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North Ayrshire Council
Comhairle Siorrachd Àir a Tuath

North Ayrshire Council
Report to the Audit and Scrutiny Committee and the Controller of Audit on the 2017/18 audit

Issued on 10 September for the meeting on 25 September 2018

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Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit and Scrutiny Committee for the 2018 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2018.

This report summarises our findings and conclusions in relation to:

- The audit of the financial statements; and
- Consideration of the four audit dimensions that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of Best Value and the five Strategic Audit Priorities agreed by the Accounts Commission.

Introduction (continued)

The key messages in this report – financial statements audit

I would like to draw your attention to the key messages of this paper in relation to the audit of the financial statements:

Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
  - recognition of grant income;
  - valuation of property assets; and
  - management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 10.
- We have identified a number of audit adjustments from our procedures to date which have been corrected by management. This is detailed in the appendices at page 49.
- The management commentary and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Council. It was noted during our reviews that the Council's Management Commentary is a good example of best practice.
- The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.
- Based on our audit work, we expect to issue an unmodified audit opinion as part of the Council's annual accounts.
- We have completed our audit work on the separate annual accounts of each of the Council's ten charitable trusts – see page 15 for more detail. Based on our work we expect to issue unmodified opinions as part of those accounts.

Insights

- We have utilised Spotlight, Deloitte's patented analytics tool, to perform analytics on the journal entries posted in the year to profile the journal population which has helped us identify journals of audit interest, such as journals posted on non-business days or journals with key words. No issues were noted from this testing.
- We have raised insights which have been identified throughout the course of the audit and are detailed on page 16.

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
  - finalisation of the annual accounts;
  - finalisation of our internal quality control procedures;
  - receipt of signed management representation letters;
  - our review of events since 31 March 2018; and
  - completion of Whole of Government Accounts (WGA) procedures.
- We will provide a verbal update to the Committee on the matters above during the meeting on 25 September.

Introduction (continued)

The key messages in this report – audit dimensions

The following three pages set out the key messages of this paper in relation to the four audit dimensions:

Financial sustainability

The Council underspent against its General Fund revenue budget by £13,022k in the year. This underspend has been carried forward and earmarked for use in future periods. Unearmarked General Fund reserves at year end (£6,624k) remains approximately 2% of budgeted net expenditure in line with the previous year and with Council policy. Whilst this remains at the lower end of recommended best practice, this is in line with the policy approved by the Council when setting its budget for 2017/18.

The Council produced spending estimates for the three year period 2018/19 to 2020/21 showing an estimated cumulative funding gap of £25,551k over the period. The Long Term Financial Outlook (LTFO) was also updated in the year to assess the financial challenges and potential funding gap faced over the next ten years (2018-2028), and identified a potential funding shortfall of £156 million over the ten year period. In order to address these challenges, the Council plans to conduct a fundamental review of the services provided and the partnerships the Council has with communities and other stakeholders.

The Council is currently refreshing its Council and Transformation Plans. It is essential that the transformation activity delivers financial benefits to address the anticipated significant funding gap over the medium to long terms. We therefore recommend that this is developed at pace.

2017/18 reported a breakeven General Fund position following the carry forward of £13,022k to fund 2018/19 service expenditure. This was against a budget of £335,662k.	At 31 March 2018, the Council held £6,624k of unearmarked reserves which is approximately 2% of budgeted net expenditure. This is at the lower end of the best practice threshold (2-4%).	A balanced budget for 2018/19 was approved based on funding of £331,213k, which maintained unearmarked reserves at £6,624k.	The Council achieved £7,140k of savings in 2017/18 (2.1% of budgeted expenditure) – this has contributed to cumulative savings of £48,726k in the last five years.	The Council's LTFO estimates a funding shortfall of £156 million over the next ten years (2018-2028).

Introduction (continued)

The key messages in this report – audit dimensions (continued)

Financial management

The Council has effective financial planning and management arrangements in place. It prepares medium and long-term financial plans and the Executive Leadership Team (ELT) and Councillors regularly review progress. Financial plans are linked to priorities and other strategic developments. Councillors challenge management where performance departs from plans. Progress is discussed at Cabinet and at the Audit and Scrutiny Committee. The Council's spending is clearly linked to its priorities, however it could improve how it shows that the spending makes a difference to these areas. Whilst the management commentary has provided a link to the Annual Performance Report, providing clear examples of where outcomes can be linked to expenditure would improve this transparency.

From our review of internal audit reports issued in the year and following our testing performed throughout the audit we are satisfied that the Council has adequate financial capacity and systems of internal control in place. Following the introduction of a new Head of Finance during the year, and the introduction of a designated s95 officer for the Integration Joint Board for the first time, we are satisfied with the capacity and capability of the finance team in place.

The Council has a Corporate Fraud Team which reports directly to the Audit and Scrutiny Committee, and the Council participates in the National Fraud Initiative (NFI). We are therefore satisfied that the Council has appropriate arrangements in place for the prevention and detection of fraud and corruption.

Introduction (continued)

The key messages in this report – audit dimensions (continued)

Governance and transparency

The relationship between executive leadership and Councillors is open and effective. There has been strong leadership from the ELT and Members throughout the year. Focus needs to be placed on the leadership from Members in the short to medium term future given the significance and importance of transformational change required for the Council to achieve long term financial sustainability. Effective collaboration between Members will be crucial in order for the transformation of service delivery to be successful.

The Council and its partners have a clear and shared vision which is set out in the Local Outcomes Improvement Plan (LOIP). The Council has a good understanding of the challenges facing North Ayrshire and is effectively supported by elected members and Council partners.

The Council is open and transparent in its decision making with all minutes available through the Council's website. Council meetings are also streamed on its website and available to the public to view. The Council encourages residents to get involved and take responsibility in decisions regarding Council services and spending public money. The Council's effective participatory budgeting programmes are a good example of best practice for other local authorities to follow.

The Council has a well established partnership with NHS Ayrshire & Arran through the North Ayrshire Integration Joint Board (IJB). However, it is critical that the IJB plans to achieve long term financial sustainability by commissioning services within the available budget.

The Council's contribution towards the IJB's transformation efforts is crucial for the financial sustainability of the IJB. Whilst it is the responsibility of the IJB to commission services within its own budget, collaboration with the Council and the Health Board will be required for transformation efforts to be successful. The IJB as at the end of 2017/18 carried forward a deficit of £5,807k payable to the Council as a result of cumulative overspend in the last two years, presenting a recoverability risk to the Council.

Value for Money

The Council has a well-established Performance Management Strategy. The Community Planning Partners (CPP) have recently produced the LOIP, which replaced the Single Outcome Agreement. The LOIP provides the strategic direction for the CPP partners and aims to 'Create a Better Life' for North Ayrshire residents. The LOIP priorities are reflected in the plans of the individual organisations.

Over the past few years the Council has done considerable work in identifying priority indicators within the Local Government Benchmarking Framework (LGBF) indicator set. During 2016 the Council identified a sub-set of core LGBF indicators which it believes that maintaining or improving performance in these areas will have greatest impact for North Ayrshire and its residents. The results of this work is evident in the sharp improvement in the number of indicators in quartile one and a decrease in the number of indicators in quartile four from the 2016/17 LGBF data.

Pat Kenny
Audit Director

Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the four audit dimensions:

- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

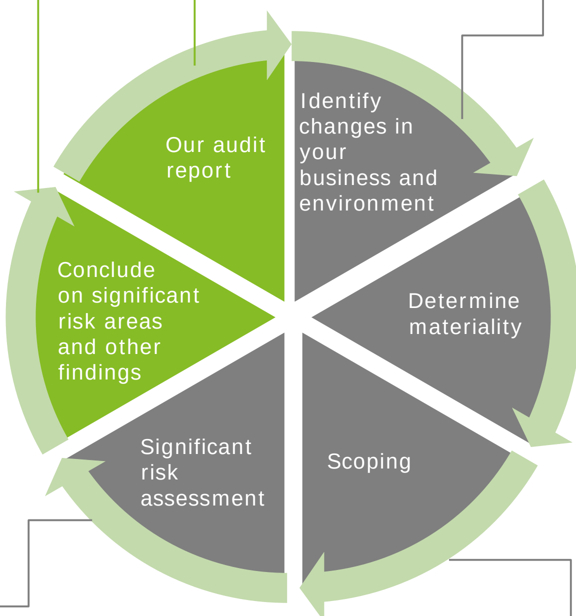
Final audit report

In this report we have concluded on the audit risks identified in our planning report and any other key findings from the audit.

Key developments in your business

As noted in our planning report, the Council continues to face significant financial challenges due to an increase in costs whilst facing increased demand for services.

The delivery of financially sustainable services by the IJB continues to be a challenge.



Materiality

Group materiality of £10,555k and performance materiality of £7,916k has been based on the benchmark of gross expenditure adjusted for net contributions to the IJB, and is a slight increase from what we reported in our planning paper due to updated final figures.

We have used these as the basis for our scoping exercise and initial risk assessment. We have reported to you all uncorrected misstatements greater than £250k.

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 10 provides a summary of our risk assessment of your significant risks.

Quality and Independence

We confirm we are independent of North Ayrshire Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Scope of the audit

We have audited the financial statements for the year ended 31 March 2018 of North Ayrshire Council group. We have also audited the separate financial statements for the year ended 31 March 2018 of North Ayrshire Council's charitable trusts.

Timeline 2017/18

November 2017 – February 2018 Meetings with management and other staff to update understanding of the processes and controls.

27 March 2018 Presented planning paper to the Audit and Scrutiny Committee.

31 March 2018 Year end.

July – August 2018 Review of draft accounts, testing of significant risk and performance of substantive testing of results.

22 August 2018 Audit close meeting.

25 September 2018 Audit and Scrutiny Committee meeting and accounts sign off.

Financial statements audit

Significant risks

Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Recognition of grant income	✓	✓	D+I	Satisfactory		Satisfactory	11
Management override of controls	✓	✓	D+I	Satisfactory		Satisfactory	12
Valuation of property assets	✓	✗	D+I	Satisfactory		Satisfactory	13

Overly prudent, likely to lead to future credit

Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Risk 1 - Recognition of grant income

Risk identified

International Standards on Auditing (ISA) 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

Key components of income for the Council, as summarised in the table below, are the Government Grant and non-domestic rates which are directed by the Scottish Government and not considered a significant risk as the process for receipt of this income is not complex and can be verified 100%.

The significant risk is pinpointed to the recognition of grant income (excluding General Revenue Grant income). Council tax, non-domestic rates and housing rent income are set through the annual budget process with no management judgement and therefore have a low risk of fraud. Similarly, other Service Income includes fees and charges across all Services, which are set through formal approval processes, with no history of fraud or error.

Key judgements and our challenge of them

There is significant management judgement around determining if there are any conditions attached to a grant and if so whether the conditions have been met. The complex accounting for grant income as the basis for revenue recognition in the accounts will depend on the scheme rules for each grant.

Deloitte response

We have performed the following:

- assessed management's controls around recognition of grant income; and
- tested a sample of capital grants and contributions and grant income credited to Service Income and confirm these have been recognised in accordance with any conditions applicable.

Type of income	2017/18 (£k)	Significant risk?
Taxation and Non-Specific Grant Income		
Council tax income	51,646	
Non domestic rates	40,568	
Government Grant	225,141	
Capital grants and contributions	38,361	✓
Service Income		
Service Specific Grant income	39,549	✓
Housing Benefit Subsidy	52,937	
Housing Revenue Account	46,596	
IJB commission income (book entry)	89,347	
Other Service Income	59,179	

Deloitte view

We have concluded that grant income has been correctly recognised in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting.

Significant risks (continued)
Risk 2 - Management override of controls

Risk identified
In accordance with ISA 240 management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

The key judgments in the financial statements are those which we have selected to be the significant audit risks around recognition of grant income and valuation of property assets. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Deloitte view
- We have not identified any significant bias in the key judgements made by management.
- The control environment is appropriate for the size and complexity of the Council.

Deloitte response
We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- the Council's results throughout the year were projecting to stay within budget and this was closely monitored with confidence that the Council would be able to meet its overall financial targets.
- senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

We have performed design and implementation testing of the controls in place around accounting estimates and internal management reporting with no issues noted.

