



South Ayrshire Council
Report to the Audit and Governance Panel and Controller of
Audit on the audit for the year ended 31 March 2018

Issued on 19 September 2018 for the meeting on 26 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 Governance Panel for the 2018 audit. The scope of our audit was set out within our planning report presented to the Audit and Governance Panel 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; 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 small number of audit adjustments from our procedures to date which have all been corrected by management.
- The Management Commentary and annual Governance Statement comply with the statutory guidance and the good governance framework, and are consistent with the financial statements and our knowledge of the Council. Some recommendations for minor improvements to bring the annual accounts more in line with good practice have been made at page 20.
- 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.
- We have audited the Charitable Trusts of the Council and plan to issue an unmodified audit opinion for all three: South Ayrshire Charitable Trust, South Ayrshire Council Charitable Trusts, and McKechnie Library Trust.

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.

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
 - finalisation of our internal quality control procedures;
 - receipt of signed management representation letter; and
 - our review of events since 31 March 2018.

Introduction (continued)

The key messages in this report – audit dimensions

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

Financial sustainability

The Council has achieved short-term financial balance and has set a 2018/19 balanced budget, which included £1.5 million use of reserves. The current level of reserves held is the mid point of the best practice threshold of 2-4%. The planned use of reserves to fund investments will therefore be sustainable in the short-term, however, going forward, the Council should continue to ensure that such an approach is taken only where the level of reserves can continue to be maintained within recommended levels.

The Council has achieved significant savings over the last five years, 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 continue to transform service delivery to minimise the impact on service levels within reducing budgets. It recently approved its Financial Strategy for the period 2018-2022 which identified a mid-point funding gap of £31.6 million. A long-term strategy has yet to be developed, which is something we recommend that the Council progress to clearly understand the long-term outlook faced by the Council in terms of demand for services and risks.

The **Council's** transformation strategy "**Transform South Ayrshire**" has historically been focused on IT projects. Following the recent senior management restructure, a refreshed transformation plan is to be progressed under the new Directorates. It is imperative that detailed plans are developed to demonstrate that the required savings can be made, with the associated supporting infrastructure to be able to deliver on these.

<p>2017/18 final outturn position reported an underspend against budget of £9.1m (3.3%). This included £5.3m use of reserves.</p>	<p>At 31 March 2018, the Council held £6.7m of uncommitted reserves, which is in the middle of the recommended range.</p>	<p>A balanced budget for 2018/19 was approved in March 2018. This included £1.5m use of reserves.</p>	<p>The council achieved £21.1 million of savings during the period 2013-2018 by reducing costs across a number of areas at the same time as improving the delivery of services.</p>	<p>The council's 2018-22 Financial Strategy estimates a funding gap of between £25.7 million and £43.2 million for the period 2018-2022.</p>
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Introduction (continued)

The key messages in this report – audit dimensions

Financial management

We are satisfied the Council has strong budget setting and financial monitoring arrangements which are robust enough to sufficiently manage financial activity and capture and address any challenges to the achievement of financial targets. Financial monitoring reports are reviewed by the senior management team monthly, and are then reviewed by the Leadership Panel every quarter. Due to the timing of the Leadership Panel meetings, this can sometimes mean up to a two month gap between the quarter-end and when the monitoring reports are considered by the Panel.

We have also reviewed internal audit reports issued in the year and note our broad agreement with their findings and conclusions. From our testing throughout the audit we are satisfied that the Council has adequate systems of internal controls in place.

South Ayrshire Council has an in-house Corporate Fraud service, which provides pro-active fraud prevention advice and investigates fraud within and against the Council. Additionally, the Council also participates in the National Fraud Initiative (NFI). We are satisfied South Ayrshire Council has appropriate arrangements in place for the prevention and detection of fraud and corruption.

We are satisfied that the recent and ongoing management restructure has not directly impacted on the capacity of the finance team or the financial management arrangements in place given that this falls under the Chief Executive which was not subject to a management restructure.

Governance and transparency

The Council has robust governance arrangements in place. We have followed up on the recommendation raised in 2016/17 that following the election of new councillors, management should take the opportunity to emphasise the overview and scrutiny role of members and this should be evidenced as far as practicable in the meeting minutes. We have reviewed the minutes of all relevant committee meetings to assess the effectiveness of the governance arrangements and the level of scrutiny and challenge and note that improvements have been made. Furthermore, we note that training has been provided to the new members by CIPFA on effective scrutiny back in February 2018. We conclude that this recommendation has been fully implemented.

While the Audit and Governance Panel was well attended, we noted that the attendance at seminars was poor and could be improved. We have therefore recommended a review to determine how to improve councillor attendance and participation at these events. Note that a survey of councillors has already been issued by the Chief Executive (CEX) to determine how to improve attendance at seminars.

The Council has a well established partnership with NHS Ayrshire & Arran through the South Ayrshire Integration Joint Board (IJB). As reported in our separate report to the IJB, increased focus must be given to developing an integrated budget, incorporating the set aside budget, rather than viewing it as two separate budgets. In addition, the current governance and reporting arrangements for the Lead Partnership arrangements is not as clear as for those areas under the direct control of the IJB. We have therefore recommended that these be reviewed to ensure that complete and consistent information is provided to the Board to allow it to fulfil its governance responsibilities effectively. We have also recommended that consideration be given to improving the quality of IJB reporting as well as training for members to help improve understanding of information that is disseminated up to Leadership Panel. It is important that the Council continue to work with the NHS and IJB to ensure the full benefits of integration are realised.

Introduction (continued)

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

Value for Money

There is a clear framework in place to ensure that council performance is monitored and reported.

