>	<i>£ million</i>
2012/13	8.392
2013/14	7.642
2014/15	8.978

*Source: “Review of 2014/15 Out-turn Reports” – Chief Executive, August 2015*

- 33. The Economy, Neighbourhood and Environment Directorate recorded an underspend of some £4.006 million for the year. Following the Chief Executive’s outturn review £0.730 million in savings have been identified from the base budget. However, as we noted in previous years, part of the underspend relates to amounts which are to be expended over several years, for example, for tourism and enterprise projects and Ayr Gaiety Partnership five year funding. The inclusion of these amounts in the annual budget distorts the picture. Earmarking of totals and allowing for an appropriate amount in annual budgets is a clearer presentation.

## Financial management arrangements

34. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering 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. We reviewed the council's financial regulations, which are revised annually, and concluded that they are comprehensive and current. The council's financial regulations are available on the council's website.
37. As auditors we attend a number of council and committee meetings each year. Members provide a good level of challenge and question budget holders on significant variances and service performance issues.
38. Budget monitoring reports (both revenue and capital) are submitted to the Leadership Panel on a quarterly basis. Budget monitoring reports do not contain service performance information. The council acknowledge that this is an area of weakness and is considering how best to integrate service performance reporting and budget monitoring.
39. The purpose of budget monitoring reports is to provide information to members to allow them to hold services to account for the resources allocated to them. We have previously commented favourably on the format and content of the reports. It remains the case that budget monitoring reports are of a high standard and contain a wealth of information important to members in their scrutiny role. Management may wish to consider further enhancements. We suggest:
- Reminding budget holders that explanations for variances should refer to underlying service activity.
  - Minimising jargon or providing a short key or glossary to commonly used terms.
  - Introducing a level of quality control to ensure consistency with previous periods and to ensure that supporting narrative is appropriate to the figures provided.

### *Housing revenue account (HRA)*

40. Tenants are charged rents which are set by the council to cover the estimated expenditure for the year.
41. The original HRA budget was set in December 2013 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.
42. Following a number of years of persistent underspending, we recommended in our 2013/14 annual audit report that 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 was in place for 2015/16. Management advise that a member/officer group has been working on a fundamental review and will report in October 2015 with the aim of implementing proposals in the 2016/17 budget.
43. Capital from current revenue (CFCR) is a means of augmenting or substituting borrowing to fund capital expenditure. It is an expense to the HRA and should form part of the HRA budget which in turn determines rent levels.
  - The original CFCR contribution for 2014/15 was set at £5.382 million.
  - Actual CFCR contribution for 2014/15 was £6.732 million.
44. The difference in the CFCR contribution of £1.350 million comprises contributions from underspend on other budget lines which was added to the budgeted CFCR during the year. In other words, the

HRA underspend was £0.755 million after a contribution of unspent budget to CFCR of £1.350 million.

45. The use of the CFCR line to absorb underspending in other budget lines is not, in our view, compatible with transparency. CFCR should be subject to the same budgetary control as any other budget line.

#### **Recommendation 2**

46. Virement, is the term for moving budget between spending lines to accommodate costs unforeseen at the time of budget compilation. Virement should not be used to adjust budget lines simply because an under/overspend is being projected. In-year virement should be used where significant sums relating to unforeseen circumstances are involved. Virements totalling £1.350 million were made to HRA budget lines during 2014/15. We identified some virements were for small amounts, for example, £4,000. Some virements once approved were not all actioned. The fundamental review of the HRA budget should address this.

#### **Recommendation 3**

### **Conclusion on financial management**

47. We have concluded that the council's financial management arrangements are sound. However, there are some areas where improvements could be made to enhance existing arrangements.

### **Financial sustainability**

48. 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.

49. In assessing financial sustainability we are concerned with 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

50. The overall level of usable reserves held by the council decreased by £1.825 million to £42.140 million, exhibit 2. However, the General Fund reserve balance increased by £2.225 million to £25.151 million (of which £9.941 million is earmarked for specific use). Exhibit 3 shows the comparative picture, across Scotland, of reserves as a proportion of net revenue.
51. 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.
52. The CIPFA Local Authority Accounting Panel (LAAP) bulletin 99 does not prescribe a maximum or minimum level of reserves but places the responsibility on the chief financial officer to advise the authority on the levels of reserves to be held and the processes

necessary for their creation and use. The bulletin provides guidance to chief financial officers on the establishment and maintenance of reserves.

### Exhibit 2: Usable reserves

Description	31 March 2013 £ million	31 March 2014 £ million	31 March 2015 £ million
General fund	24.458	22.926	25.151
Housing revenue reserve	14.590	13.445	10.461
Repair and renewal fund	4.297	6.312	5.354
Capital grants unapplied	1.187	0.857	0.749
Capital receipts reserve	0.589	nil	nil
Insurance fund	0.425	0.425	0.425
<b>Total usable reserves</b>	<b>45.546</b>	<b>43.965</b>	<b>42.140</b>

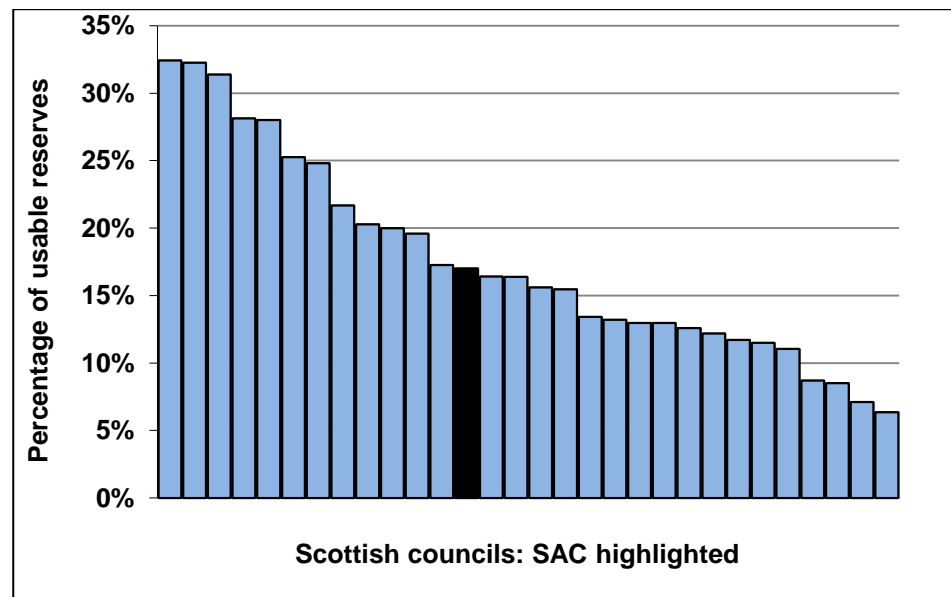
Source: South Ayrshire Council financial statements

53. The Financial Strategy approved in December 2014 sets out the reason and justification for holding various reserves and the amount recommended to be held. It is intended that this strategy will be updated on a regular basis. The current level of unallocated reserves is 5.8%. In light of the refreshed CIPFA guidance, officers

and members should review the purpose, level, historic use and planned use of reserves to ensure that they are still necessary to support medium and long term spending plans.