Significant transactions
We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Journals
We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Criteria used to identify journals of audit interest include journals posted by anonymous users, journals containing key words or blank descriptions, and journals entered on non-business days, as well as others. We have not identified any issues with journal postings from our testing.

Accounting estimates
In addition to our work on key accounting estimates discussed above, our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements has been completed with no issues noted.

Significant risks (continued)

Risk 3 - Valuation of property assets

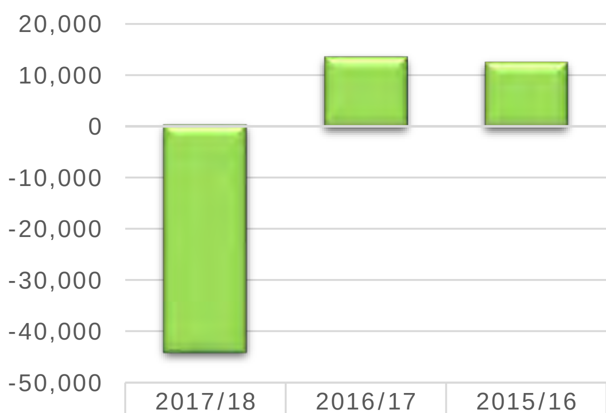
Risk identified

The Council is required to hold property assets within Property, Plant and Equipment at a modern equivalent use valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

Key judgements and our challenge of them

The Council held £914,562 of land and property assets at 31 March 2018 (2016/17: £953,477k). The financial year to 31 March 2018 represented year two of a five year rolling programme in which 20% of the portfolio was revalued (with the exception of council dwellings which is 100% revalued every year). All council dwellings are revalued by the Council internally and all other valuations are performed by an external valuer.

Net revaluation movements (£k)



	2017/18	2016/17	2015/16
Net revaluation movements (£k)	-43,995	13,229	12,247

The movement in net revaluation from 2016/17 is largely due to the nature of assets revalued in this year of the rolling programme. In 2016/17 the property portfolio was revalued upwards by approx. 1.4% and in 2017/18 was revalued downwards by approx. 4.8%. We are satisfied based on work performed along with our internal property specialists that the valuation assumptions and methodologies employed are reasonable.

Deloitte response

- We assessed management's controls around the valuation of property assets;
- We reviewed the revaluations performed in the year and assessed whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified independent individuals;
- We tested a sample of revalued assets and re-performed the calculation assessing whether the movement has been recorded through the correct line of the accounts;
- We considered material changes in assets not subject to full revaluation during the year;
- We considered assets classified as surplus or held for sale to assess whether these have been valued and disclosed in line with IFRS; and
- We involved the use of our internal property specialists to review and challenge the assumptions and methodology adopted by the Council's internal and external valuation specialists, including sample testing of inputs to the valuation.

Deloitte view

We have concluded that the net book value is materially correct. The Council's valuation assumptions are in line with other councils and fall within the expected range highlighted by our internal valuations specialist, Deloitte Real Estate.

Other matters

Defined benefits pension scheme

Background

The Council participates in two defined benefits schemes:

- Scottish Teachers' Superannuation Scheme, administered by the Scottish Government; and
- The Strathclyde Pension Scheme, administered by Glasgow City Council.

The net pension liability has decreased from £248,414k in 2016/17 to £104,157k in 2017/18 primarily as a result of the triennial valuation commissioned by Strathclyde Pension Fund as at 31 March 2017. Additional factors include lower than anticipated salary inflation and an increase in the value of pension assets recognised.

Deloitte response

- We obtained a copy of the actuarial report produced by Hymans Robertson, the scheme actuary, and agreed in the disclosures to notes in the accounts;
- we reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking as shown in the table opposite;
- we assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements;
- we reviewed the disclosures within the accounts against the Code; and
- we assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.

	Council	Benchmark	Comments
Discount rate (% p.a.)	2.70	2.57	Reasonable, slightly optimistic
Retail Price Index (RPI) Inflation rate (% p.a.)	3.40	3.05	Prudent
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.40	2.05	Prudent
Salary increase (% p.a.) (over RPI inflation)	0.20	0.20	Reasonable
Pension increase in payment (% p.a.)	2.40	2.05	Reasonable
Pension increase in deferment (% p.a.)	2.40	2.05	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	21.40	21.20	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	23.40	23.00	Reasonable

Deloitte view

We have reviewed the assumptions and, on the whole, the set of assumptions used is reasonable when compared with the Deloitte benchmarks. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

From our testing we noted that the estimated pension asset figure used within the actuary calculations was materially different to the asset values reported in the Strathclyde Pension Fund audited accounts. The actuary has revised its calculations resulting in a material adjustment of £16,085k to the Council accounts. This has been corrected by management and included in the schedule of adjustments reported within the appendix to this report.

Other matters (continued)

Charitable trusts

Risk identified

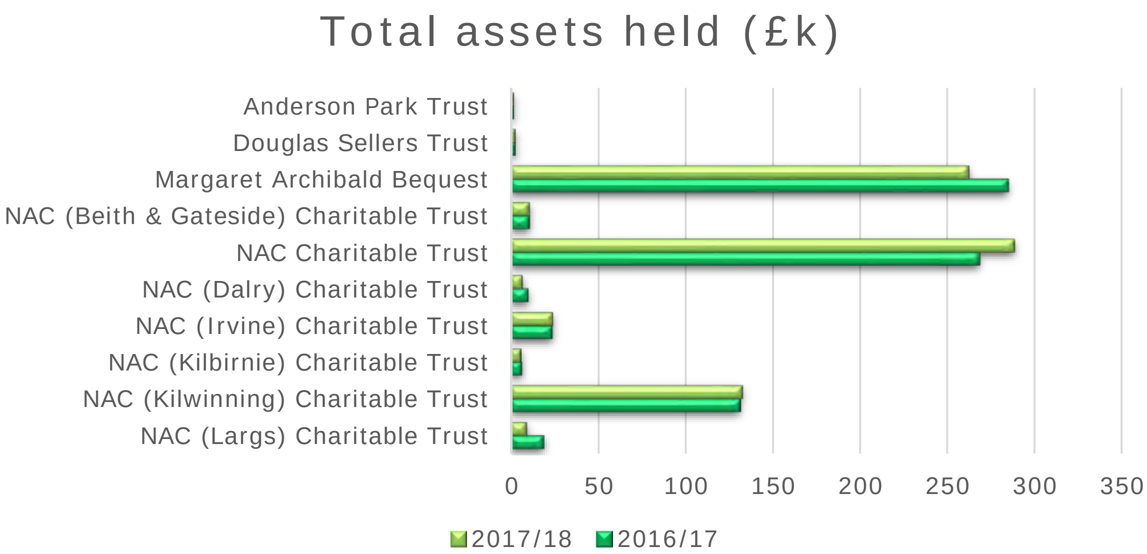
From 2013/14, all Scottish councils who act as sole trustees for any registered charities have to fully comply with the Charities Accounts Regulations. This requires Charities SORP compliant accounts to be prepared for each Charity, and a separate audit of each. North Ayrshire Council administers ten such registered charities.

As the gross income of each trust is less than £100,000, the Council has opted to prepare the charitable trust accounts on a receipts and payments basis in accordance with The Charities Accounts (Scotland) Regulation 2006. Fully compliant Charities SORP accounts are therefore not required and disclosure is limited to that specified in the Regulations.

Deloitte response

We have assessed that the statement of receipts and payments and the statement of balances have been prepared in accordance with the Charities Accounts (Scotland) Regulations 2006. One adjustment has been raised for the Margaret Archibald Bequest as a result of an incorrect year end market value being used to determine the value of one of the trust's investments. The value of that investment has been reduced by £1k, resulting in total investments held by the trust reducing from £220k to £219k. This has been adjusted within the updated accounts. No other issues have been noted.

A summary of the total assets held by each of the charitable trusts audited has been provided in the table adjacent.



Deloitte view

We found from our testing of the charitable trusts accounts in the year that they have been correctly accounted for in accordance with the Regulations.

In December 2017, Audit Scotland issued a technical guidance note specific to charities. This note recommended that auditors encourage local authorities to make use of connected charity provisions in place under The Charities Accounts (Scotland) Regulations 2006. The provisions allow charities with common trustees to combine their annual accounts and as a result reduce the number of separate annual accounts to be published. We recommend the Council reviews this guidance and considers the option of combining the ten trusts into one set of annual accounts going forward.

Other matters (continued)

Insights delivered

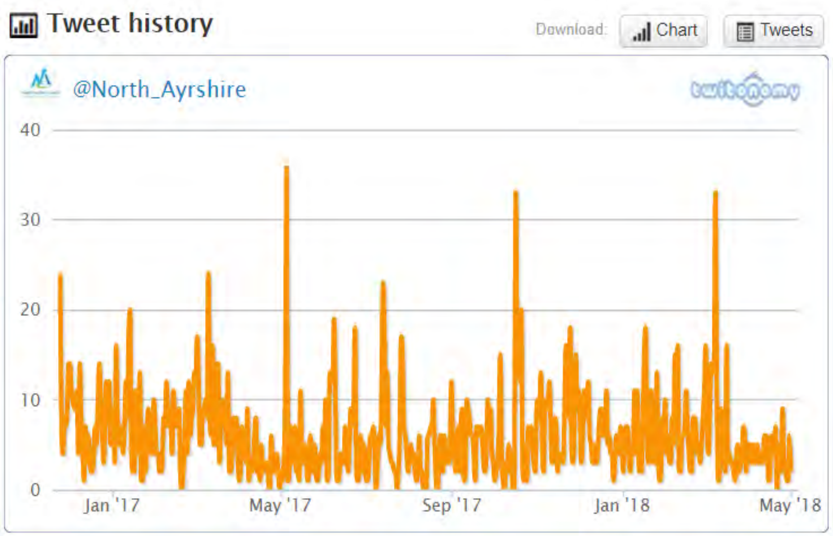
We welcome this opportunity to set out for the Audit and Scrutiny Committee our observations from our substantive audit procedures. Below are some insights we have identified from our audit.

Insight	Detail
Following the implementation of the new 'Integra' financial ledger system, management has not been able to fully reconcile its month end cash balances.	• The new 'Integra' ledger system was supposed to have the capability to perform automatic reconciliations between Council bank accounts and the ledger. However, this process has not functioned effectively since implementation, resulting in the need for management to perform this reconciliation manually. • Reconciliations are inefficient and involve reconciling a high volume of transactions. As a result, the year end cash reconciliation was not fully complete as at the time of the audit. • Unreconciled balances were cumulatively immaterial for audit purposes. We have substantively tested all cash reconciliations as part of our work performed in order to gain assurance that the cash figures recognised in the accounts are materially correct. • We understand that communication between management and Capita is ongoing in order to resolve this issue. In the meantime, we recommend that management makes alternative arrangements to ensure cash reconciliations between the ledger and bank are completed in a timely manner, especially given the inherent fraud risk associated with cash. We understand management is in the process of implementing a fully manual process to mitigate the impact of this failure in the system.
We found during our audit of the Non Domestic Rates Account that management is unable to generate reports of grant balances as at a point in time in the past. This led to significant issues during the audit as we could only generate reports tying to the NDR grant balance as at that point in time, which had moved from the balance as at year end which was being audited.	• Management is unable to generate reports using parameters of periods in the past, and can only generate a report of the NDR grant as at that point in time. As the NDR grant balance changed between the year end date and the date of the audit, this caused difficulties during the audit. • Deloitte was able to reconcile differences to such a degree that unreconciled differences were immaterial. We recommend that in future periods management generates and saves all relevant reports as at year end in preparation for the audit.