Performance reports and plans, including six-monthly performance updates, are available for the public to view on the Council website.

We are satisfied that the performance is appropriately discussed within the Management Commentary in the Annual Accounts and management have introduced plans to address areas where progress has not been satisfactory.

External peer reviews could be performed on services. This should help to ensure there is constructive challenge to service performance and we are aware of other Councils who have derived significant benefit from these reviews. This was discussed with senior management and they have agreed to look into options for external peer review.

The Council will be subject to a full Best Value Assurance Report (BVAR) review in around two years time. We have made several recommendations this year to support the Council in preparing for this review, which are detailed on pages 52-54.

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

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.

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 and in common with other Councils across Scotland, the Council continues to face significant financial challenges due to an increase in costs whilst facing increased demand for services. The integration of health and social care continues to be a challenge.

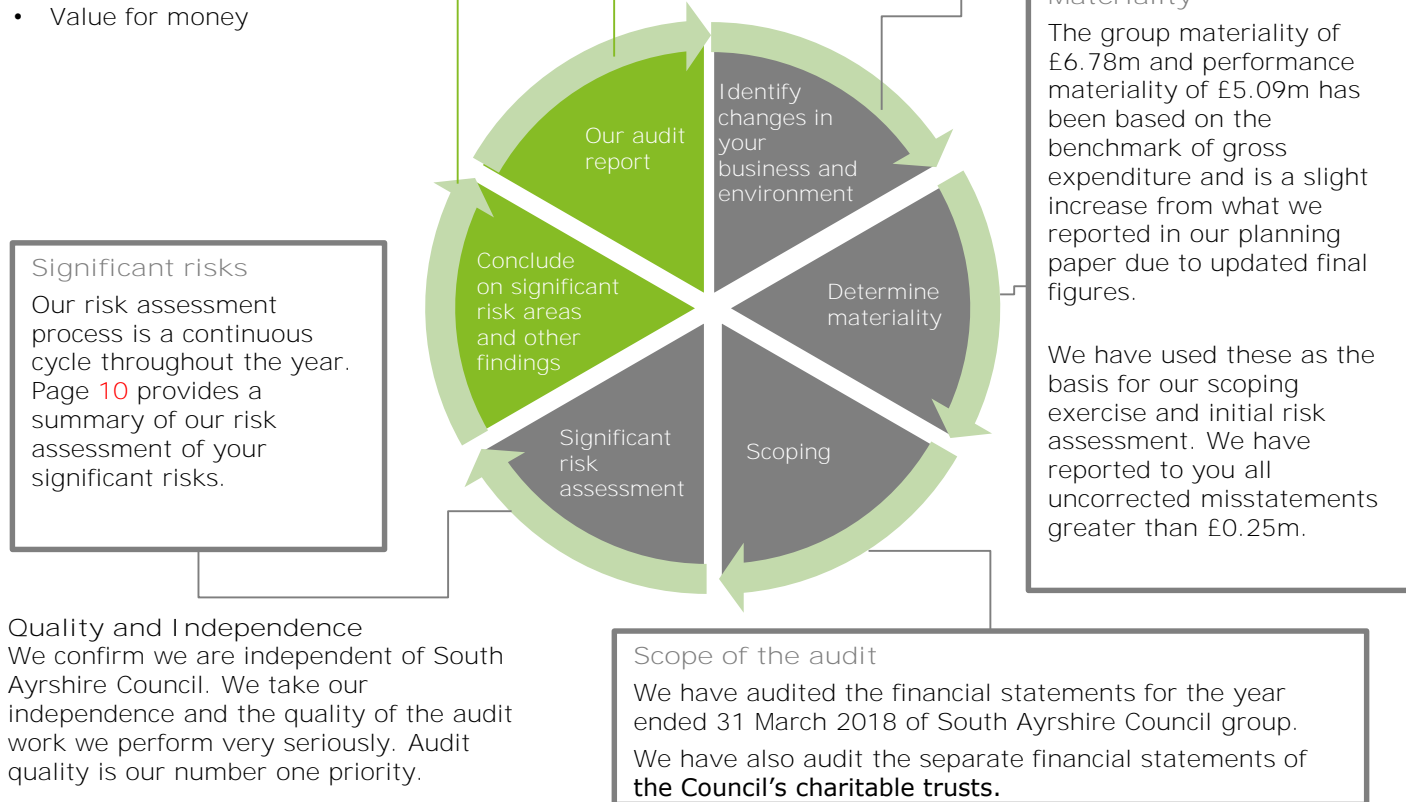
Materiality

The group materiality of £6.78m and performance materiality of £5.09m has been based on the benchmark of gross expenditure 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 £0.25m.

Scope of the audit

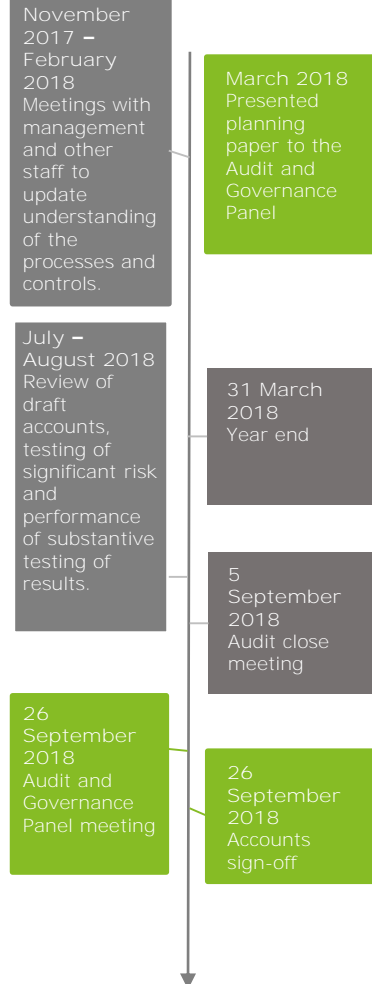
We have audited the financial statements for the year ended 31 March 2018 of South Ayrshire Council group. We have also audit the separate financial statements of **the Council's charitable trusts.**



Quality and Independence

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







Timeline 2017/18



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	Slide no.
Recognition of grant income			D+I	Satisfactory		Satisfactory	11
Management override of controls			D+I	Satisfactory		Satisfactory	12

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 grants credited to Service Income and confirmed that these have been recognised in accordance with any conditions applicable.