**Recommendation 4**

**Exhibit 3: Scottish councils’ usable reserves as a percentage of net revenues**



Source: Scottish councils’ unaudited accounts 2014/15

**Financial planning**

- 54. The council approved its 2015/16 budget in December 2014. Following adjustments made in March 2015 the 2015/16 revenue budget was set at £261.542 million. It also set indicative budgets for 2016/17 and 2017/18 in December 2014, with updates approved in March 2015. These budgets require efficiency savings of £4.181 million and £6.399 million respectively.
- 55. Historically the council’s financial strategy has been delivered in a series of short term financial plans and policies, typically having a span of one to three years. In December 2014 the council agreed a five year financial strategy and intends that the current medium term planning will be extended to a ten year plan in future.
- 56. The council is actively identifying efficiencies and budget reductions. Examples of the areas being considered are:
  - Budget re-alignment
  - Service redesign
  - Service cessation
  - Increasing fees

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.

## Capital programme 2014/15

57. How well the council delivers capital projects has a direct impact on the lives of its citizens and plays a significant role in the economic wellbeing of the area.
58. The council approved its general services capital programme of £28.429 million for 2014/15 in December 2013. The council recognised this programme was not deliverable and required review. A series of revisions were approved to the programme during the year which reduced the final programme to £17.644 million. Actual spend on the general services capital programme was £16.477 million.
59. The council approved its housing capital programme of £20.036 million for 2014/15 in December 2013. The council recognised this programme was not deliverable and required review. A series of revisions were approved to the programme during the year which reduced the final programme to £17.322 million. Actual spend on the housing capital programme was £15.197 million.
60. The general services programme was concentrated on the new build, refurbishment and repair of schools, delivery of various leisure projects and roads and transport infrastructure. The housing programme focused mainly on Scottish Quality Housing Standard completion, "major component replacement" and new build council houses.
61. In August 2014 the council approved the restructuring of the Property and Risk Service. The new structure includes an increased

complement of professional architects and quantity surveyors. Management recognise that there is still work to do but have advised that they expect the structural changes to the service to positively impact on the delivery of the 2015/16 capital programmes.

## Asset management

62. Asset management is a broad term that encompasses the various actions the council undertakes to ensure that its assets are efficiently planned, designed, delivered, managed and reviewed in a cost effective and sustainable manner and that these assets remain relevant to changing community needs and expectations.
63. The council approved a revised Asset Management Plan in January 2015. The plan is an important tool to support the council's strategic objectives. The plan will also provide a framework within which rational decisions on the retention, redeployment, refurbishment or disposal of assets can be made thus contributing to future efficiency savings.
64. An important factor in driving forward an integrated asset management strategy will be the consistent delivery of capital investment programmes. This is an area the council needs to improve upon to obtain maximum benefits from strategic asset management planning.

## Workforce management

65. An effective Workforce Strategy is essential to ensure that the council is able to address the human resources requirements

necessary to achieve the aspirations, goals and service standards expressed in the Council Plan. By identifying current workforce capabilities, considering what will be needed in the future and planning systematically, the council can mitigate the risk of skill shortages and plan appropriate resources to meet the challenges that will need to be faced in the coming years.

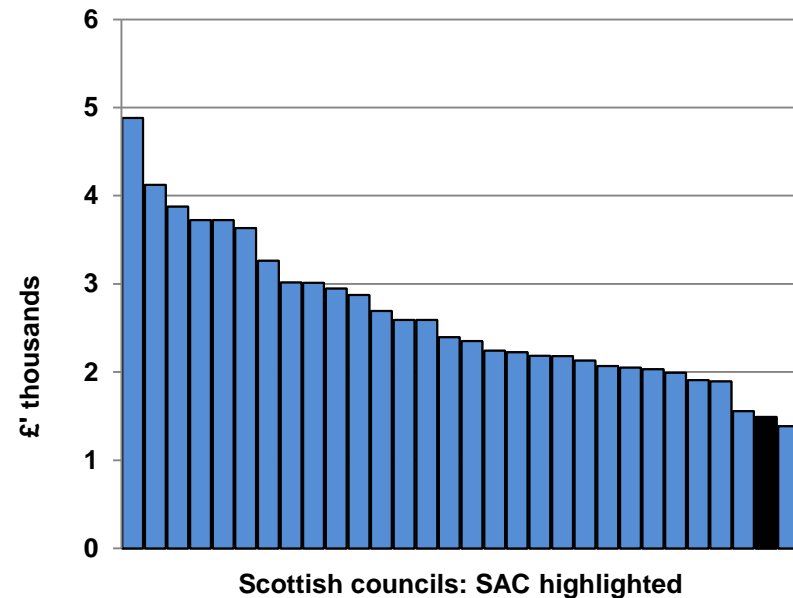
- 66. The council continues to rationalise its services through a policy of no compulsory redundancies. During 2014/15, 110 exit packages were agreed at a cost of £1.818 million.

### Treasury management

- 67. At 31 March 2015 long term borrowing stood at £171.237 million, a decrease of £6.859 million on the 2014 borrowing level of £178.096 million. Based on the capital expenditure programme for 2014/15 the treasury management strategy for 2014/15 identified a need for a net increase in borrowing of some £20 million. The re-profiling of the capital programme is the key factor in the reduction in long term borrowing. Interest payable and similar charges marginally decreased. The council also recorded a saving of some £0.306 million as a consequence of lower than planned capital expenditure.

- 68. Exhibit 4 shows long term borrowing, as at 31 March 2015, per head of population. South Ayrshire Council, highlighted in black, is at the low end of the scale. This is in line with the council's Treasury Management Strategy.