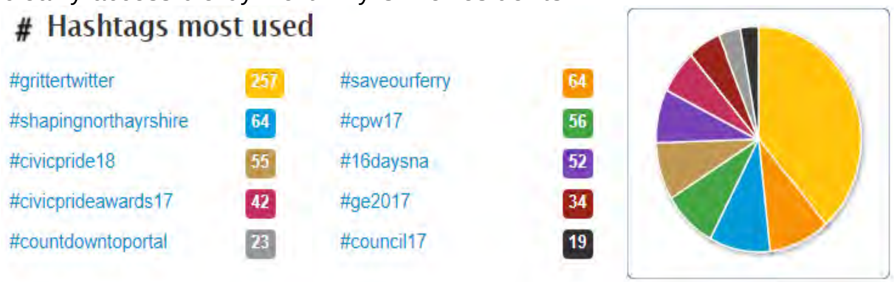
Other matters (continued)

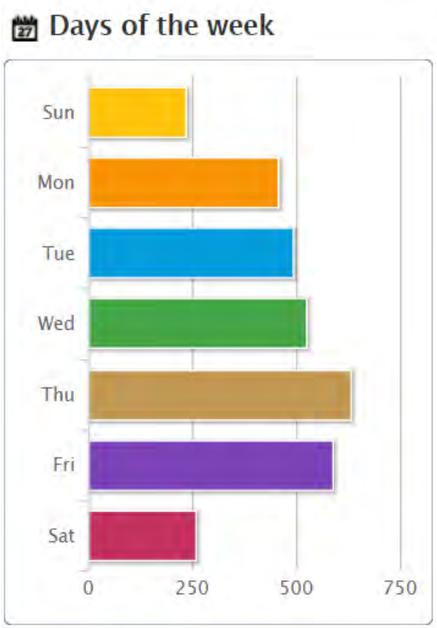
Insights delivered (continued)

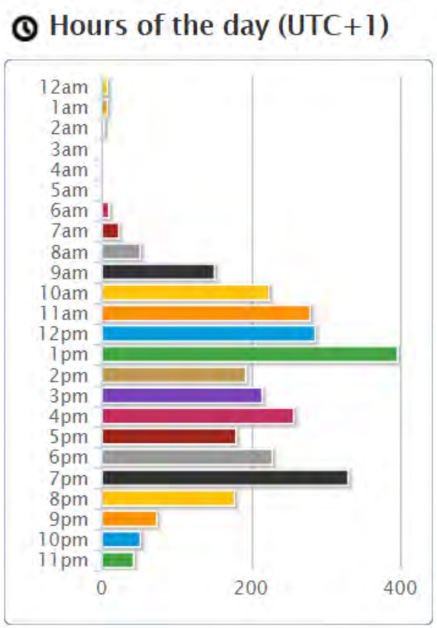
Given the increasing importance social media for community engagement and accessibility, we have reviewed the Council's Twitter account for any areas where improvements can be made.



The 'hashtags' most used by the Council are as expected and would be clearly accessible by North Ayrshire residents.







Twitter reports that the time most people check Twitter is 1pm-3pm Monday to Thursday, with the lowest amount checking in after 8pm every day and 3pm on Fridays. We note that the Council's posts occur evenly throughout the working week, with the timing of the posts also spread evenly.

We noted from review of the Council's Twitter account that it regularly posts images and this practice should be continued: according to Twitter, this increases retweets by 41% and favourites by 48%.

From our review, we are satisfied that the Council is utilising social media appropriately to increase its visibility and the accessibility of information for the citizens of North Ayrshire.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report. The revisions to ISA (UK) 700 have changed the form and content of the audit report, including how different sections are presented.

Our opinion on the financial statements

Our opinion on the financial statements will be unmodified based on our work completed to date.

Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 19.

Your annual accounts

We welcome this opportunity to set out for the Audit and Scrutiny Committee our observations on the annual accounts. We are required to provide an opinion on the remuneration report, the annual governance statement and whether the management commentary has been prepared in accordance with the statutory guidance.

	Requirement	Deloitte response
Management Commentary	The Management Commentary comments on financial performance, strategy and performance review and targets. Deloitte note that the Management Commentary has been prepared in line with issued guidance. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The Council also focuses on the strategic planning context.	We have assessed whether the Management Commentary has been prepared in accordance with the statutory guidance with no exceptions noted. We have also confirmed that the information contained within the Management Commentary is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. It was noted during our reviews that the Council's Management Commentary is a good example of best practice. See page 20 for further detail.
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior councillors and Senior Employees of the Council.	We have audited the disclosures of remuneration and pension benefit, pay bands, and exit packages and confirmed that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that North Ayrshire Council governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted.

Your annual accounts (continued)

Audit Scotland has issued a series of Good Practice notes to highlight where annual reports can be improved. We would encourage the Council to use the findings to assess and enhance their own disclosures to ensure they provide high quality information to stakeholders in their annual accounts.

We have provided below some extracts which should be considered by the Council in drafting future annual reports.

Management Commentary

The following areas for improvement were identified when reviewing the Council's management commentary:

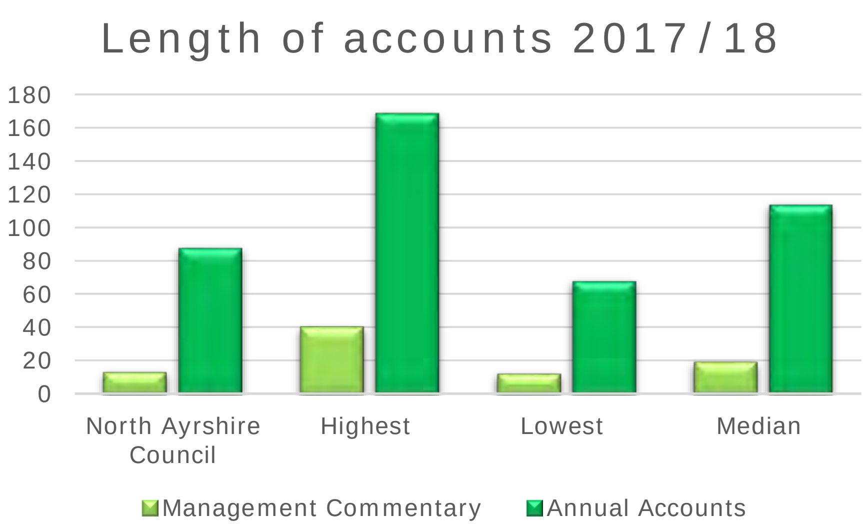
- Performance indicators – while there is a link provided to the performance report, the management commentary should expand on the key movements in performance and the key drivers, especially given some significant changes in Local Government Benchmarking Framework performance.

Governance Statement

The following areas for improvement were identified when reviewing the Council's governance statement:

- Action plan – while reference is made to issues from both current and prior year, an action plan should be included and show key issues arising (e.g., the areas highlighted in the significant governance issues section). Any significant issues identified in the prior year should be followed up.

Whilst we have noted the above for improvement, it is also noted that the Council's draft Management Commentary is a good example of best practice. Information is presented in a clear and concise manner, with good use of tables and graphics to effectively summarise the information provided. Deloitte are satisfied that the accounts are compliant with statutory guidance and all required changes have been made.



We have reviewed the annual accounts of the Council against other Councils across Scotland.

This shows that North Ayrshire Council is towards the lower end of the scale, with management commentary one page longer than the shortest in Scotland, and the accounts as a whole between the lowest and the median. Despite having annual accounts at the lower end of the scale, the Council complies with all statutory guidance and as mentioned above is a good example of best practice Management Commentary. An effective use of illustrations including tables and graphs has allowed the Council to present its information in a clear and concise manner, requiring fewer pages.

Audit dimensions

Audit dimensions

Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following:

Audit dimensions

- The Code of Audit Practice sets out four audit dimensions which, alongside Best Value in the local government sector, set a common framework for all the audit work conducted for the Auditor General for Scotland and for the Accounts Commission.

Strategic audit priorities

- In its Strategy, which is updated annually, the Commission sets out an overall aim of holding councils to account for their pace, depth and continuity of improvement facilitated by effective governance. Within this, the Commission also sets out five Strategic Audit Priorities (SAPs).

Shared risk assessment

- Local Area Networks (LANs) bring together scrutiny body representatives to agree and write a Shared Risk Assessment (SRA). The output of the SRA process informs an annual Local Scrutiny Plan (LSP) which summarises the results of the shared risk assessment of the Council and the proposed scrutiny response.

Best value

- The Commission formally agreed the overall framework for the approach to auditing Best Value (BV) in councils in June 2016. Best Value is assessed over the five year audit appointment, as part of the annual audit work. The Best Value Assurance Report (BVAR) for North Ayrshire Council is planned for future years. We will follow up on the areas reported in our 2017/18 annual audit report and consider these as part of the work on the four audit dimensions to focus on the councils arrangements for demonstrating Best Value.

Statutory performance indicators

- The 2015 Statutory Performance Information (SPI) Direction published by the Commission requires councils to report a range of information in accordance with, but not confined to, the requirements of the Local Government Benchmarking Framework. One of the Accounts Commission's Strategic Audit Priorities is "the quality of councils' reporting of their performance to enhance accountability to citizens and communities". Accordingly, we have considered this as part of our work within this areas. It is also to be addressed in more depth in those councils subject to a Best Value Assurance Report.

Specific risks

- As set out in our Annual Audit Plan, Audit Scotland had identified a number of significant risks (SRs) faced by the public sector which we have considered as part of our work on the four audit dimensions.

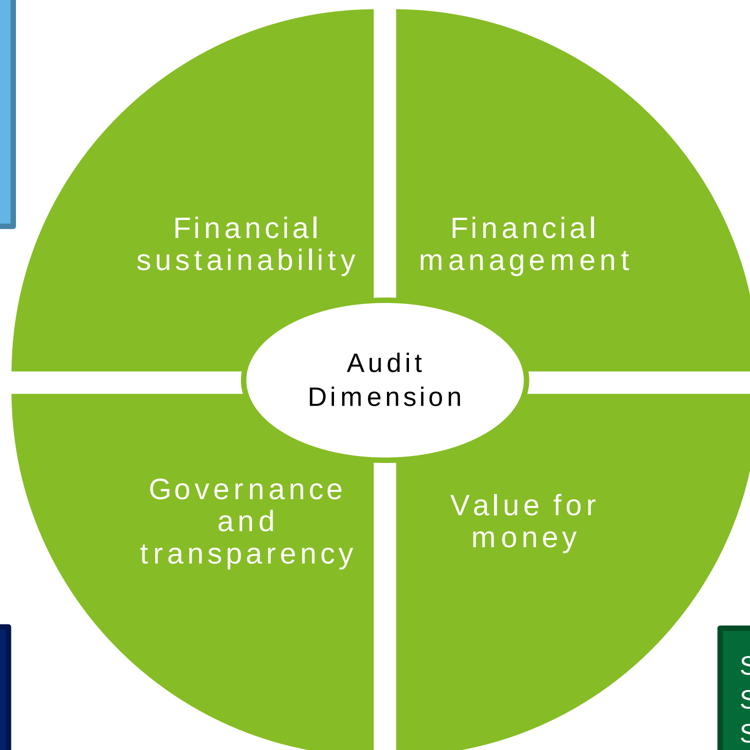
Audit dimensions (continued)

Overview (continued)

This section of our report is structured in accordance with the four audit dimensions, but also covers our specific audit requirements on SAPs, BV, SR, LSP and SPI's, as summarised below.

Strategic Audit Priorities (SAP)
SAP 1 - Council priorities and long term planning
SAP 2 - Changes in service delivery
SAP 3 - Members and officers knowledge, skills and support
SAP 4 - Citizen involvement
SAP 5 - Quality of reporting

Best Value (BV)
BV 1 – Improvement
BV 2 – Financial governance and resource management



Local Scrutiny Plan (LSP)
LSP 1 – Financial sustainability
LSP 2 – Health and Social Care integration
LSP 3 – Social Care services
LSP 4 – Education services
LSP 5 - Housing

SPI's

Specific risks (SR)
SR 1 – EU Withdrawal
SR 2 – New Financial Powers
SR 3 – Ending public sector pay cap
SR 4 – Cyber security risk
SR 5 – Openness and transparency

Audit dimensions (continued)

Financial sustainability

Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Areas considered

- The financial planning systems in place across the shorter and longer terms.
- The arrangements to address any identified funding gaps.
- The affordability and effectiveness of funding and investment decisions made.
- Workforce planning.