Type of income	2017/18 (Em)	Significant risk
<u>Taxation and Non-Specific Grant Income</u>		
Council tax income	52.0	
Non domestic rates	39.8	
Government Grant	156.4	
Capital grants and contributions	14.8	✓
<u>Service Income</u>		
Service Specific Grant income	8.0	✓
Housing Benefit Subsidy	34.7	

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. This is inherently the areas in which management has the potential to use their judgment to influence the financial statements.

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.

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 performed design and implementation testing of the controls in place for journal approval. We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest.

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.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

Other matters

Defined benefits pension scheme

Background

The Council participates in two defined benefits schemes:

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

The net pension liability has decreased from £192.3m in 2016/17 to £84.1m in 2017/18 as a result of the triennial valuation resulting in significant other experience gains totalling £79.9m and gains from changes in financial assumptions totalling £40.2m.



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 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	Reasonable – prudent
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.40	2.05	Reasonable – prudent
Salary increase (% p.a.) (over RPI inflation)	0.20	Council specific	Reasonable
Pension increase in payment (% p.a.)	2.40	2.05	Reasonable – slightly prudent
Pension increase in deferment (% p.a.)	2.40	2.05	Reasonable – slightly prudent
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	21.40	22.10	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	23.70	23.60	Reasonable

Deloitte view

We have reviewed the assumptions and, on the whole, the set of assumptions is reasonable and lies towards being slightly prudent 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 £13.5m 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. South Ayrshire Council administers three 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, with the exception of the South Ayrshire Charitable Trust (SACT) accounts which are presented on an accruals basis. Therefore, fully compliant Charities SORP accounts are only required for SACT. For the other two (South Ayrshire Council Charitable Trusts [SACCT] and McKechnie Library Trust) disclosure is limited to that specified in the Regulations.

Deloitte response

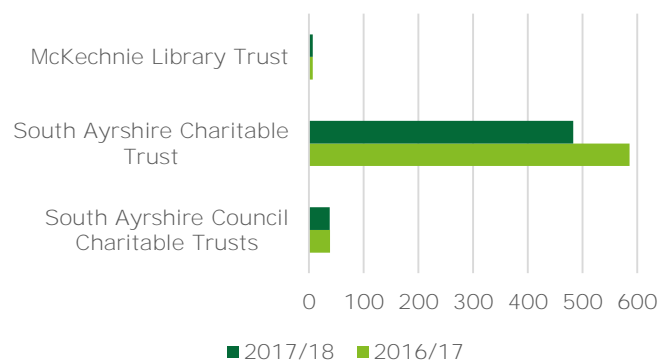


We have assessed that the statement of receipts and payments and the statement of balances have been prepared in accordance with the Charities Accounts (Scotland) Regulations 2006 for SACCT and McKechnie Library Trust. No issues have been noted.

We have assessed that the Statement of Financial Activities, Balance Sheet, Cash Flow Statement, Notes to the Financial Statements, and Trustees Report for SACT have been prepared in accordance with the Charities SORP. No issues have been noted.

A summary of the charitable trusts that have been audited is provided in the table adjacent. We note that there has been very little movement in these trusts over the last 12 months, with the exception of movements in SACT attributable to the disbursement of funds in the period totalling £111k.

Charitable Trust Balances (£000)



Deloitte view


No issues noted from our testing of the charitable trusts accounts in the year, which were found to be 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 three trusts into one set of annual accounts going forward.

Other significant findings

Internal control and risk management

During the course of our audit we have identified one internal control and risk management finding, which we have included below for information.

Area	Observation	Priority
Bank account reconciliations	As part of following up audit recommendations from the 2016/17 audit report, we have reviewed year-end bank account reconciliations and note that all key bank reconciliations have been prioritised. The list of reconciliations is extensive and we accept that not all have been completed on a very timely basis. As such this is an area for ongoing improvement given resource constraints.	

The purpose of the audit was for us to express an opinion on the financial statements. 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. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

Other significant findings (continued)

Insights delivered

We have performed analytics on all of the journal entries processed during the year. We have highlighted some key themes arising from this work for your consideration.

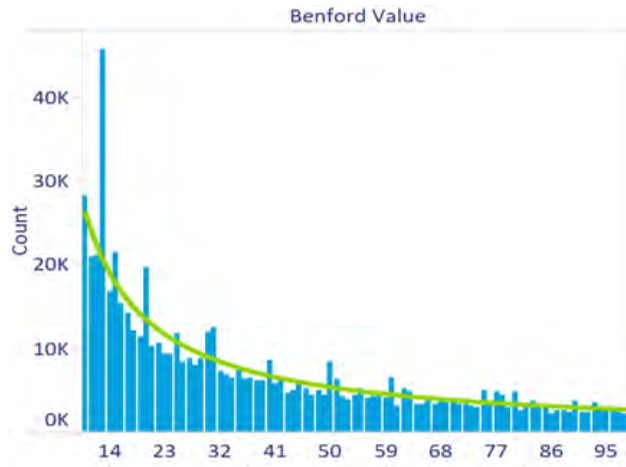
The journal posting efficiency at the Council is commendable: 11.23% of the volume of manual journals posted accounted for 97.29% of the total gross value of manually posted journals in the year. This suggests that little time is spent on accounting for small amounts and that journals are efficiently posted in batch as required.