**Exhibit 4: Scottish councils' long term borrowing per head of population**



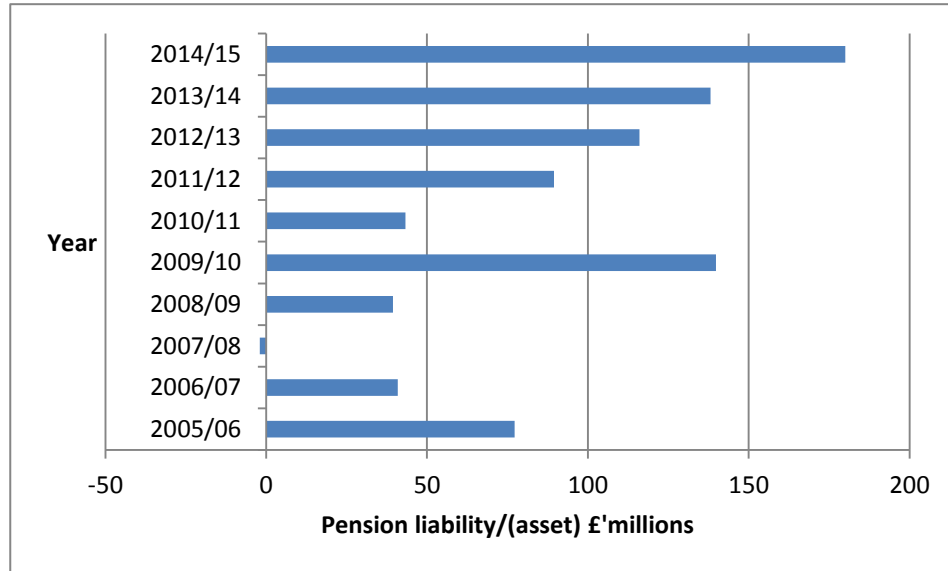
Source: Scottish councils' unaudited accounts 2014/15

### Pension liability

- 69. As at 31 March 2015 the council's pension liability stood at £180.080 million compared to £138.177 million as at 31 March 2014. This is also reflected in the balance sheet for the group.
- 70. The pension liability represents the difference between expected future payments to pensioners and the underlying value of pension

fund assets available to meet this cost. Exhibit 5 sets out the historic movement of the council's pension liability.

**Exhibit 5: South Ayrshire Council movement in pension liability**



Source: South Ayrshire Council annual accounts 2005/06 - 2014/15

71. South Ayrshire Council is a member of Strathclyde Pension Fund. The valuation of pension fund assets and liabilities is assessed by professional actuaries each year and is dependent on a number of external variables, including projected rates of return on assets, interest rates and mortality estimates. As required by international accounting standards the council recognised its share of the net liabilities of the pension fund on the balance sheet.

- 72. Hymans Robertson LLP, the pension fund actuary, has provided commentary which helps to explain the reasons for the significant increase to the liability calculated as at 31 March 2015.
- 73. The variable which has had the most impact is the reduction in the discount rate applied. The discount rate is the rate which is used to calculate future returns on pension fund assets. Discount rates are calculated by reference to the return available on government and AA rated corporate bonds. During the latter part of the financial year the yield on such bonds reached an historic low. As a consequence the calculated returns on the Strathclyde Pension Fund fell short of the calculated liabilities of the fund.
- 74. In year payments made to the pension fund by the council comprise employer and employee contributions. At the last triennial valuation (31st March 2014) the Strathclyde Pension Fund was 94.3% funded and had assets of £15.8 billion. The pension fund has a 12 year funding strategy in place to address the deficit.

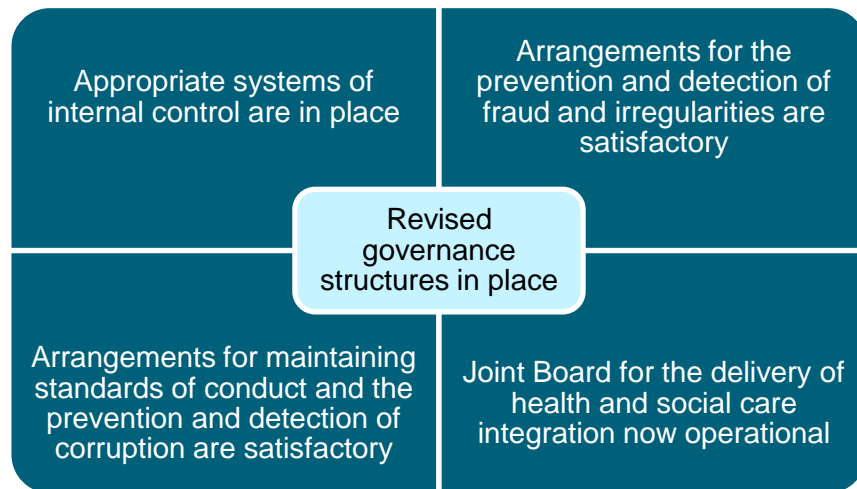
**Conclusion on financial sustainability**

75. We have concluded that the council has an adequate level of reserves, is containing its expenditure within annual budgets and has credible medium term financial plans in place. Overall we conclude that the financial position is sustainable, currently and in the foreseeable future, although rising demand, increasing costs and reduced central funding will continue to place a strain on the council's capacity to deliver services at the current levels.

## Outlook

76. 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 in the coming years.
77. Details of Scottish public spending plans for next year are to be delayed until after the UK government's spending review is published 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. In previous years the council has agreed its budget in December, the delay will give the council less time to prepare its detailed budgets for 2016/17.
78. In common with many other councils, South Ayrshire Council is reporting gaps between income and the cost of providing services over the next few years. With further funding reductions expected, councils face tough decisions to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.

# Governance and transparency



79. 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.
80. 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. Overall we concluded that the council is open and transparent although there are some areas where practices could be improved.

## Corporate governance

81. Following the Accounts Commission Best Value report in February 2014, a revised structure for scrutiny was put in place during 2014/15. 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
82. The new structure has a much stronger focus on service delivery and performance management. The new structure is still in its early stages but is showing signs of being an effective corporate governance framework.
83. 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.
84. During 2014/15 the Audit and Governance Panel was chaired by an independent councillor who was not a member of the administration,

this is in line with good practice principles for audit committees. The Panel was always well attended and offered a good standard of challenge to management.

85. Following the follow-up Best Value report (December 2014) the administration offered the chair of the Audit and Governance Panel to the opposition Scottish National Party (SNP) and the then independent chair resigned. The SNP declined the offer. The administration then took the decision to appoint an independent external (non member) chair. We have already had informal discussions with the new chair who takes up her duties during 2015/16.