Deloitte response

From our work in 2016/17 we found that whilst the Council's unearmarked reserves were within best practice threshold, it was at the lower end of the threshold. We recommended that the Council review its plans to fund future investment from reserves in order to ensure that it could maintain reserve levels in line with best practice. We have assessed reserves position as at the end of 2017/18.

We have assessed whether the Council continues to have effective short, medium and long term financial planning systems in place so it can achieve financial sustainability over the next 5-10 years.

We have also assessed the effectiveness of the Council's efforts to achieve further sustainable efficiencies, in particular through the T2 transformation strategy.

Deloitte view

The Council underspent against its General Fund revenue budget by £13,022k in the year. This underspend has been carried forward and earmarked for use in future periods. Unearmarked General Fund reserves at year end (£6,624k) remains approximately 2% of budgeted net expenditure in line with the previous year and with Council policy. Whilst this remains at the lower end of recommended best practice, this is in line with the policy approved by the Council when setting its budget for 2017/18.

The Council produced spending estimates for the three year period 2018/19 to 2020/21 showing an estimated cumulative funding gap of £25,551k over the period. The Long Term Financial Outlook (LTFO) was also updated in the year to assess the financial challenges and potential funding gap faced over the next ten years (2018-2028), and identified a potential funding shortfall of £156 million over the ten year period. In order to address these challenges, the Council plans to conduct a fundamental review of the services provided and the partnerships the Council has with communities and other stakeholders.

The Council is currently refreshing its Council and Transformation Plans. It is essential that the transformation activity delivers financial benefits to address the anticipated significant funding gap over the medium to long terms. We therefore recommend that this is developed at pace.

Audit dimensions (continued)

Financial sustainability (continued)

Short term financial position

For 2017/18, the Council approved a balanced budget of £331,158k (2016/17: £315,362k). A breakeven General Fund position was achieved for 2017/18 (as in 2016/17).

The 2018/19 budget was approved by the Council in February 2018. The budgeted total expenditure of £331,213k incorporates £7,072k of savings.

In setting its budget the Council has recognised that a number of risks exist, such as demand and demographic changes. The full introduction of Universal Credit to claimants residing in North Ayrshire and the potential changes that may take place as a result of the further devolution of powers including welfare will all require to be assessed and factored into future budget assumptions.

The budget includes pay awards which have been aligned to the thresholds set out by the Cabinet Secretary in the Stage 1 debate on 31 January 2018. It is noted that the local government pay is outwith the remit of the Scottish Government and negotiations for 2018/19 remain live. A pay award in excess of the level provided for would require further savings to be made.

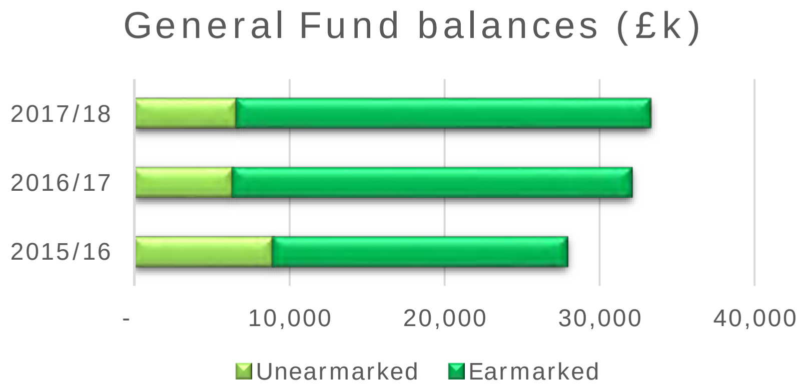
The Council has adopted a Reserve Strategy that is in line with the current economic climate. Good practice recommends that local authorities should retain uncommitted reserves of between 2% and 4% of their annual running costs, which is equivalent to between £6,624k and £13,248k for the Council.

The General Fund unearmarked balance at the 31 March 2018 was £6,624k, representing 2% of net revenue expenditure.

The General Fund earmarked balance at 31 March 2018 was £26,611k. This includes the following:

- £14,056k – general Earmarked Funds to fund specific projects planned for 2018/19 and beyond.
- £4,391k – Affordable Housing fund equal to 40% of Council tax income generated on properties which are not sole/main residencies to be used to build affordable housing.
- £3,915k – Change & Service Redesign fund to be used to deliver the Council’s change programmes.

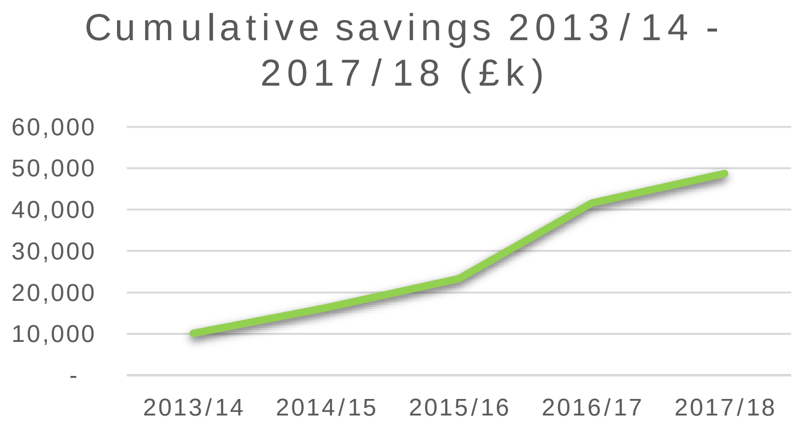
The movement in unearmarked and earmarked reserves over the last three years is illustrated below:



Audit dimensions (continued)
Financial sustainability (continued)

Medium to long term financial sustainability

The Council has achieved significant savings over the last five years, as illustrated below, however due to increasing demand for services and the continuing restraint in relation to Council funding settlements it will have to consider how it can fundamentally transform service delivery in order to continue to meet the needs of residents with reducing budgets.



The Council recognises that if it continues with current service levels and delivery models there will be a significant funding gap in the medium to long term. Based on a number of assumptions, including grant funding, council tax, pay inflation, demand pressures and known policy positions, it is estimated that the cumulative funding gap could reach £16,180k by 2019/20 and £25,551k by 2020/21.

Transformation programme

As part of the Council's efforts to address its medium to long term financial challenges, the 'T2' transformation programme was implemented in 2015/16. T2 has been used by the Council thus far as an umbrella term which captures all transformation efforts.

The Council has a designated transformational leadership team in place where the ELT meet as a Transformational Board every 4-6 weeks. Service specific projects are reported to individual boards and cross cutting projects are reported to the Transformational Board. A benefit realisation model has been developed and implemented within the Transformation Team. This has been recognised as best practice by the Scottish Digital Office and shared with other Local Authorities. As part of the ongoing transformation journey, the Council plan to share this across the organisation and embedded for all change projects.

Significant progress has been achieved in the year in areas of service redesign around child placement and family support, implementation of sustainable energy schemes, and a review of community services provided.

Whilst the Council is refreshing its Council and Transformation Plans, it acknowledges that at present it currently doesn't have a clear plan to demonstrate how its transformational activity across the Council will achieve the required financial benefits to address the significant funding gap over the medium to longer term. We recommend that this is progressed to ensure that the Council can clearly demonstrate how services plan to change to meet the challenging financial position. It is important that there is clear member input into the process, with effective collaboration between members in order for the transformation of service delivery to be successful.

Audit dimensions (continued)

Financial sustainability (continued)

Best practice

English councils that have delivered and sustained transformational change on the scale required by North Ayrshire Council have tended to focus on the following six key requirements:

- A Strategic driven response
- Being a 'place' leader
- Digital data analytics and insights
- Efficiency, productivity and income generation
- Outcome-focused partnership working
- Reframing the relationship between the citizen and the state

We recognise that North Ayrshire are considering a number of these within its transformational themes. See 'Sharing best practice' at pages 39-41.

Workforce strategy and plan

To achieve the Council's long term vision, managing the workforce is vital. Workforce planning in terms of analysing the current workforce, determining future workforce needs, identifying the gaps and implementation of strategies to address this remains a high priority. The Council has introduced its approach to workforce planning in through the "Workforce for the future" strategy. This outlines a six step approach to workforce planning to ensure that the shape of the workforce is fit for the future.

The Council continues to analyse its current workforce at a Directorate level, involving the use of demographic data to assess future workforce requirements. Succession planning and identification of potential skills gaps are key areas of focus, and various other external factors including political and economic changes are considered as the workforce plans are reviewed on a quarterly basis.

The Council's workforce strategy will be a crucial element of a successful transformation programme. The Council should ensure that its workforce strategy and T2 programme are fully integrated to allow the Council's ultimate objectives to be achieved effectively and efficiently.

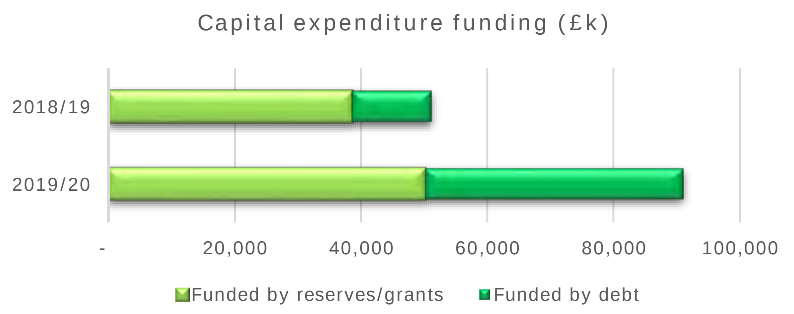
Treasury management & capital investment

The Council updates its Treasury Management and Investment Strategy (TMIS), Capital Investment Programme and Capital Investment Strategy on an annual basis. The TMIS strategy provides a detailed assessment of treasury demands for the period up until 2020/21 with high level estimates up to 2026/27. This includes assessments of treasury management and investment strategy demands as well as capital and prudential indicators in line with CIPFA's Prudential Code.

The TMIS considers the Council's future capital funding arrangements. The Council forecasts £140,246k in total capital expenditure over the next two years - see the graph to the right for anticipated funding methods of forecasted investment. The Capital Investment Programme shows the following key areas of capital spend in the next two years:

- New build Additional Needs School (2018/19: £1,720k, 2019/20: £10,000k)
- Upper Garnock Flood Prevention Scheme (2018/19: £700k, 2019/20: £8,600k)
- Millport Coastal Flood Prevention Scheme (2018/19: £200k, 2019/20: £3,070)

Total borrowings held as at the end of 2017/18 was £246,470k (2016/17: £258,367k). Of this, £154,379k (2016/17: £154,380k) was debt held by the Public Works Loan Board (PWLB). The Council has also received working capital loans of £38,243k (2016/17: £50,503k) from other council and public sector bodies throughout the UK.



Audit dimensions (continued)
Financial management

Audit dimension

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Areas considered

- Budgetary control system.
- Systems of internal control.
- Financial capacity and skills.
- Arrangements for the prevention and detection of fraud.

Deloitte response

We have reviewed the budget and monitoring reporting to the Council during the year and the year-end position to assess whether financial management and budget setting is effective.

We have evaluated the key financial systems and internal control as part of our financial statements audit work and considered the work of internal audit.

We have considered the capacity and skills within the senior management of the finance team.

We have reviewed the Council's arrangements for the prevention and detection of fraud and irregularities, including their participation in the NFI exercise.

Deloitte view

The Council has effective financial planning and management arrangements in place. It prepares medium and long-term financial plans and the Executive Leadership Team (ELT) and Councillors regularly review progress. Financial plans are linked to priorities and other strategic developments. Councillors challenge management where performance departs from plans. Progress is discussed at Cabinet and at the Audit and Scrutiny Committee. The Council's spending is clearly linked to its priorities, however it could improve how it shows that the spending makes a difference to these areas. Whilst the management commentary has provided a link to the Annual Performance Report, providing clear examples of where outcomes can be linked to expenditure would improve this transparency.

From our review of internal audit reports issued in the year and following our testing performed throughout the audit we are satisfied that the Council has adequate financial capacity and systems of internal control in place. Following the introduction of a new Head of Finance during the year, and the introduction of a designated s95 officer for the Integration Joint Board for the first time, we are satisfied with the capacity and capability of the finance team in place.