Value Band (EC)	Number of Journals	% Number of Journals	Gross Value (EC)	% Gross Value (EC)
0	2	0.06%	0.00	0.00%
0.01 - 1	174	5.06%	110.80	0.00%
1.01 - 10	393	11.44%	5,435.92	0.00%
10.01 - 100	1,136	33.06%	186,932.84	0.01%
100.01 - 1,000	1,549	45.08%	1,497,134.31	0.09%
1,000.01 - 10,000	1,058	30.79%	6,717,132.08	0.41%
10,000.01 - 100,000	687	19.99%	35,825,850.30	2.19%
100,000.01 - 1,000,000	265	7.71%	170,672,421.43	10.45%
1,000,000.01 - 10,000,000	104	3.03%	1,101,489,345.44	67.47%
10,000,000.01 - 100,000,000	17	0.49%	316,212,026.15	19.37%

We have reviewed the main descriptions used in manual journals, as shown below which analyses the top 20 words by volume, totalling 22,225. Note that the word that pops up the most is 'wrong' which pops up 2,605 times followed by charge, 2,560. However, this **doesn't** provide a full picture as indicated by the bottom illustration for all journals, which illustrates the top 20 words by volume, totalling 2,507,409, used in all journals (including manual journals), which is more in line with our expectations.

As an additional check for unusual transactions, we performed a **Benford's Analysis** as shown below, which identifies unusual number distributions, and note that the **Council's** postings (the blue columns) did not differ from what was expected (the green line) by a statistically significant amount.

We performed a review of the posting frequency of staff with access to the system and noted that all staff have taken long holidays (>5 consecutive days) in the year, reducing the concern of potential fraudulent behaviour or finance function stress and fatigue.

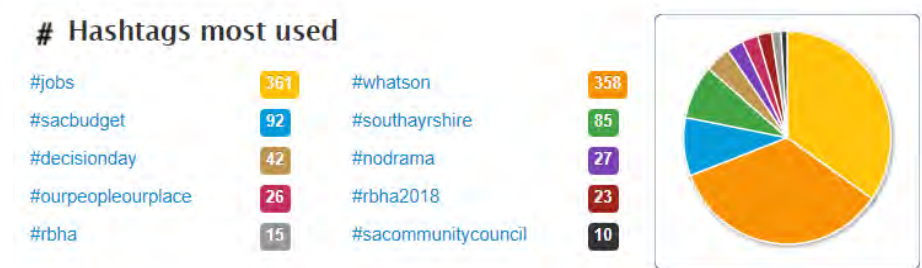
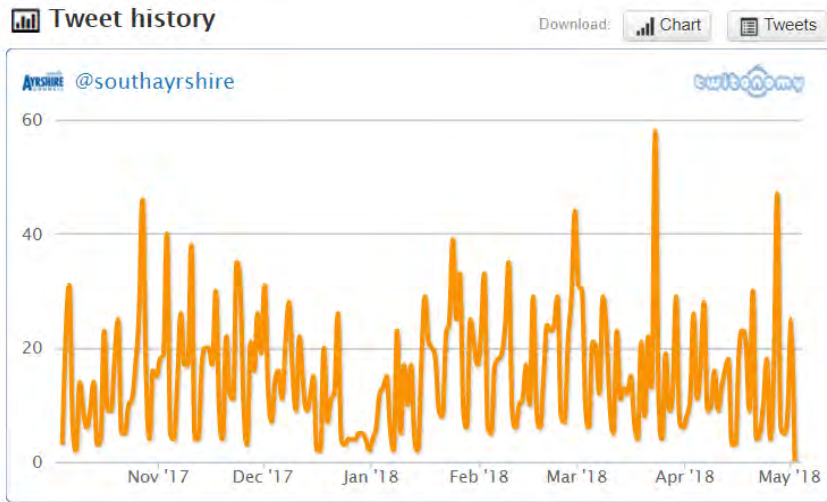


Other significant findings (continued)

Insights delivered (continued)

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

Activity on social media has remained relatively consistent throughout the year, as shown to the left.

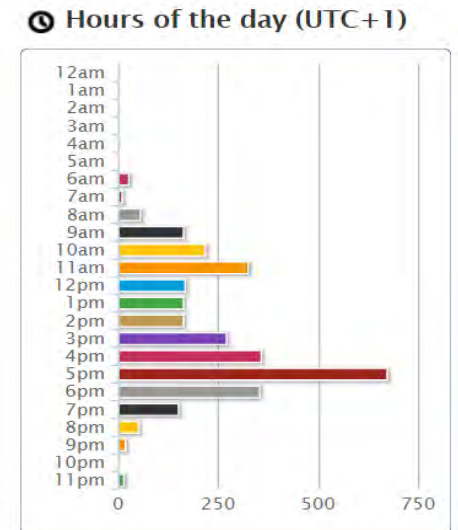
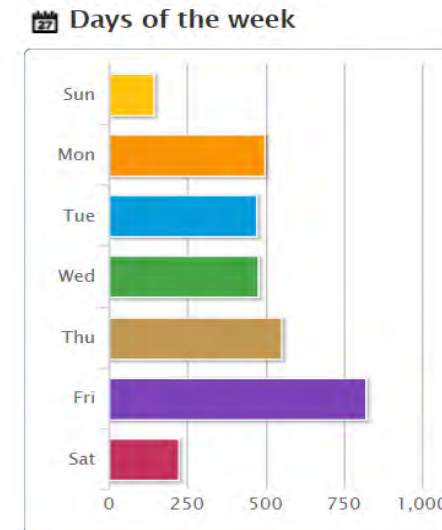


The **'hashtags'** most used by the Council are as expected and would be accessible by the **Council's** residents.