### Local code of corporate governance

86. 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 : a Framework”. The local code is subject to annual review by a working group of members and officers and review and approval by the Audit and Governance Panel.
87. The code is supported by a detailed document setting out arrangements and procedures in place and assessing what improvements are needed going forward. The most recent update and improvement plan was approved by the Audit and Governance Panel in September 2014.
88. The September 2014 update highlighted one ‘major concern’ regarding the council’s public consultation strategy and a number of

areas where ‘some concern’ was noted. The council’s community engagement strategy action plan was subsequently approved by the Leadership Panel in September 2014 and the council continues to address the other issues as part of its improvement plan.

### Following the Public Pound

89. In August 2015 the Accounts Commission reaffirmed that the principles of the Following the Public Pound Code ‘remain entirely valid’. These principles are that councils:
- Have a clear purpose in funding an external body.
  - Set out a suitable financial regime.
  - Make clear their arrangements for monitoring the external body’s financial and service performance, and for stipulating any required access to documentation.
  - Consider very carefully the question of representation on the board of an external body.
  - Establish limits to involvement in the external body.
90. In establishing the Partnership Panel and setting out arrangements for monitoring partner organisations South Ayrshire Council has made positive progress towards achieving these principles. The Panel does, however, need to ensure that effective practice is applied consistently across all partner organisations and funded projects. We will continue to monitor the effectiveness of the council in achieving this as part of our 2015/16 audit.



## Internal control

91. 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.
92. Following the ledger upgrade to Oracle R12 in June 2014 some control weaknesses were identified. Some issues identified since the upgrade had not been resolved prior to the year end. This means that the ledger operated for some nine months of the financial year 2014/15 with some control weaknesses.
93. Management engaged the services of an external consultant specialising in Oracle applications to provide them with assurances that the ledger was operating as required during 2014/15 and that the ability to prepare financial statements had not been compromised.
94. As part of our final accounts audit procedures we increased the level and depth of testing to increase the probability of detecting any anomalies. No errors attributable to the weaknesses previously identified were discovered.
95. We also reviewed the system for paying travel and subsistence expenses. Although we found no significant errors from our sample test, we have recommended that controls over the processing of expense claims be enhanced.
96. Our annual review found that the council has effective internal audit arrangements in place.

## Internal audit

97. 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.
98. Our review identified a small number of areas where the service had not yet achieved full compliance with the new standards. The Audit Services/Programme Review Manager advised that areas of non-compliance were being kept under review.
99. We concluded that the areas where internal audit is working towards full compliance with Public Sector Internal Audit Standards (PSIAS) do not impact on the range and quality of work carried out.
100. The 2014/15 internal audit plan is now substantially complete. We confirm that our reliance on controls work and our wider responsibility work under the Code of Audit Practice was as planned.
101. The Audit Services/Programme Review Manager retired, after the year end, in August 2015. An effective internal audit activity is a fundamental component of strong governance. It is important that the council make an appointment to the office without undue delay.

## Arrangements for the prevention and detection of fraud

102. 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

103. 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.
104. 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.
105. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

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

106. 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.

## Transparency

107. Transparency and accountability are mutually reinforcing. Together they enable citizens to have a say about issues that matter to them and a chance to influence decision making and hold those making decisions to account. When a council's meetings are open to the press and the public, its budgets may be reviewed by anyone and its plans and decisions are open to discussion, these are indicators of openness and transparency.
108. Members of the public are free to attend meetings and have access to agendas and minutes through the council website.
109. The council hold public consultations via its website on an ongoing basis enabling local communities and stakeholders to have an input on local issues, for example, school catchment areas, as well as council wide initiatives. In addition, the council facilitates a "citizens' panel", called "South Ayrshire 1000", as it is the intention to have 1,000 members on the panel to be consulted regularly on matters of local concern. Around 850 people have volunteered so far and the council is seeking to recruit further members, with a bias towards those demographics which are under represented.

110. South Ayrshire Council consistently produces good quality financial statements. Officers are generally happy to make suggested presentational adjustments arising from the audit process. Copies of audited financial statements are provided to members and senior officers and are available on the council's website shortly after the conclusion of the audit.
111. Budget monitoring reports (both revenue and capital) are submitted to the Leadership Panel on a quarterly basis. Reports are comprehensive and well laid out. However, although most variances are explained in terms of underlying service delivery, there remain a few areas where explanations could be improved. The reports provide members with good information to hold services to account.
112. The council's website has recently been redesigned and has links from the home page to all public facing services. Corporate documents, including, for example, agendas and reports, council plans, financial regulations, performance information, the register of interests and the register of gifts and hospitality are available on the website..
113. The council produces an annual performance report and summarises its performance in key service areas in its calendar each year. Performance reports are published on the council's website and the calendars are distributed to local residents. Although the Accounts Commission found the council's public performance reporting to be patchy, the Commission also found areas of good practice in its review (see paragraphs 157 - 158). The

housing newsletter in 2015 and the calendar in 2014 were noted as good practice.

114. Overall we concluded that the council operates in an open and transparent manner, although there are areas where improvements could be made.

## Freedom of Information requests

115. In 2014/15 the council responded to 1,110 freedom of information (FOI) requests compared to 890 in 2013/14, representing a 25% increase year on year. Of these, only 82% were responded to within the statutory timescales of 20 days compared to 93% in 2013/14. The council reported only one instance where the decision to deny an FOI request was overturned on appeal.
116. The council attributed the decline in response rates in 2014/15 to delays in setting up a new Information and Governance Team to manage FOI requests, due to unplanned absence. The 2014 independence referendum and preparations for the 2015 general election also had an impact on the resources available to deal with FOI requests.

## Integration of health and social care

117. 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.

- 118.** The integration scheme for South Ayrshire was approved by the Cabinet Secretary for Health, Wellbeing and Sport and an Order laid in Parliament to establish an integration joint board (IJB) between South Ayrshire Council and NHS Ayrshire and Arran. The Order took effect from 1 April 2015. South Ayrshire was among the first tranche of schemes to be approved and the inaugural meeting of the IJB took place on 2 April 2015.
- 119.** The new board has taken over responsibility for planning and overseeing the delivery of a full range of community health and social work/social care services. This includes health and social care services for older people, adults, children and families and for those people in the criminal justice system. The IJB has an integrated budget of £153.5 million in 2015/16 with 1,638 South Ayrshire Council and NHS Ayrshire and Arran employees working within the partnership.
- 120.** The actual expenditure for Social Work Services in 2014/15 was £0.830 million over budget. In recognition of the pressures on the service the council allocated a further £2.700 million in the 2015/16 budget. This was in addition to a £1.597 efficiencies applied to the 2015/16 budget. As at 30 June 2015 the Health and Social Care Partnership is projecting a £1 million overspend on a budget of £153.5 million. A high level of scrutiny needs to be maintained to ensure that any developing budget trends are detected at an early stage allowing appropriate remedial action to be taken.
- 121.** A process of due diligence was carried out which analysed historic spend patterns, projected resource requirement and current

efficiency initiatives to support a judgement on the adequacy of delegated resources to the partnership. 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 the partnership are sufficient to deliver the strategic plan outcomes.