The Council has a Corporate Fraud Team which reports directly to the Audit and Scrutiny Committee, and the Council participates in the National Fraud Initiative (NFI). We are therefore satisfied that the Council has appropriate arrangements in place for the prevention and detection of fraud and corruption.

Audit dimensions (continued)

Financial management (continued)

Budgetary control systems

The Council has effective financial planning and management arrangements in place. ELT and councillors regularly review revenue and capital monitoring reports throughout the year. The Cabinet reviews financial performance every two months.

We have seen evidence of good practice within the Council's budgetary system, particularly in relation to the use of priority based budgeting. In the year the Council has been able to use priority based budgets effectively to shift focus and investment away from areas of relatively strong performance and into areas requiring improvement.

The finance team is led by the Executive Director of Finance & Corporate Support and the Head of Finance, both of whom are experienced in local government finance roles. The Head of Finance joined the finance team as of the beginning of 2018/19, following the departure of their predecessor during 2017/18.

Finance Business Partnering service was introduced from 1 April 2017 to create a resource to support the strategic change and transformation of the Council. This is recognised as good practice.

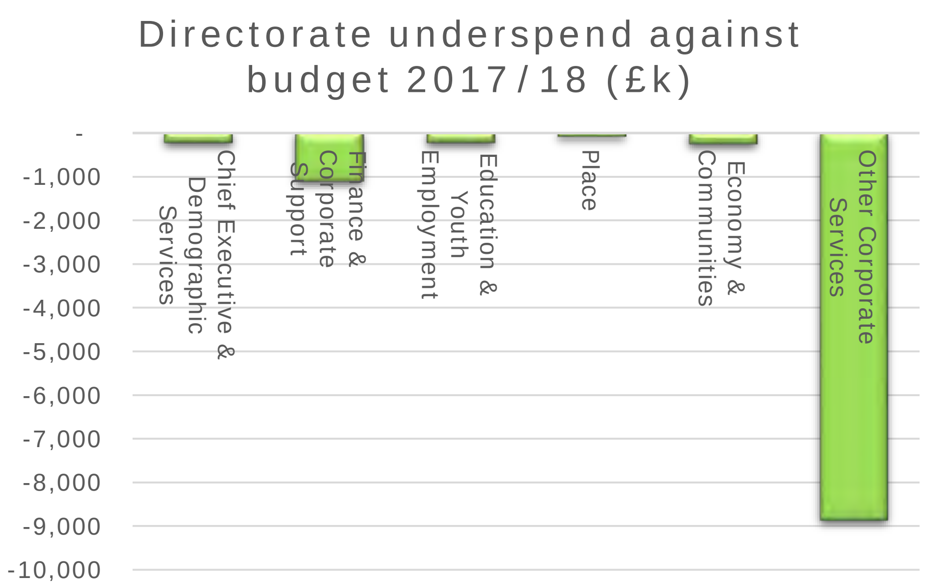
We have not identified any issues with the financial skills, capacity and capability of the finance team. This is an area that the Council should monitor closely in view of the transformation programme and the key role that finance play.

General Fund performance

The Movement In Reserves Statement (MIRS) reported a £1,186k surplus through the General Fund for 2017/18. Adjusting this balance to remove the accounting entries required by the Code of Practice for Local Authority Accounting, the Council's usable reserves reported a breakeven position for 2017/18. This compared to budget as summarised in the table below:

	Budget (£k)	Actual (£k)	Variance (£k)
Expenditure	335,662	335,178	484
Income	(335,662)	(335,178)	(484)

The variances to budget reported for the year are summarised below by Directorate:



Audit dimensions (continued)

Financial management (continued)

Key reasons for the significant underspends per the illustration on the previous page are as follows:

- Other Corporate Services - £5,745k underspend was the result of delays in the drawdown from the Community Investment and Poverty Challenge Fund. This expenditure has been carried forward to 2018/19. £1,443k underspend was funding held for pensions and energy inflation, and £925k additional grant funding was received from Scottish Government as part of the 2018/19 finance settlement, which has been carried forward.
- Finance & Corporate Support - £594k underspend due to effective vacancy management as part of the workforce planning for the Service.

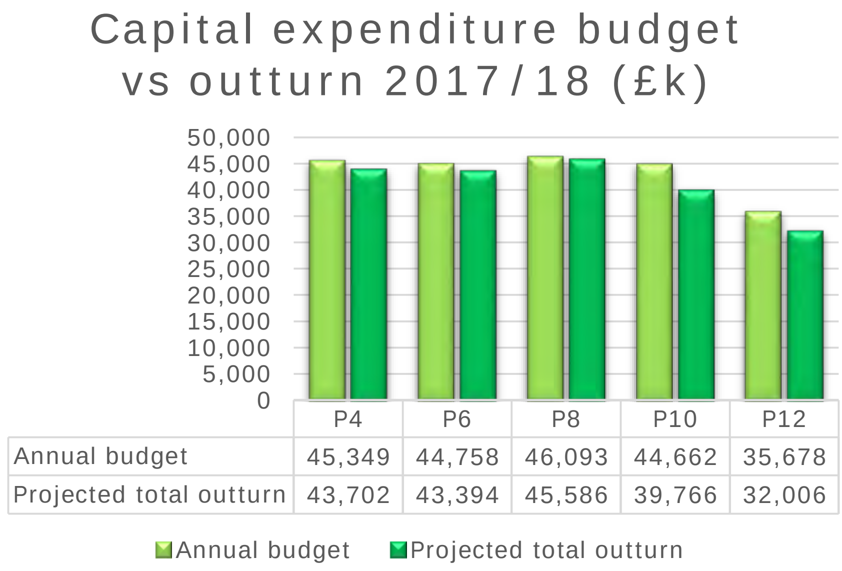
Whilst the illustration appears to show significant total underspend, a net breakeven position is reached when carry forwards are accounted for. Based on our assessment of actual vs budgeted spend throughout the year, actual does not vary from budgets by a material amount for any of the directorates, indicating effective budget management.

Capital expenditure

Capital expenditure of £57,516k was incurred in 2017/18 (2016/17: £48,700k). £25,510k of this was incurred through the HRA capital programme - £805k less than the £26,315k budgeted. The remaining £32,006k was incurred as part of the Council's main capital programme. Key areas of investment in the year were as follows:

- £6,056k – Irvine Enterprise Area regeneration project
- £3,271k – road improvement/reconstruction
- £2,112k – Quarry Road regeneration project

The graph below illustrates the Council's performance against its main capital budget throughout the year, showing an underspend of £3,672 against budget for the year:



Audit dimensions (continued)
Financial management (continued)

Systems of internal financial control

We have evaluated the Council's key financial systems and internal control to determine whether they are adequate to prevent misstatements in the annual accounts. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

No material weaknesses have been identified from our audit work performed. Insights have been reported (see page 16) where we have identified areas for improvement.

Internal Audit

The Council's Internal Audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have reviewed all internal audits presented to the Audit and Scrutiny Committee and the conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

From our review of the internal audit reports issued during 2017/18, we have noted a number of "High Risk" graded recommendations, including issues identified from internal audit around lack of internal controls. We note that no frauds have been identified as a result of these issues, and management has either addressed or made plans to address the risks highlighted.

Fraud and irregularity

We have reviewed the Council's arrangements for the prevention and detection of fraud and irregularities. Overall we found the Council's arrangements to be operating effectively.

In accordance with Audit Scotland planning guidance, we are required to monitor the Council's participation and progress in the National Fraud Initiative (NFI) during 2016/17 and 2017/18. An NFI audit questionnaire was completed and submitted to Audit Scotland on 20 February 2018, which concluded that the Council was fully engaged in the exercise.

Statutory objection to the accounts

Deloitte received an objection to the Council's accounts covering issues relating to the Common Good and Trusts funds. We have arranged to meet with the objector in September to consider the issues and evidence provided. Any significant matters will be reported to the Audit and Scrutiny Committee on 25 September prior to the approval of the accounts

Audit dimensions (continued)

Governance and transparency

Audit dimension

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

Areas considered

- Governance arrangements.
- Scrutiny, challenge and transparency on decision making and financial and performance reports.
- Quality and timeliness of financial and performance reporting.

Deloitte response

We have reviewed the financial and performance reporting to the Council during the year as well as minutes of Committee meetings to assess the effectiveness of the governance arrangements. Our attendance at Audit and Scrutiny Committees has also informed our work in this area.

We have also reviewed the governance arrangements in relation to the IJB.

Deloitte view

The relationship between executive leadership and Councillors is open and effective. There has been strong leadership from the ELT and Members throughout the year. Focus needs to be placed on the leadership from Members in the short to medium term future given the significance and importance of transformational change required for the Council to achieve long term financial sustainability. Effective collaboration between Members will be crucial in order for the transformation of service delivery to be successful.

The Council and its partners have a clear and shared vision which is set out in the Local Outcomes Improvement Plan (LOIP). The Council has a good understanding of the challenges facing North Ayrshire and is effectively supported by elected members and Council partners.

The Council is open and transparent in its decision making with all minutes available through the Council's website. Council meetings are also streamed on its website and available to the public to view. The Council encourages residents to get involved and take responsibility in decisions regarding Council services and spending public money. The Council's effective participatory budgeting programmes are a good example of best practice for other local authorities to follow.

The Council has a well established partnership with NHS Ayrshire & Arran through the North Ayrshire Integration Joint Board (IJB). However, it is critical that the IJB plans to achieve long term financial sustainability by commissioning services within the available budget.

The Council's contribution towards the IJB's transformation efforts is crucial for the financial sustainability of the IJB. Whilst it is the responsibility of the IJB to commission services within its own budget, collaboration with the Council and the Health Board will be required for transformation efforts to be successful. The IJB as at the end of 2017/18 carried forward a deficit of £5,807k payable to the Council as a result of cumulative overspend in the last two years, presenting a recoverability risk to the Council.

Audit dimensions (continued)

Governance and transparency (continued)

Leadership and vision

This Council is made up of 33 elected Members and following the local election in May 2017 there is now a minority Labour administration. Leadership from Members has been effective, however significant focus will be placed on leadership going forward given the degree of transformational change required from the Council to achieve long term financial sustainability. Effective collaboration between Members will be crucial in order to achieve successful transformation.

The Council's Executive Leadership Team (ELT) has six members, including the Director of the Health & Social Care Partnership. The ELT is responsible for reporting to the Cabinet and Council. We have found reporting in the year to be effective and robust. However, we have also found that reporting could be more timely, as monitoring reports are typically presented to Cabinet and Council two months after the period end, albeit have been reported to management much earlier. The current process has been recognised by management as being inefficient and efforts are being made to improve its efficiency.

We note that the Chief Executive has recently announced her plans to retire, which comes in parallel with a new slimline leadership structure designed to provide fresh thinking and focus for the challenges ahead. The Staffing and Recruitment Committee recently agreed to a new structure which will see a new Chief Executive supported by two Assistant Chief Executive Officers. We will monitor this during our 2018/19 audit.

Governance arrangements

The Cabinet is the main decision making body within the Council and consists of six elected Labour members including the Leader of the Council. Financial monitoring reports are reviewed by ELT and the Cabinet on a two monthly cycle and directorates have access to monthly financial reports. Cabinet and Council meeting minutes and agenda items are publicly available. We have found that the Council is open and transparent regarding its conduct and decision making.

The Audit and Scrutiny Committee consists of seven elected members across Labour, Conservative and SNP, and the chairperson is a member of the opposition in line with best practice. The full Audit and Scrutiny Committee was replaced in May 2017, and from our observation at meetings and following review of meeting minutes and agenda items since then we found that Committee meetings are generally well attended and effective levels of scrutiny and challenge are provided.

Following the public pound

The statutory requirements to comply with the Following the Public Pound Code, in conjunction with the wider statutory duty to ensure Best Value, means that councils should have appropriate arrangements to approve, monitor and hold third parties accountable for public funding provided to them.