Twitter reports that the time most people checked Twitter is 10am – 6pm Monday to Friday, with a spike in activity at 5pm. There is little activity during the weekends. 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 residents of South 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 audit report, including how different sections are presented.



Our opinion on the financial statements

Our opinion on the financial statements is unmodified.



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 and 20.

Your annual accounts

We welcome this opportunity to set out for the Audit and Governance Panel 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 Key Performance Indicators (KPIs) and made good use of graphs and diagrams. The Council also focusses on the strategic planning context.	<p>We have assessed whether the Management Commentary has been prepared in accordance with the statutory guidance. No exceptions noted, although a few minor points for improvement have been discussed on the following slide.</p> <p>We have also read the Management Commentary and confirmed that the information contained within it is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We have made some recommendations for changes to the annual accounts in line with good practice. We have included elements of good practice for your consideration at page 20.</p>
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 South 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. From our review of the Management Commentary and Governance Statement, we can confirm that they comply with the requirements of the good governance framework, although there are a few minor points for improvement that we have identified as part of our review which can be improved, the details of which have been provided below. The below points identified are areas where greater transparency/clarity can be provided.

Management Commentary

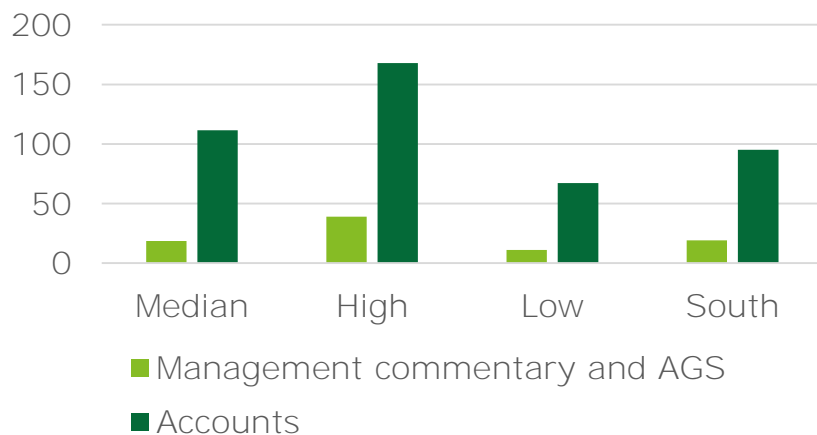
- Targets to accompany KPIs so comparison can easily be made, e.g. targets for recycling rates; this includes the avoidance of ambiguous/unclear wording, e.g. “a fair **proportion**”; and
- Providing more narrative to explain significant variances, e.g. to explain movement versus prior year, month to month, or other benchmarks.

Governance Statement

- Present a more balanced view of internal audits during the period, e.g. how many ‘**limited assurance**’ reports were issued?
- Elaborate on the four areas from the Delivering Good Governance Framework that have been assessed as having ‘**some concerns**’.

Apart from the minor points raised above, we note that the **Council’s** draft Management Commentary and Governance Statement are good examples of best practice on the basis that they have met all of the requirements of the good governance framework. 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.