- 122.** The Scottish Government “Guidance for Integration Financial Assurance” recommends that the “Health Board and Local Authority internal auditors provide a report to the Health Board and Local Authority audit committees” on the assurance process. This has not been done for South Ayrshire Council.

## Welfare Reform

- 123.** The council is using discretionary housing payments (DHP) to fully mitigate the impact of the under occupancy benefit reduction. It is no longer the case that tenants are accruing arrears as a result of welfare reforms. It also provides Scottish Welfare Fund (SWF) payments for community care grants and crisis grants. During 2014/15, 8,114 grants, totalling £1.812 million, were awarded by the council in the form of Discretionary Housing Payments or Scottish Welfare Fund grants.
- 124.** Universal Credit replaces a number of individual benefits with a single payment which is paid directly into the claimant’s bank account. Roll-out is scheduled for late October for claimants resident in South Ayrshire. To ensure a joined up approach to

support for claimants with “complex” needs, the council has agreed a delivery partnership with the Department for Work and Pensions.

- 125. Housing benefit is one of the elements being replaced by Universal Credit, rent will no longer be paid direct to landlords, whether the landlord is the council, a housing association or a private landlord. Direct payment to tenants has the potential to increase council rent arrears and place increased pressure on the council’s resources.
- 126. The council is well sighted on the potential issues and is taking action to try to mitigate the impact of Universal Credit including holding awareness sessions for partners and council staff and providing funding for third sector organisations, for example, Ayr Housing Aid Centre.

## Housing and council tax benefits performance audit

- 127. In September 2013, Audit Scotland reviewed the council’s performance in respect of the speed of processing housing and council tax benefit claims. The council’s speed of processing had been consistently strong, being one of the top three performers in Scotland for processing new claims up to March 2013.
- 128. The review found the council performance had slipped significantly, with the deterioration putting the council in the bottom quartile for processing time. An action plan was prepared to address the issues and updates provided to Audit Scotland on progress.

- 129. In January 2015 the Assistant Auditor General wrote to the Chief Executive. His letter noted that the council reported improved performance, with new claims being processed in 19 days (Scottish average 23 days). This was noted as a “commendable improvement”. The speed of processing for changes in circumstances was also noted as having shown “significant” improvement from 19 days to 12 days (Scottish average 11 days).

## Local scrutiny plan

- 130. The 2015/16 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners for the council was submitted to a meeting of the council in May 2015.
- 131. No scrutiny risks were identified requiring additional scrutiny or audit work in 2014/15. A range of national scrutiny activity will be undertaken in 2015/16, the nature and timing will be reflected in the next scrutiny plan.

## Outlook

- 132. In common with other public sector bodies South Ayrshire Council will continue to operate in a changing environment within continuing financial constraints. Under these circumstances the council will be obliged to consider the delivery of services by different means.
- 133. Partnership, joint working and arms length organisations have become increasingly popular vehicles for planning and delivering council services and there is a sustained national focus on their use. Where council services are being delivered by third party

organisations it will be crucial that the council implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money. Community planning and health and social care integration will require an ongoing focus on governance and assurance to ensure that the council's priorities are being achieved.

# Best Value



134. 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.

## Best Value audit

135. The Accounts Commission follow-up report on the council's Best Value Audit (February 2014) was published in December 2014. It identified some positive progress by the council in responding to the initial report, but noted that it was too early to evidence the full impact of the actions taken.

136. Following publication of the initial report (February 2014) the council created a Best Value working group. This group, comprising senior officers and members from across political parties, was tasked with identifying what improvement action needed to be taken and monitoring progress. The council has made considerable progress in implementing the agreed actions.
137. A further follow-up report has been requested by the Accounts Commission by 30 June 2016. The focus of that report will be on how the council is evidencing improvement to services.

## Procurement

138. 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.
139. In the most recent PCA (December 2014) the council scored 74%. This continued a trend of year on year improvement from 19% in 2009 to the current position. The latest score takes the council to the cusp of superior performance and is one of the top five performing councils in Scotland. This is a considerable achievement in improving procurement practices over recent years.

## Shared services

140. From 1 April 2014 the council's roads services have been delivered by the Ayrshire Roads Alliance (ARA), 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.

- 141. The new shared service is predicted to achieve joint savings in excess of £8 million over a ten year period. ARA has recently published a Benefits Realisation Strategy and Plan, which sets out how the organisation will deliver the savings while maintaining service levels.
- 142. The performance of the Ayrshire Roads Alliance is monitored by the Ayrshire Shared Service Joint Committee which includes four members of South Ayrshire Council.
- 143. In addition, the Partnership Panel is responsible for the scrutiny of the performance of all services “delivered through or in partnership with external bodies”, including the Ayrshire Shared Service Joint Committee, police fire and community planning.

## Performance management

- 144. The council approved an updated performance management framework in October 2014. 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 approved 11 Service and Improvement Plans (SIPs) in July 2014 subject to further development and improvements.

- 145. SIPs reflect clearly Council Plan outcomes and provide a framework to cascade the council’s strategic objectives throughout the organisation. The SIPs include measures and specific actions by which services will achieve the council outcomes.
- 146. The SIPs are supported by performance indicators that will measure the council’s progress in delivering the intended outcomes. SIPs were reviewed and refreshed in June 2015.
- 147. During the consideration of SIPs members displayed a good awareness of the strategic planning framework and provided good feedback and contributions to the SIPs development process.
- 148. As part of the council’s review of scrutiny arrangements within the council a Service and Performance Panel was introduced during the year. The Panel’s remit is wide ranging but is centred upon the monitoring, review and challenge of service delivery with reference to council plan aims and objectives. A report on the 2014/15 performance against SIPs was considered by the panel in June 2015.

## Overview of performance targets in 2014/15

- 149. The council participates 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 SIPs and a report on



2014/15 performance against the measures was presented to the Service and Performance Panel in September 2015.