We have found arrangements within the Internal Audit plan to address 'Following the public pound' during the year as part of the work performed. We also know that the Council has produced a contracts register which provides transparency to the public and suppliers of the value of contracts in place and with which suppliers. It can also be used to support contract monitoring, contract and supplier analysis and help businesses identify future opportunities.

Audit dimensions (continued)
Governance and transparency (continued)

Health & Social Care Partnership

The Council and NHS Ayrshire and Arran have a well established partnership, strengthened by the North Ayrshire IJB which was established in April 2015, ahead of most other areas in Scotland. The IJB worked quickly to agree upon its integration scheme as well as plans which reflect both national and local commitments.

For 2017/18, the IJB approved a balanced budget of £227,581k (2016/17: £233,300k), which included cash releasing savings targets of £9,800k. The final position for 2017/18 was overspend against budget of £2,562k on Council commissioned services and £971k on NHS commissioned services. The NHS funded the overspend on their services, resulting in a final deficit of £2,562k for the IJB in the year.

An indicative balanced budget for 2018/19 of £228,739k (excluding set aside budget) was reported to the IJB in April 2018. NHS Ayrshire and Arran has yet to confirm its delegated budget for 2018/19 hence an indicative budget has been submitted. The budget will be finalised when the NHS delegated budget has been confirmed.

The IJB recognises that the delivery of services in the same way is not financially sustainable. The IJB's updated strategic plan, approved for 2018-2021, is underpinned by the need to transform care models to find new solutions as the partnership might not always be the first source of support.

The Medium Term Financial Plan 2017/18-2019/20 estimates that by 2019/20 the indicative funding gap could reach £39,200k. This combined with the carried forward deficit position of £5,807k presents an extreme challenge, and as such it is critical that the IJB considers how services are going to look in the future. It is the responsibility of the IJB to ensure that services can be provided within its budget, and to offset the deficit carried forward with surpluses on Council commissioned services in future.

	2017/18 budget (£k)	2017/18 actual (£k)	2018/19 draft budget (£k)
Total expenditure	227,581	232,657	228,739
Total income	(227,581)	(230,095)	(228,739)
Set Aside Budget		28,055	27,765
Set Aside Funding		(28,055)	(27,765)
Total Expenditure		260,712	256,504
Total Income		(258,150)	(256,504)

Audit dimensions (continued)

Governance and transparency (continued)

The Community Empowerment (Scotland) Act 2015 gives people more influence over how their council and its partners plan services. It provides more formal ways for people to get involved. For example, people can ask to take part in decisions about council services, which is called a Participation Request. The Act also makes it easier for communities to take ownership of land and buildings in a process known as asset transfers. This allows them to have a say in how the council should spend money locally.

Community engagement

North Ayrshire Council fully supports community empowerment and recognises the importance of building community capacity. Implementing a culture of relational rather than systems approaches, the Council has made good progress in aligning community and spatial planning. The Council has won a number of awards in the year for its work with the community, including COSLA gold and bronze awards for its 'Youth Empowerment' and 'Locality Partnerships' programmes respectively.

The 'Locality Partnerships' programme is conducted through the CPP. The CPP is made up of the Council, NHS, Scottish Government, Police Scotland, Scottish Fire and Rescue Service, Skills Development Scotland and various other prominent organisations in the community. As an example of their involvement, Police Scotland has six dedicated locality partnership teams for each of the partnerships.

The Council has used the locality partnerships effectively to roll out participatory budgeting (PB) programmes. The Council had the highest rate of youth involvement in PB in Scotland in 2017 and its strategic approach to 'Youth Empowerment' was recognised in its COSLA gold award. Additionally, the Council is making good progress towards meeting COSLA's target of spending 1% of government budgets through PB programmes by 2020. North Ayrshire Council is a good example for other local authorities of the application of best practice in relation to PB.

As per the summary box on the right, the CPP's key pledge per the LOIP is to address child poverty and create a better life for local people. This is in line with the effective 'child centred' approach the Council has taken to its community engagement and its PB programmes.

The Council has partnered with the Consultation Institute to develop effective consultation programmes. These programmes allow members of the community to feedback what they think should be amongst the Council's key issues.

The Council's engagement with communities will be critical in the short to medium term future as the transformation programme progresses, in order to co-produce and co-deliver local services. Effective engagement and the 'buy-in' of residents is vital for the success of the Council's transformation efforts.

The Community Planning Partnership's (CPP) key pledge is:

"To tackle the root causes of child poverty and mitigate its impact to create a better life for local people."

The CPP focuses on the following four priority areas in order to achieve this key pledge:

- *A Working North Ayrshire*
- *A Healthier North Ayrshire*
- *A Safer North Ayrshire*
- *A Thriving North Ayrshire – Children and Young People*

Audit dimensions (continued)

Value for money

Audit dimension

Value for money is concerned with using resources effectively and continually improving services.

Areas considered

- Value for money in the use of resources.
- Link between money spent and outputs and the outcomes delivered.
- Improvement of outcomes.
- Focus on and pace of improvement.

Deloitte response

From our 2016/17 audit work we concluded that the Council had a well established performance management framework in place. During 2017/18 we have reviewed how the Council is addressing areas where its targets are not being met.

Deloitte view

The Council has a well-established Performance Management Strategy. The Community Planning Partners (CPP) have recently produced the LOIP, which replaced the Single Outcome Agreement. The LOIP provides the strategic direction for the CPP partners and aims to 'Create a Better Life' for North Ayrshire residents. The LOIP priorities are reflected in the plans of the individual organisations.

Over the past few years the Council has done considerable work in identifying priority indicators within the Local Government Benchmarking Framework (LGBF) indicator set. During 2016 the Council identified a sub-set of core LGBF indicators which it believes that maintaining or improving performance in these areas will have greatest impact for North Ayrshire and its residents. The results of this work is evident in the sharp improvement in the number of indicators in quartile one and a decrease in the number of indicators in quartile four from the 2016/17 LGBF data.

Audit dimensions (continued)

Value for money (continued)

Performance Management

North Ayrshire Council was named "Council of the Year" at the annual Association of Public Sector Excellence (APSE) awards 2017.

The Council has a well-established Performance Management Strategy. The Community Planning Partners (CPP) have recently produced the LOIP, which replaced the Single Outcome Agreement. The LOIP provides the strategic direction for the CPP partners and aims to 'Create a Better Life' for North Ayrshire residents. The LOIP priorities are reflected in the plans of the individual organisations.

The Council gathers performance information throughout the year to monitor, track and improve service delivery to the community. Performance tracking is primarily carried out through the Council's 'North Ayrshire Performs' tool, which tracks performance against key indicators and allows for comparison with other local authorities.

The Council presents bi-annual performance reports to Cabinet and Audit and Scrutiny Committee, comparing its actual performance against the performance objectives included within the Council Plan 2015-20. Detailed reports are produced at directorate level showing how each directorate has performed against the Council's key priorities per the council plan, and performance against relevant performance indicators is reviewed as appropriate for each directorate.

Statutory performance indicators

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

For 2017/18, two SPIs were prescribed:

- SPI 1: covering a range of information relating to service performance and local outcomes; and
- SPI 2: relates to reporting of performance information as required by the Local Government Benchmarking Framework.

Overall, we concluded that the Council's arrangement for publication are satisfactory, noting that it has refreshed the format of its Public Performance Reporting (PPR), with the 2017/18 report due to be presented to Cabinet in September 2018.

Through its PPR the Council has reported on 66 indicators during 2017/18, which include 31 LGBF indicators.

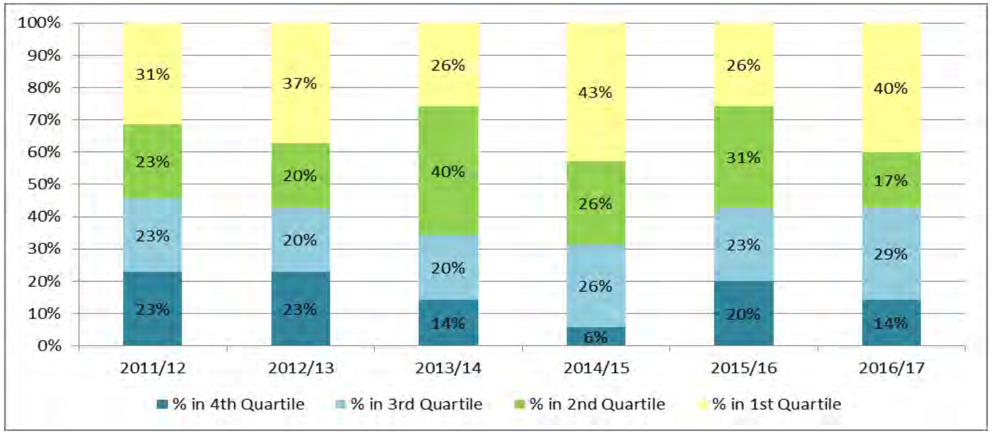
Performance Data

We have drawn on the Local Government Benchmarking Framework (LGBF) to make a high level assessment of the Council's performance, relative to all Scottish Councils, in 2016/17 (the latest data available). The LGBF includes a number of indicators organised under common service areas. Performance is summarised in the table on the following page.

Audit dimensions (continued)

Value for money (continued)

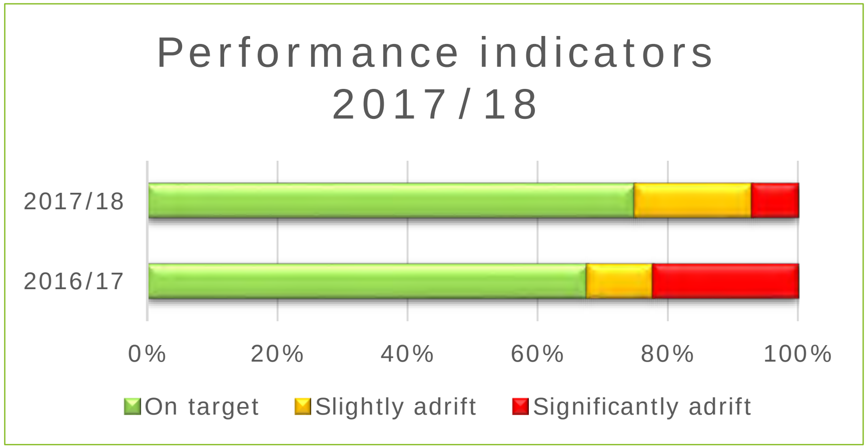
North Ayrshire Council LGBF Indicators in each quarter, 2011/12 – 2016/17



Note: This analysis is based upon 35 single year, mainly outcomes based, indicators which were reported on as part of the Local Government Benchmarking Framework every year within the 6 year period. Where a council failed to supply data for one of the 35 indicators we have excluded this from our analysis and so reported totals may not equal 100%.

During 2016 the Council identified a sub-set of core LGBF indicators. The Council believe that maintaining or improving performance in these areas will have greatest impact for North Ayrshire and its residents. Since then, services have used the LGBF to benchmark their performance in these key areas, and have developed plans to maintain or improve performance. The 2016/17 LGBF data showed a sharp improvement in the number of indicators in quartile one and a decrease in the number of indicators in quartile 4.

The graph below shows a comparison between achievement of the 31 council plan indicators in 2016/17 and 2017/18. This shows a decrease in the number of indicators significantly adrift of target, and an increase in those slightly adrift. It should be noted that as this is based on a sample size of 31, a change in the performance of two or three indicators will show up as a larger percentage change.



We have noted examples of the Council applying a priority-based budgeting approach during the year. Management presents a range of defined options for investment in specific areas to Council Members, outlining the achievable outcomes based on each level of investment. Members can then balance those options against the performance area to determine if significant investment / improvement is required and if it is an area of priority for the Council. This allows for improvement in linkage between performance, outcomes and approach. Instances of this noted were good examples of best practice in the use of priority-based budgets, and we would encourage the Council to utilise this approach on a regular basis.

Audit dimensions (continued)

Sharing best practice

In our 2016/17 annual report, we provided the Council with some case study data where Deloitte has been involved in cost reduction work with a number of public sector bodies in England. We recommended that the Council reviews these case studies and considers them as opportunities for improvement going forward as potential areas for cost reduction.