Length of accounts 2017/18

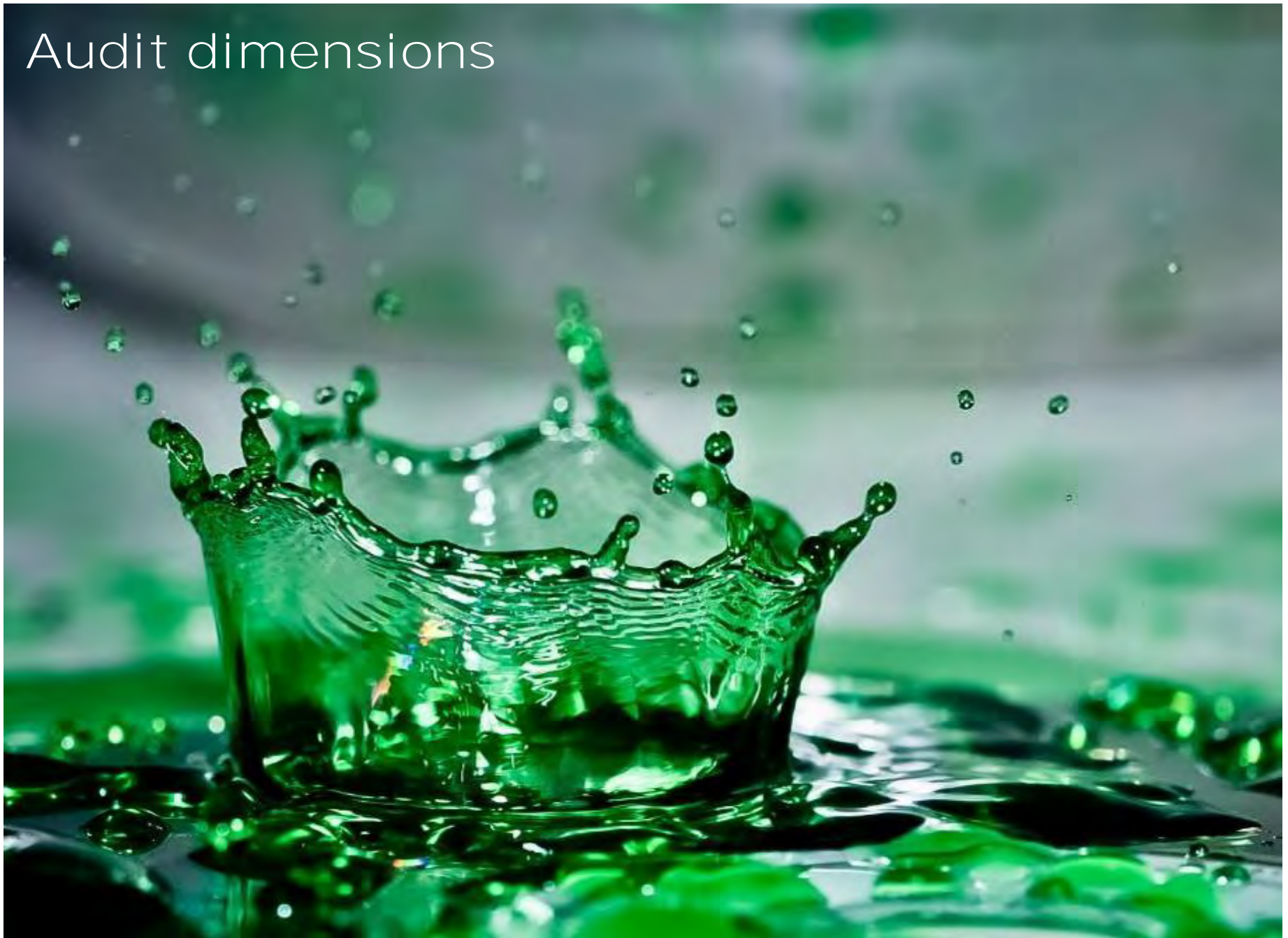


We have reviewed the annual accounts of the Council against other Councils across Scotland.

This shows that South Ayrshire **Council’s** accounts are on the shorter end of the scale for the overall length, which is 95 pages compared to a median of 112.

With regards to the Management Commentary and Governance Statement, the Council is in line with the median length of 19 pages. The Council complies with all statutory guidance and as mentioned above is a good example of best practice Management Commentary. The Council makes effective use of illustrations, including tables and graphs, which has allowed the Council to present its information in a clear and concise manner.

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. We have followed up on the areas reported in our 2016/17 annual audit report and considered these as part of the work on the four audit dimensions to focus on the **Council's** 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.