- 150.** 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.
- 151.** Not all performance information was available for the report, for example, examination success indicators will not be available until later in the year. Some performance measures show a marginal increase or decrease in performance. An analysis of results assuming a +/- 5% tolerance margin in determining whether an indicator has improved, or declined shows that 18 indicators have improved and 10 have declined.
- 152.** Many positive performance trends were noted including, for example, numeracy and literacy levels (P7 and S2), rent arrears, homeless presentations, non-teachers sickness days, the time taken to process benefit claims and the percentage of staff having had appraisals.
- 153.** Example indicators exhibiting decline were; response time to freedom of information requests; average days lost through teacher sickness; the percentage of central repairs account repairs carried out within target time: and the percentage of housing benefits overpayments recovered.

## Statutory performance indicators (SPIs)

- 154.** 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.
- 155.** 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.
- 156.** Overall we concluded that the council's arrangements were satisfactory.
- 157.** An evaluation of all Scottish councils' approaches to public performance reporting (PPR) was carried out by Audit Scotland's Performance Audit and Best Value group during 2014/15 and reported to the Accounts Commission in June 2015. An individual assessment for South Ayrshire Council was issued to the Leader and Chief Executive in July 2015.
- 158.** Each council's PPR was assessed against a range of expected characteristics for each of a set of themes underlying individual SPIs. On a comparative basis South Ayrshire Council's PPR

arrangements are lagging behind most other councils. Having noted that, the council's Housing Newsletter was commended as an example of good practice.

#### **Recommendation 5**

### **National performance audit reports**

**159.** 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. South Ayrshire Council has processes in place to ensure that all national reports and their impact on the council are considered by members.

### **Equalities**

**160.** 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.

**161.** The council published its Equality Outcomes and Mainstreaming – 2015 Progress Report on 28 April 2015 in compliance with the Act.

### **Outlook**

**162.** In common with other councils, South Ayrshire Council faces the challenges of reducing budgets, an ageing population with higher levels of need and 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 priorities and obtaining best value.

## The audit of trusts registered as charities

- 163.** 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.
- 164.** The Local Government (Scotland) Act 1973 specifies the 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).
- 165.** Therefore, as a consequence of the interaction of the Local Government (Scotland) Act 1973 with the charities legislation, a full and separate audit and auditor's report is required for each registered charity where members of South Ayrshire Council are sole trustees, irrespective of the size of the charity.
- 166.** 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).
- 167.** We have given an unqualified opinion on these matters with respect to the 2014/15 financial statements of the relevant charitable trusts administered by South Ayrshire Council.
- 168.** 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 2015, 73 trusts with funds totalling some £0.988 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 £0.370 million.
- 169.** Members of South Ayrshire Council are sole trustees for nine trusts, registered as Scottish charities, with total assets of some £0.545 million, exhibit 6.
- 170.** In our annual audit report for 2013/14 we commented on the administrative and governance arrangements in place in respect of the trusts registered as charities. A key recommendation was the application of more legal resources to obtain a speedier derestriction of funds available to the benefit residents.

**Exhibit 6: South Ayrshire Council: registered charitable trusts**

Registered charitable trust	Scottish charity number	Net assets as at 31 March 2015
McCracken Trust	001702	£6,657
McClymont Trust	008495	£45,268
James and Jane Knox Trust	008856	£22,802
Glasgow Troon Benevolent Society Fund	009075	£3,220
Monkton and Prestwick Nursing Association Trust	009903	£23,792
McKechnie Library Trust	012759	£7,726
Mary and Hugh Reid Trust	014448	£46,741
Loudoun Trust	017166	£18,139
Robert Hamilton Smith Trust	022120	£370,209
Total net assets		£544,554

Source: Charitable trusts audited accounts 2014/15

171. We also recommended that trustees and officers should consider introducing revised governance arrangements for trusts, to 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;
  - review of returns on trust funds.
172. In December 2014 members agreed to a scheme of consolidation of a number of trusts (including eight of the nine registered charities) into a single South Ayrshire Charitable Trust. Following discussions with OSCR a scheme of amalgamation was agreed and presented to the council in June 2015.
173. We acknowledge the considerable progress made over the last year to simplify trusts and make funds available. Requirements for the production of annual accounts and audit of the new South Ayrshire Charitable Trust will be the same as currently in operation. Details of changeover and auditing arrangements will be discussed with the Treasurer during 2015/16.

# 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
<b>Risk of material misstatement</b>		
<p><b>Risk of material misstatement due to fraud in revenue recognition</b></p> <p>ISA 240 presumes an inherent risk of fraud where income streams are significant.</p> <p><b>Risk</b></p> <p>South Ayrshire Council receives a significant amount of income in addition to Scottish Government funding. The size and diversity of income streams flowing to the council means that there is an inherent risk that income could be materially misstated.</p>	<ul style="list-style-type: none"> <li>• Evaluated accounting policies for income and expenditure</li> <li>• Detailed testing of journal entries</li> <li>• Reviewed accounting estimates</li> <li>• Analytical review of income streams to confirm completeness and identify any unusual transactions or variations in income.</li> <li>• Substantive testing of income transactions to confirm occurrence and accuracy of amounts in the financial statements.</li> </ul>	<p>Satisfactory results were obtained for all assurance procedures. No material misstatements were identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Risk of management override of control</b></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><b>Risk</b></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"> <li>• Detailed testing of journal entries</li> <li>• Reviewed accounting estimates</li> <li>• Evaluated significant transactions that are outside the normal course of business</li> <li>• Focused testing of accruals and prepayments</li> </ul>	<p>Satisfactory results were obtained for all assurance procedures. No evidence of management override of controls was found.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Oracle upgrade</b></p> <p>The council took a technical upgrade of its Oracle ledger system in June 2014.</p> <p><b>Risk:</b> Unforeseen consequences of the upgrade undermine the integrity of the financial information held by and gleaned from the ledger.</p>	<ul style="list-style-type: none"> <li>• Testing of all key controls within the ledger system.</li> <li>• Management assurance that the system has been fully tested following the upgrade and no significant weaknesses have been identified.</li> </ul>	<p>As part of our final accounts audit procedures we increased the level and depth of testing to increase the probability of detecting any anomalies. No errors attributable to the weaknesses previously identified were discovered.</p> <p>Management engaged the services of an external consultant specialising in Oracle applications to provide them with assurances that the ledger was operating as required during 2014/15 and that the ability to prepare financial statements had not been compromised.</p>
<p><b>Trade receivables</b></p> <p>The trade receivables administrator retired during 2014 and there was a delay in filling the post.</p> <p><b>Risk:</b> Controls over trade receivables were not operating as expected during 2014/15.</p>	<ul style="list-style-type: none"> <li>• Testing of all key controls within the trade receivables system.</li> </ul>	<p>Satisfactory results were obtained for all assurance procedures. No material misstatements were identified.</p>