During 2017/18, we have had some further discussion with the North Ayrshire Council Executive Director (Finance and Corporate Support) and the Interim Head of Finance for the North Ayrshire Health and Social Care Partnership, to share areas of best practice around transformation and integration from our work in England.

From our experience, public sector bodies that have successfully delivered and sustained transformational change have tended to focus on the following six key requirements. The overarching aspect throughout a transformation programme is having strong leadership that believes in and can drive transformational change.

Strategic Driven	A "Place" leader	Digital data analytics and insights	Efficiency, productivity and income generation	Outcome focused partnership working	Relation with Citizen
Plans and strategies need to be completely transparent and reflect personal accountability of those involved.	Leadership must drive transformation with partners and the rest of the workforce. Leadership development is key to effective change.	Bodies should rely on their digital capacity to drive productivity and efficiency.	New standardised processes need to reflect the agreed design, be efficient, effective and scalable.	Resources need to be targeted to key priorities and outcomes at a partnership level.	Shifting focus from servicing people's needs towards empowering their strengths to enable them to meet their own needs.
A key challenge is achieving buy-in from the workforce. Personal accountability is effective in ensuring this buy-in.	Difficult decisions may need to be made if leadership do not buy-in to the transformation agenda.	There is a wealth of data available to public sector bodies to help identify and achieve greater efficiency.	Essential for systems to be integrated as much as possible to achieve most benefit.	Transformation plans should be clear as to the expected impact on priority outcomes.	Processes need to be structured and systematic to be effective.

Audit dimensions (continued)

Sharing best practice (continued)

Below are some real life examples of work done in other health bodies to demonstrate how some of these six key requirements can be applied in practice.

Relation with Citizen

Outcome focused partnership working

A health body had a patient that required an extensive care package costing approximately £3,000 per week. This was a "needs-based" package and despite the level of care provided, the patient still felt isolated and alone. As part of a transformation to service delivery, the patient's package changed from a needs-based approach to focus on their strengths.

The patient became more active through engagement with their interests (specifically, the health body helped them join a local model-aeroplane building club), and this small but significant change to service delivery approach saw the cost of the patient's care package reduce from approx. £3,000 a week to approx. £20 a week. The patient was able to largely care for himself with appropriate support in the community. Whilst this is an extreme example, this is what real transformation to service delivery represents.

A Health and Social Care Partnership transformed its care at home service by introducing a "Front Door" approach. A single team of social workers, occupational therapists and support assistants based across two locations is now in place to talk to people who may need to use services. The council refers to this as changes to 'front door' services. Previously, individual teams provided separate care, with a referral process between teams. The new model of care encourages local people to develop the confidence and skills to care for themselves, using personal strengths, assets and wider community resources.

This approach is more personalised and helps reduce the demand for social care and acute hospital admissions. Individuals now have only one worker to deal with, and staff from different services can liaise with each other more easily. This reduces inappropriate referrals and, in some cases, removes the need for a referral, for example, if information and advice is all that someone needs.

Relation with Citizen

Outcome focused partnership working

Efficiency, productivity

Audit dimensions (continued)

Sharing best practice (continued)

Relationship with Citizen

A Council in England committed to a series of pledges and in return need residents and businesses to play their part too (The Deal). So far through working together, the Council has saved £115m, with evidence based outcome improvements.

The Deals are wide ranging, offering partnership work and support in a number of areas. As an example, the Deal for Health and Wellness, includes the following:

Our Part	Your Part
• Ensure there are a wide range of facilities within local communities including parks, open spaces, leisure, safe cycling routes, good quality housing. • Ensure easy, timely access to good quality GP services, seven days a week, to screen, diagnose and treat and prevent disease as early as possible. • Support families to ensure their children have the best start in life.	• Keep active at whatever stage of life. • Register with a GP and go for regular check-ups – taking charge of your own health and wellbeing. • Quit smoking. Drink and eat sensibly and encourage your children to do the same.

Digital data analytics and insights

A Health and Social Care Partnership invested in its digital capacity to collect and process data so it can better predict chronic health issues occurring amongst patients. This investment has allowed the partnership to reduce its acute care costs as less expensive and more effective health care can be provided upfront to address potential chronic health risks predicted by the data.

A police force, in partnership with its local health body, used data to reduce acquisitive crime rates. Data identified a pattern of acquisitive crime peaking on the weekends, and the police force determined that this was largely driven by the fact that methadone prescriptions in the area were issued every Friday. therefore led a programme to stagger the prescriptions throughout the week, leading the acquisitive crime rates levelling out and becoming more manageable.

Audit dimensions (continued)

Specific risks

In accordance with our Audit Plan, we have considered the specific risks identified by Audit Scotland as part of our audit as follows:

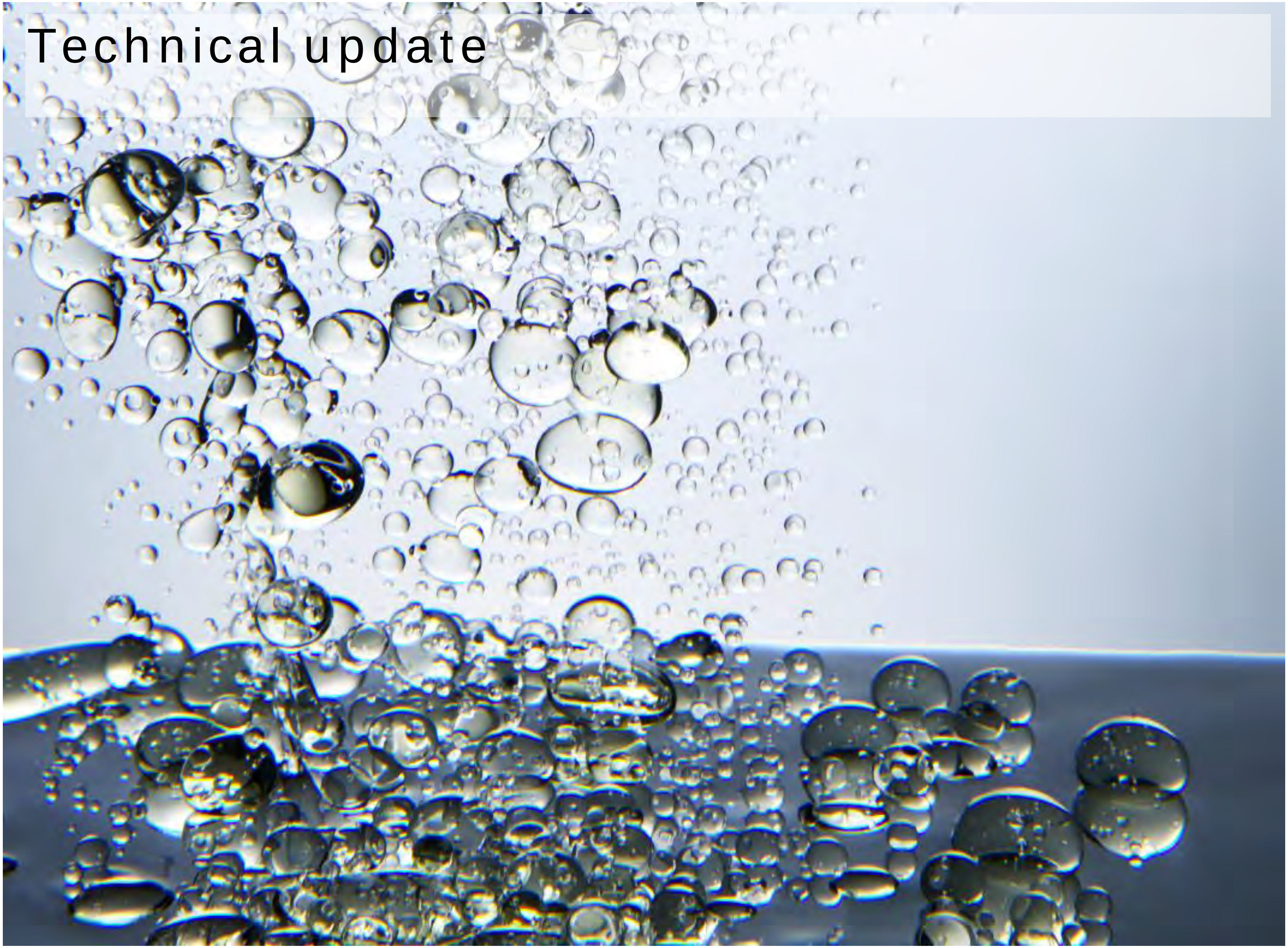
Risk identified	Response
EU Withdrawal	The UK is expected to leave the European Union (EU) on 29 March 2019, followed by a transition period to the end of 2020. There are still a lot of uncertainties surrounding the terms of the withdrawal agreement but the outcome will inevitably have significant implications for devolved governments in Scotland and for Scottish public sector bodies. Given the scale of the potential implications and possible timescales for implementing changes, it is critical that public sector bodies are working to understand, assess and prepare for the impact on their organisation. This is likely to include consideration of three areas: Workforce: the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour. Funding: the extent to which potential changes to funding flows including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports. Regulation: the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activity of the organisation. North Ayrshire Council has formed a Brexit working group which involves officers from each directorate in order to facilitate effective sharing of relevant information. Otherwise, the Council's preparations are in the early stages, as is the case with most local authorities. The Council is contributing to action being taken at a national level. COSLA is leading the local authority Heads of Personnel group to address the potential impact on workforce. However, based on preliminary assessments performed by the Council, there are very few EU nationals employed and therefore very few employees likely to be directly impacted. The Council is awaiting further guidance from the Scottish Government with regards to the impact on funding and regulation.

Audit dimensions (continued)

Specific risks (continued)

Risk identified	Response
New financial powers	The Scottish Parliament's new financial and social security powers and responsibilities from the 2012 and 2016 Scotland Acts are fundamentally changing the Scottish public financials. The Scottish Government will publish its medium-term financial strategy in 2018 in response to recommendations in the Budget Process Review Group final report, and has made a number of other commitments to improve financial management and help Parliamentary scrutiny of decisions. As a result of this, there is an expectation that public bodies will be seen before subject committees of the Parliament more often. Local authorities, including North Ayrshire Council, should therefore use this as an opportunity to make comment within their annual reports beyond the compliance requirements to clearly articulate their achievements against outcomes and future plans.
Ending public sector pay cap	As discussed on page 25, the 2018/19 budget includes pay awards which have been aligned to the thresholds set out by the Cabinet Secretary in the Stage 1 debate on 31 January 2018. It is noted that local government pay is outwith the remit of the Scottish Government and negotiations for 2018/19 remain live. A pay award in excess of the level provided for would require further savings to be made.
Cyber security risk	The Council has a structured approach to cyber security in place. The Council is PSN accredited and Cyber Essentials certified. The Council currently has one dedicated cyber security employee, who reports directly into the Senior Manager of IT, and efforts are being made to recruit a second dedicated employee. All employees regularly receive cyber security training, and there are a range of cyber security policies and procedures in place which apply to staff, suppliers and procurement, and are updated regularly. Cyber security falls under the remit of the Corporate Risk Group (CRG) which meets on a quarterly basis. Any issues to be considered or addressed can be escalated by the CRG to the Executive Leadership Team (ELT) as appropriate.
Openness and transparency	The Council aims for compliance with CIPFA's 'Delivering Good Governance in Local Government' framework. This framework is intended to enable local government to take responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards. NAC are open in their decision making and make their reports and committee minutes available on their website. We are satisfied that the Council is open and transparent with its relevant stakeholders.

Technical update



Technical Update

New standards for 2018/19 accounting code

IFRS 9, Financial instruments and IFRS 15, Revenue from contracts with customers, have been adopted for the 2018/19 accounting code. Transitional reporting requirements have been adopted such that the preceding year is not restated. In order to support local authorities, CIPFA, under the guidance of LAAP, has issued separate guidance for local authority practitioners. We would encourage the Council to consider these to ensure that it is fully prepared for implementation in 2018/19. We have summarised the key implications of the new standards below.