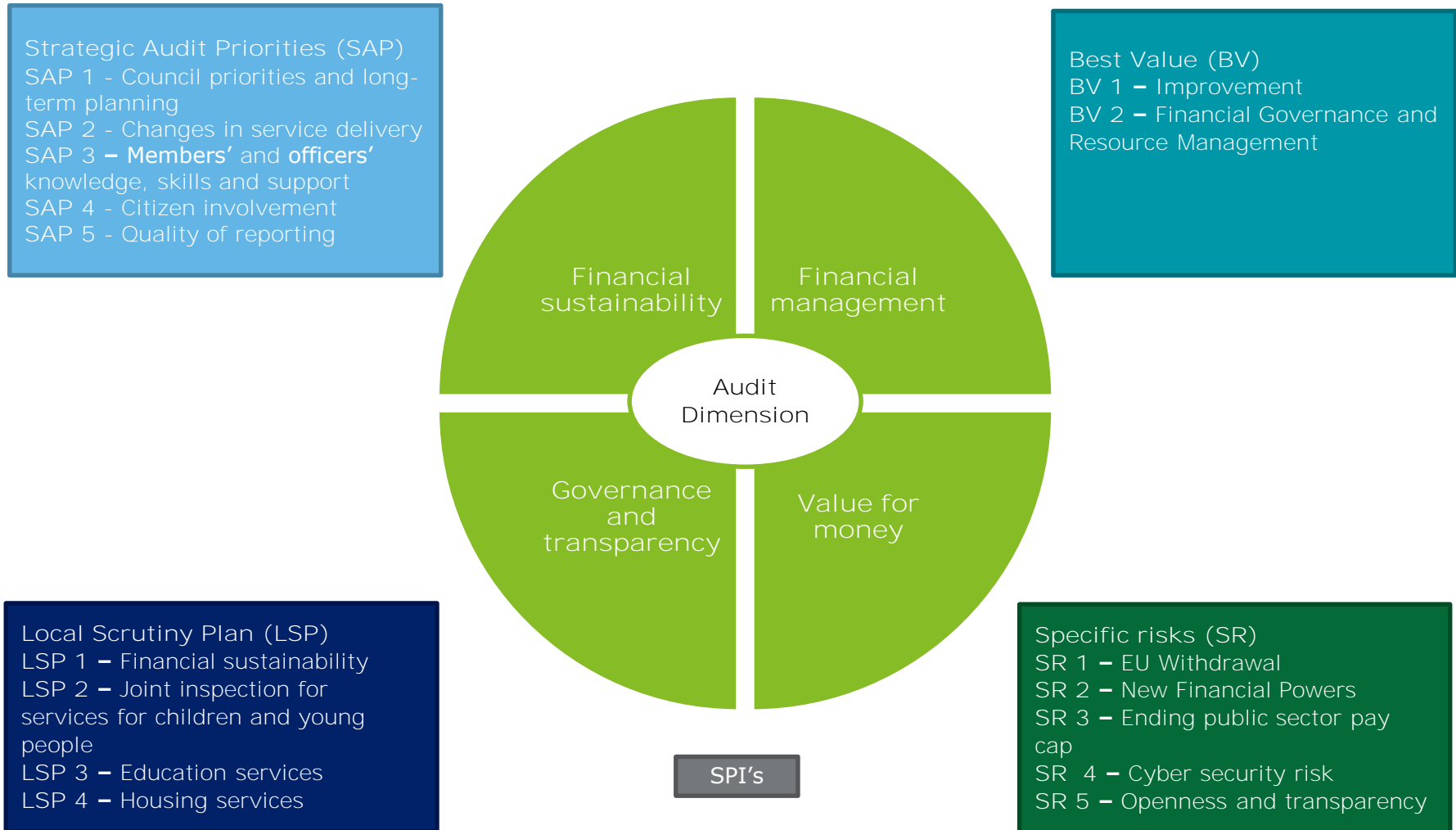
Specific risks

- As set out in our Annual Audit Plan, Audit Scotland had identified a number of specific 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.



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 identified that the Council is proactive in respect of its short-, medium- and long-term financial plan although there were still risks around the ability to meet increasing demand with decreasing funds.

In 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, particularly with regards to the implementation of **it's** Transform South Ayrshire (TSA) programme.

Deloitte view

The Council has achieved short-term financial balance and has set a 2018/19 balanced budget, which included £1.510 million use of reserves. The current level of reserves held is the mid-point of the best practice threshold of 2-4%. The planned use of reserves to fund investments will therefore be sustainable in the short-term, however, going forward, the Council should continue to ensure that such an approach is taken only where the level of reserves can continue to be maintained within recommended levels.

The Council has achieved significant savings over the last five years, 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 continue to transform service delivery to minimise the impact on service levels within reducing budgets. It recently approved its Financial Strategy for the period 2018-2022 which identified a mid-point cumulative total funding gap of £31.6 million for the three years covering 2019/20 – 2021/22. A long-term strategy has yet to be developed, which is something we recommend that the Council progress to clearly understand the long-term outlook faced by the Council in terms of demand for services and risks.

The **Council's** transformation strategy "**Transform South Ayrshire**" has historically been focused on IT projects. Following the recent senior management restructure, a refreshed transformation plan is to be progressed under the new Directorates. It is imperative that detailed plans are developed to demonstrate that the required savings can be made, with the associated supporting infrastructure to be able to deliver on these.

Audit dimensions (continued)

Financial sustainability (continued)

Short-term financial position

For 2017/18, the Council approved a balanced budget of £260.6 million (2016/17: £253.0 million), which included the use of £5.3 million from reserves (2016/17: £3.2 million). The final position for 2017/18, as discussed further on page 32, was an underspend of £8.1 million against a revised budget of £277.9 million. Of the underspend, a total of £1.9m of new earmarked requests is to be brought forward to 2018/19 bringing the total brought forward committed reserves to £21.0m, leaving £6.7m of uncommitted reserves.

The 2018/19 budget was approved by the Council on 1 March 2018. This budgeted total expenditure of £256.4 million, which includes £70.7 million funding contribution to South Ayrshire Health and Social Care Partnership (HSCP). This includes targeted savings of £6.0 million and £1.510 million use of reserves.

In setting its budget the Council has recognised that a number of risks exist, such as demand and demographic changes. In particular, the 2018/19 delegated funding for the HSCP of £70.7 million represents a £3.6 million (5.4%) increase on the 2017/18 budgeted allocation of £67.1 million reflecting increased demands on social care services in South Ayrshire.

The budget also includes pay awards totalling £3.7m, 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 £5.1m and £10.3m for the Council.

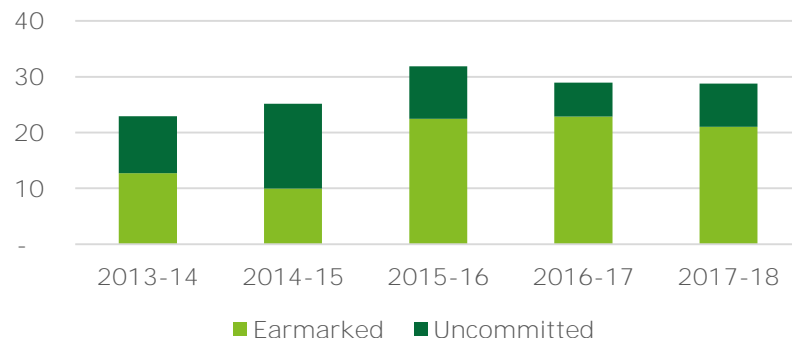
The General Fund Uncommitted Balance at 31 March 2018 was £6.7 million, representing 2.62% of the net revenue expenditure.

The General Fund earmarked balance at 31 March 2018 was £21.02 million. Examples of what this includes are:

- £10.20m to fund future HRA capital and revenue expenditure; and
- £0.97m to carry forward for the Integration Joint Board of which £0.75m is to be spent on Health-procured services and £0.22m on council-procured services.