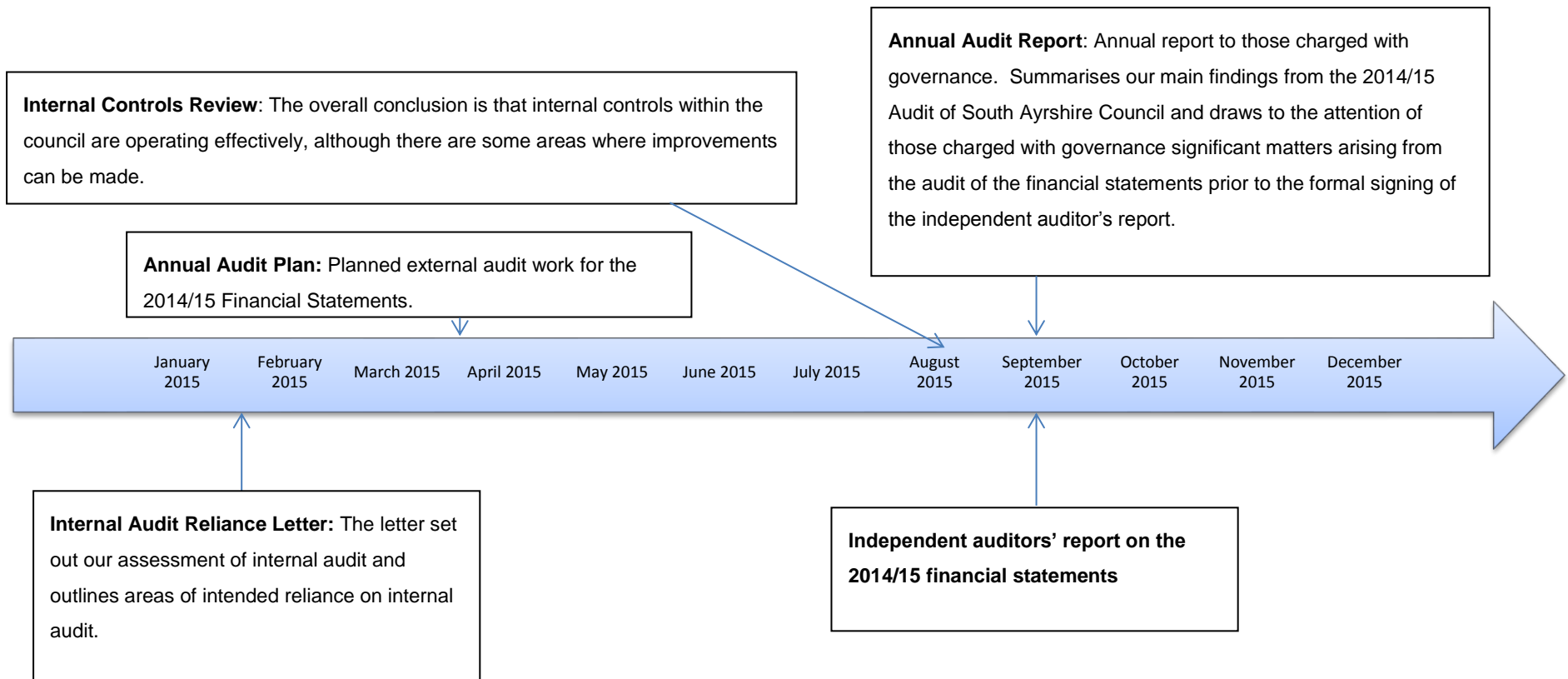
Audit Risk	Assurance procedure	Results and conclusions
<p><b>Valuation of assets</b></p> <p>The 2013/14 audit identified several assets where the value recorded in the asset register did not agree to their valuation certificates.</p> <p><b>Risk:</b> Asset values are not correctly reflected in the financial statements.</p>	<ul style="list-style-type: none"> <li>Detailed testing of asset values to ensure that the value recorded in the asset register reflects the valuation certificate.</li> </ul>	<p>Satisfactory results were obtained for assurance procedure. No material misstatements were identified.</p>
<p><b>Pension liability</b></p> <p>The council provides the actuary with information on which it calculates the council's share of the pension liability.</p> <p><b>Risk:</b> The pension liability included in the financial statements could be misstated if the information on which the actuary has based the calculation, is not the most up to date position.</p>	<ul style="list-style-type: none"> <li>We obtained details from the council on the information provided to the actuary and the year end position and assessed whether there has been any significant movement which affected the financial statements.</li> </ul>	<p>Satisfactory results were obtained for assurance procedure. No material misstatements were identified.</p>



Audit Risk	Assurance procedure	Results and conclusions
<b>Risks identified from the auditor’s wider responsibility under the Code of Audit Practice</b>		
<p><b>Succession planning</b></p> <p>The council is becoming increasingly reliant on individual officers performing key roles across the council. Coupled with the fact that staff numbers are being reduced to make financial savings, there is a risk that without succession planning, the council could lose essential skills and knowledge.</p> <p><b>Risk:</b> Key knowledge and skills could be lost as these are being held by individuals rather than as a corporate resource.</p>	<ul style="list-style-type: none"> <li>We monitored the position throughout the year.</li> </ul>	<p>We found no instances of this adversely affecting the council’s business at a management level. The council’s workforce plan acknowledges the risk and the council is taking mitigation steps.</p>