IFRS 9, Financial Instruments

- It is likely that many collective investment vehicles would be classified to fair value through profit or loss (FVPL) from 1 April 2018, so that the fair value gains and losses will be chargeable to the Surplus or Deficit on the Provision of Services as they arise.
- There has been some debate around whether collective investment vehicles qualify for the presentation election under IFRS 9 to be reclassified to fair value through other comprehensive income (FVOCI). In order to qualify for this presentation the investment would need to meet the definition of an equity instrument. This would not be the case if instrument is 'puttable' (i.e. the holder has the right to demand repurchase or repayment of the principal).
- One of the other main features of IFRS 9 is the change in the impairment loss model for financial assets from one based on incurred losses to one based on expected (credit) losses. The new forward looking approach is likely to result in an increase in the allowances required as at 1 April 2018. As allowances are based on the risk of default and the approach to investments in local authorities is to opt for security and high quality financial instruments, CIPFA has indicated that for many financial assets the impact should be modest. Particular attention will need to be paid to material balances or loans to third parties against which there has been no default but there are significant possibilities that there may be in the future.

IFRS 15, Revenue from Contracts with Customers

- IFRS 15 will require local authorities to recognise revenue in such a way that it represents the transfer of promised goods or services to the service recipient (customer) in an amount that reflects the consideration to which the authority expects to be entitled in exchange for those goods or services. CIPFA is of the view that generally this should not have a substantial effect for local authorities with relatively predictable income streams but it may have an impact on authorities where the consideration is variable and/or when income is recognised over time.
- CIPFA would also note that the disclosure framework under IFRS 15 is substantially increased. It is intended to allow an understanding of the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers and includes the disaggregation of revenue, information on performance objectives, the significant judgements made and contract balances. CIPFA would encourage local authority accounts preparers to focus on the materiality of the income that is recognised to ensure that the key messages in local authority financial statements are not obscured.

Potential impact on the Council

IFRS 9 is expected to have relatively limited impact on most councils, but will at least affect the process of assessing impairment of debtors and other financial assets. As part of the process of adoption, North Ayrshire Council will need to consider the impact on policies, processes, systems and people.

IFRS 15 is not expected to impact the accounts of local authorities, as per guidance issued by the Local Authority (Scotland) Accounts Advisory Commission (LASAAC).

Technical Update

IFRS 16 Leases

The effective date of IFRS 16 Leases is 1 January 2019. Therefore (subject to CIPFA/LASAAC decision) the standard is anticipated to be adopted in the 2019/20 Code.

IFRS 16 removes the existing classifications of operating and finance leases under IAS 17 *Leases* for lessees.

It requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing the lessee's obligation to make lease payments for the asset.

The consultation papers and the Exposure Draft have been drafted by CIPFA/LASAAC with the assistance of its sub group. However, both CIPFA and CIPFA/LASAAC are considering new ways of assessing how the standard will impact on local authorities.

CIPFA/LASAAC will issue the consultation as soon as possible and notification of the issue of the consultation will be via Treasurers Societies, the Networks and CIPFA social media or via the CIPFA/LASAAC pages of the CIPFA website. This consideration will also include the assessment of the practical effects of implementation. The consultation papers, for example, include a readiness assessment questionnaire to assist CIPFA/LASAAC with an understanding of the impact (and could also be usefully used by local authorities to assess the issues that need to be considered).

Potential impact on the Council

The Council continues to engage with CIPFA's consultation. Management is also making preparations by working with all service departments to ensure its lease register is complete, before determining the impact of any new guidance/standard issued.

£212k in operating lease payments over the next five years have been shown in the 2017/18 annual accounts. On this basis, any adjustment required as a result of this new standard is likely to be immaterial.

Appendices

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit and Scrutiny Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated separately.

This report has been prepared for the Audit and Scrutiny Committee and the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.

Pat Kenny

for and on behalf of Deloitte LLP

Glasgow

10 September 2018

Audit adjustments

Misstatements and disclosures

Corrected misstatements

The following corrected misstatements have been identified up to the date of this report:

		Debit / (credit) CIES £k	Debit / (credit) in net assets £m	Debit / (credit) prior year Reserves £m	If applicable, control deficiency identified
Misstatements identified in current year					
Other Long Term Liabilities – Fair value of plan assets	[1]	-	16,085	-	n/a
Actuarial gains/(losses) on pension assets and liabilities	[1]	(16,085)	-	-	n/a
Short term borrowings (Group balance)	[2]	-	7,190	-	n/a
Cash and Cash Equivalents (Group balance)	[2]	-	(7,190)	-	n/a
Creditors – Other entities and individuals	[3]	-	5,414	-	n/a
Creditors – Central government bodies	[3]	-	(5,414)	-	n/a
Cash and Cash Equivalents	[4]	-	180	-	n/a
Short term debtors – Central government bodies	[4]	-	(180)	-	n/a
Total		(16,085)	16,085	-	

[1] Information on pension assets held by the Council is provided by the pension fund's actuary. The initial schedule of results provided to the Council by the actuary had to be adjusted following an error in the total pension fund assets used to determine assets held by the Council.

[2] Council held £7,190k in cash on behalf of North Ayrshire Venture Trust (NAVT) and recognised a corresponding borrowings amount. On consolidation of Council and NAVT figures the cash balance was double counted, hence the adjustment to reverse the error and back out the intergroup borrowings for Group purposes.

[3] Deferred grant funding received from central government bodies was initially recognised as being received from other entities and individuals. This is a reclassification within the Creditors note in the accounts – total creditors and total liabilities unaffected.

[4] Debtor amounts recognised for grant funding due to the Council was received prior to year end however the receipt was not recognised until after year end, hence an incorrect debtor balance. This adjustment reverses the debtor amount and recognises the cash received.

Audit adjustments (continued)

Misstatements and disclosures (continued)

Uncorrected misstatements

No uncorrected misstatements have been identified up to the date of this report.

Disclosure misstatements

No disclosure misstatements have been identified up to the date of this report.

Action plan

Recommendations for improvement

Area	Recommendation	Management response	Responsible person	Target date	Priority
Transformation programme	The Council acknowledge that at present it currently doesn't have a clear plan to demonstrate how its transformational activity across the Council will achieve the required financial benefits to address the significant funding gap over the medium to longer term. We recommend that this is progressed to ensure that the Council can clearly demonstrate how services plan to change to meet the challenging financial position. It is important that there is clear member input into the process, with effective collaboration between members in order for the transformation of service delivery to be successful.	A refreshed transformation plan will go to the Transformation Board and to Cabinet later in 2018/19 and will incorporate progress against the T2 programme including savings delivered to date, key transformation themes and projects, engagement and governance arrangements.	Chief Executive	31 March 2019	High
Cash reconciliations	In the absence of a functioning automatic cash reconciliation process within the new ledger system, the Council should implement a manual reconciliation process to allow period end cash balances to be fully reconciled in a timely manner (see page 16).	A manual reconciliation process has been implemented for all cash balances and the Council continues to work with the software provider to develop the functionality of the automated process.	Head of Finance	31 March 2019	High

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management response	Responsible person	Target date	Priority
Reporting to Members	The process involved in reporting to Cabinet should be reviewed to determine if reporting can be performed in a more timely manner. Currently, reporting to Cabinet on each period typically takes place two months after period end (see page 33).	Outwith Cabinet reporting regular engagement takes place with Services. An immediate review of the Cabinet reporting timetable for 18-19 indicates a 6 week timeframe from period end until Cabinet reporting, with the exception of the first report due to summer recess. Financial reporting to Cabinet includes a detailed forecast position to the financial year end as opposed to variance analysis up to the reporting period. Arrangements will be kept under review to try and secure earlier reporting.	Executive Director of Finance and Corporate Support	31 March 2019	Medium
Non Domestic Rates grant	Management should ensure that all required reports and information be pulled from the NDR system as at year end for the purpose of the external audit (see page 16).	The Non Domestic Rates year end procedures will be revised to ensure that all required information is available.	Head of Finance	31 March 2019	Low

Action plan (continued)
Follow up of 2016/17 recommendations

Area	Recommendation	Management response	Responsible person	Target date	Priority	2017/18 update
Property Valuations	From our property specialists' review of the valuations performed in the year, a number of recommendations have been made in relation to the valuation process. These should be taken forward as part of the 2017/18 revaluation exercise.	The Council is making a number of changes to how it manages its estate. The issues identified by Deloitte will be addressed as part of this.	Executive Director of Place	31 March 2018	High	Our property specialists noted a marked improvement in the property valuation process performed in 2017/18 and are satisfied that our recommendations have been implemented. *Fully implemented.*
Financial Sustainability / Transformation	Due to increasing demand for services and the continuing restraint in relation to Council funding settlements, the Council will have to consider how it can transform service delivery through its T2 Programme in order to minimise the impact on citizens with reducing budgets.	The Council recognises the challenges it faces. An updated Long Term Financial Strategy will be considered by Council in October 2017. This will identify the need for further significant transformation to ensure financial sustainability of services.	Chief Executive	31 March 2018	High	We have seen evidence of effective long term planning and transformation planning in the year. We have raised an additional high priority recommendation in relation to the documentation and communication of the T2 programme – see page 51. *Partially implemented.*

Action plan (continued)

Follow up of 2016/17 recommendations (continued)

Area	Recommendation	Management response	Responsible person	Target date	Priority	2017/18 update
Health and Social Care	The IJB, working closely with both North Ayrshire Council and NHS Ayrshire and Arran, needs to agree mitigating actions to ensure that budgets are delivered in line with the resources available.	Regular financial reports are submitted to the IJB, these include options to reduce expenditure in line with delegated resources. The reports note the responsibility of the IJB to ensure that services are contained within available resources.	Chief Officer of North Ayrshire HSCP	31 March 2018	High	We have noted that reporting from the Council to the IJB, including areas for consideration in order to reduce expenditure, is effective. The ultimate responsibility for IJB budgets being met lies with the IJB. This has been raised further in our communications with the IJB as part of the IJB audit. *Not implemented.*
Charitable Trusts	We note that there has been very little movement in these trusts over the last 12 months, with the movements largely relating to interest from investments held. We would encourage the Council to ensure that appropriate plans are in place to ensure these funds are used in accordance with the donors' wishes.	The Council is taking a proactive approach with its communities to identity opportunities to apply trust funds in accordance with the donor's wishes.	Executive Director of Economy and Communities	Ongoing	Medium	We have noted through review of trustee and locality partnership meeting minutes that the Council continues to make proactive efforts to utilise available funds. *Fully implemented.*

Fraud responsibilities and representations

Responsibilities explained

Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning we identified the risk of fraud in complying with recognition of grant income and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management, internal audit and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Audit and Scrutiny Committee on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been identified regarding fraud.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	The audit fee for 2017/18 for the North Ayrshire Council group is £295,060 as detailed in our Audit Plan. The separate fee for the charitable trusts is £3,600. No non-audit fees have been charged by Deloitte in the period.
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its Members and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its Members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

Events and publications

Our publications and insights to support the Council

Publications

The State of the State 2017-18

Citizens, government and business

This year's report finds the UK government amid the complex challenge of leaving the EU. Inevitably, this early phase of EU exit is taking place under intense media scrutiny and passionate political debate. But while EU exit issues may dominate headlines, the public services face more local challenges as they address rising demand, budget restraint and renewed levels of concern about social inequality.

The State of the State 2017-18 explores government through three lenses – the citizen lens, the public sector lens and the business lens.

Download a copy of our publication here:
https://www2.deloitte.com/uk/en/pages/public-sector/articles/state-of-the-state.html

Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the local authorities are shared opposite:

Perspectives: Do you have a digital mindset?

Accelerating health and care integration

Digital technology is helping to transform the way citizens interact with service providers across all other service industries. The time is now ripe for changing the relationship between health and social care commissioners and providers and service users.

Read the full blog here:
https://www2.deloitte.com/uk/en/pages/public-sector/articles/do-you-have-a-digital-mindset.html

Article: Public sector transformation

Five lessons from the private sector

An analysis of private sector global companies, including high-tech start-ups, manufacturers, banks, retailers and insurance firms, reveal five valuable lessons for the public sector.

Read the full article here:
https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-transformation.html