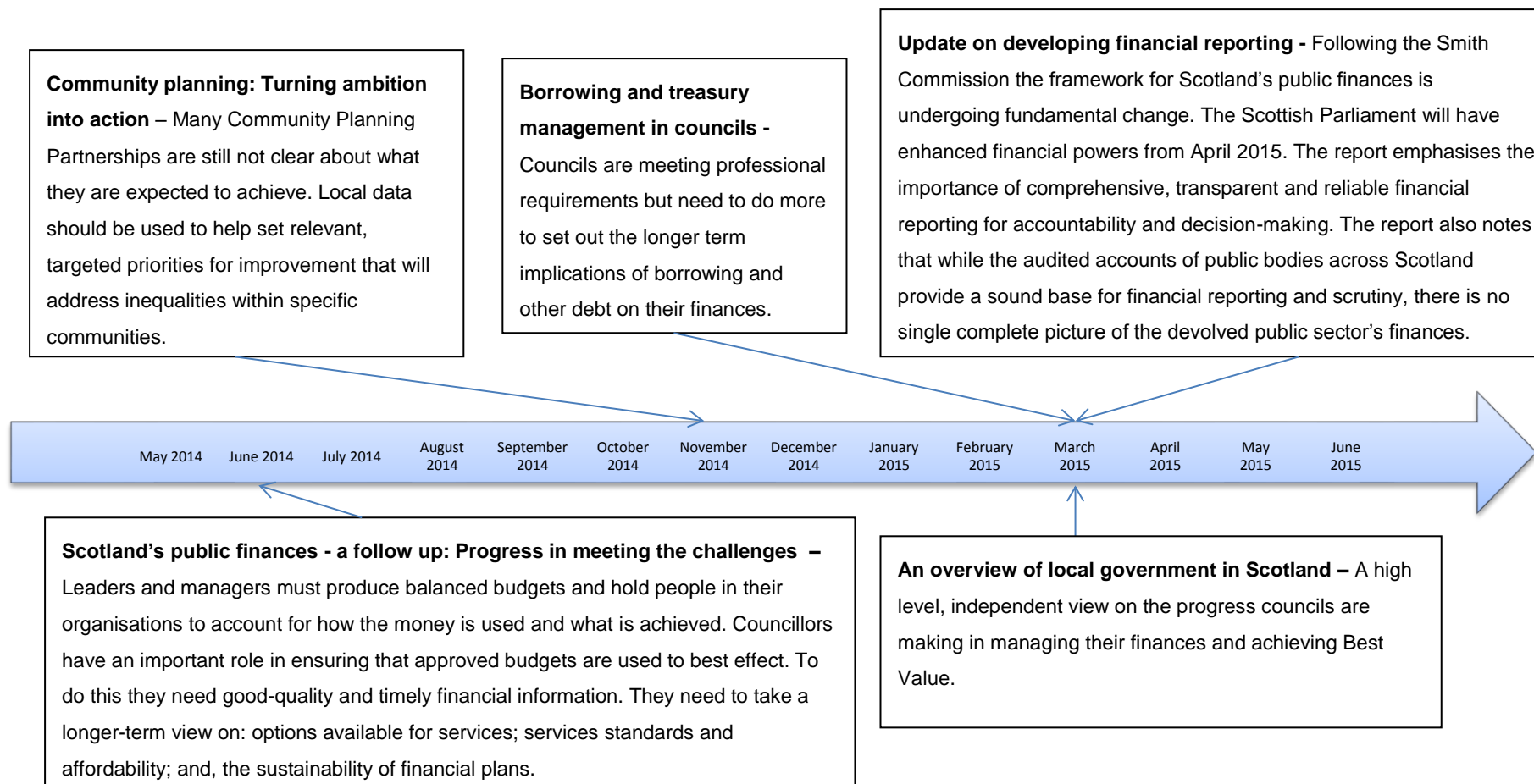
# Appendix II

## Summary of South 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 14/29	<p><b>Budgeting</b></p> <p>Overall the council continues to generate unplanned surpluses.</p> <p><b>Risk</b></p> <p>The council's base budgets are not up to date and budget resources are not aligned with priorities.</p> <p><b>Recommendation</b></p> <p>The council should consider a review and challenge of all base budgets as part of its service review process.</p>	<p>A full review of all base budgets would be a resource intensive process which could not be undertaken within current resources..</p> <p>In response to year end underspends management action has already been taken (Report to Leadership Panel of 25 August 2015 refers), with balances transferred to contingency.</p> <p>Under the Council's approved Service Review Framework, service reviews include options appraisal and a consideration of costs, income, structures and economy/efficiency of service delivery.</p> <p>The Service Review Framework is itself under review and as part of that review consideration will be given to including an explicit review and challenge of the base budget for that service.</p>	Chief Executive	December 2015 (review Service Review Framework)

No. Page/para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
2 16/45	<p><b>Capital from current revenue</b></p> <p>HRA use of the CFCR line to absorb underspending in other budget lines.</p> <p><b>Risk</b></p> <p>Budget monitoring reports are not transparent.</p> <p><b>Recommendation</b></p> <p>CFCR should be subject to the same budgetary control as any other budget line.</p>	<p>Budget monitoring report format will be reviewed to ensure that there is full transparency for movements in CFCR during the financial year</p>	<p>Head of Finance &amp; ICT</p>	<p>December 2015</p>
3 16/46	<p><b>Budget monitoring reports</b></p> <p>Overuse of virement.</p> <p><b>Risk</b></p> <p>Use of in-year virement as a matter of course masks issues with individual budgets.</p> <p><b>Recommendation</b></p> <p>Virement should be kept to a minimum and only used in exceptional circumstances.</p>	<p>A fundamental review of HRA budgets is in progress and is due to be reported shortly which should rectify historic budget issues and reduce the use virement on a regular basis.</p>	<p>Head of Housing &amp; Facilities</p>	<p>December 2015</p>

No. Page/para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
4 17/53	<p><b>Reserves</b></p> <p>The current level of unallocated reserves is 5.8%.</p> <p><b>Risk</b></p> <p>The council continues to accrue unplanned reserves to the detriment of service provision.</p> <p><b>Recommendation</b></p> <p>Officers and members should review the purpose, level, historic use and planned use of reserves to ensure that they are still necessary to support medium and long term spending plans.</p>	<p>The council's reserves position will be considered as part of the 2016/17 budget setting process.</p>	<p>Head of Finance &amp; ICT</p>	<p>March 2016</p>

No. Page/para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
5 33/158	<p><b>Public performance reporting review</b></p> <p>On a comparative basis South Ayrshire Council's PPR arrangements are lagging behind most other councils.</p> <p><b>Risk</b></p> <p>The council is perceived as not being open and transparent.</p> <p><b>Recommendation</b></p> <p>The council should take steps to enhance its public performance reporting in line with the Accounts Commission's expectations.</p>	<p>The Councils existing approach to Public Performance Reporting should be updated for the 2014-15 reporting period, to address the areas for improvement identified by Audit Scotland. A report has been considered by the Best Value Working Group on 8 September and is being presented to the Audit and Governance Panel on 24 September for approval, containing a number of actions to address the identified areas for improvement.</p>	<p>Head of Policy and Performance</p>	<p>June 2016</p>