The movement in uncommitted and earmarked reserves over the last five years is illustrated below:

Reserves over the past 5 years £m



Audit dimensions (continued)

Financial sustainability (continued)

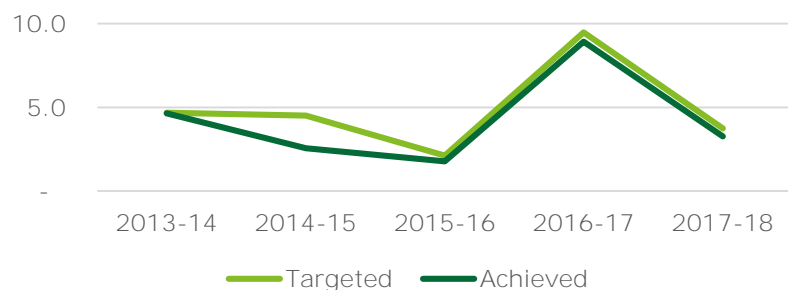
Medium-term financial sustainability

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 citizen needs with reducing budgets.

Within the 2018-22 Financial Strategy, the Council acknowledges the impact of the new financial powers stemming from greater control over taxation and welfare, with around 40% of devolved expenditure to be met from tax revenues collected in Scotland, to rise to 50% once VAT revenues are assigned.

Under the new fiscal framework, **Scotland's** budget will be no better and no worse off relative to the historic funding arrangement, provided growth in **Scotland's** devolved revenues matches the growth of comparable revenues in the rest of the UK; the impact on the Council (and other councils) will therefore be contingent on the outcome of how **Scotland's** devolved revenues fare relative to the rest of the UK in the years to come.

Savings - target vs actuals 2013-2018 (£m)



The Council recognises that if it continues with current service levels and delivery models, there will be a funding gap over the next three years to 2021/22. Based on a number of assumptions, including grant funding, council tax, pay inflation, demand pressures and known policy positions, it has estimated the gap could be between £25.7 million and £43.2 million. The mid-point of the funding gap estimates £31.6m. By 2021/22 this would require savings of around 12.3% of the **Council's** current departmental budget. There are no specific savings plans to address this budget gap. It is important that these are developed to ensure the Council can demonstrate that it can deliver the savings required.

Audit dimensions (continued)

Financial sustainability (continued)

Long-term financial sustainability

While there is a medium term plan in place, there is still no longer term plan covering the next five to ten years. While the refreshed 2018-22 Financial Strategy does cover the medium term, this only addresses the next three years to 2021/22 and **doesn't** provide a sufficient time line to consider the implications of current decision making on the future of South Ayrshire.

It is important that members and officers of the Council understand the longer-term ramifications of current and medium-term decision making, especially on the ability of the Council to achieve its vision and priorities.

We do note that the capital programme takes a longer-term view, which has recently been extended from five years to eight years. We suggest that a similar view should be taken on the revenue budget and forecasts with scenario analysis being carried out for five to ten years to identify potential budget gaps for future years so that the significance of identifying sustainable recurring sources of savings and efficiencies can be identified well in advance. This would result in a more pre-emptive response to the unfolding demographic changes, given the pensionable age population is projected to increase by 19% by 2041 and the working age population is projected to decrease by 14%.

Taking a more long-term view would provide Members with a greater ability to take a 'future focused' approach to decision making, as opposed to giving undue weight to the short/medium term impacts of decisions and regarding the longer term as more of an afterthought - the result of the decision, rather than the driver of it.

We recommend that a long-term financial strategy be put in place to address five to ten years. This should include several key elements in line with "Scotland's public finances: a follow-up audit (June 2014)", as detailed to the right.

- **Costs** – a clear understanding of the business model and the cost of individual activities within it;
- **Savings options** – evidence-based options for achieving savings;
- **Savings details** – details of one-off and recurring savings;
- **Scenario planning** – scenario planning to outline best, worst and most likely scenarios of the financial position and the assumptions used;
- **Assets/liabilities and reserves** – details of assets, liabilities, and reserves;
- **Capital investment activity** – details of investment needs and plans and how these will be paid for;
- **Demand** – an analysis of levels of service demand and projected income;
- **Funding shortfalls** – any income or funding shortfalls and how to deal with these;
- **Strategy links** – clear links to the corporate strategy, community planning partnership (CPP) objectives and other relevant strategies such as workforce and asset management; and
- **Risks and timescales** – the risks and timescales involved in achieving financial sustainability.

Audit dimensions (continued)

Financial sustainability (continued)

Transformation Plan

We have reviewed the Transform South Ayrshire (TSA) strategy and progress made to date and noted the following:

- the targeted savings and reporting on achievement of these are built into the annual budget and monitoring reports. However, there are no specific savings targets that are built into the strategy;
- the update on workstreams included in the progress reports to the Service and Performance Panel do not include target dates; and
- given the new administration in place since May 2017 and the new Executive Structure approved in December 2017 there has been a reduced focus on TSA.

The TSA has historically been more focused on IT projects rather than real transformation of services. We understand that following the recent senior management restructure, the new Executive Directors have now been tasked with developing the next stage of transformation for the Council. It is important that detailed plans are developed, which are clearly linked to the savings targets required so that the Council has a clear understanding of what is required.

We also recommend that the Council reviews the supporting infrastructure in place in order to achieve transformation. We note that a new approach is already being developed with a Technical Review Board (TRB) already established to consider ICT project investment with appropriate documentation in place. The TRB will link in to the new overall approach being developed by the Corporate Leadership Team (CLT).

Best practice

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

1. A strategically driven response
2. **Being a 'place' leader**
3. Digital data analytics and insights
4. Efficiency, productivity and income generation
5. Outcome-focused partnership working
6. Reframing the relationship between the citizen and the state

We have included case studies of transformational change for the Council's consideration at pages 42 – 43.

Digital and efficiency are key themes within South Ayrshire Council's TSA. However, this view of transformation is too narrow and should address transformation more holistically. In line with best practice (as detailed above), we recommend that SAC should consider the above in developing its next stage of its transformation programme.

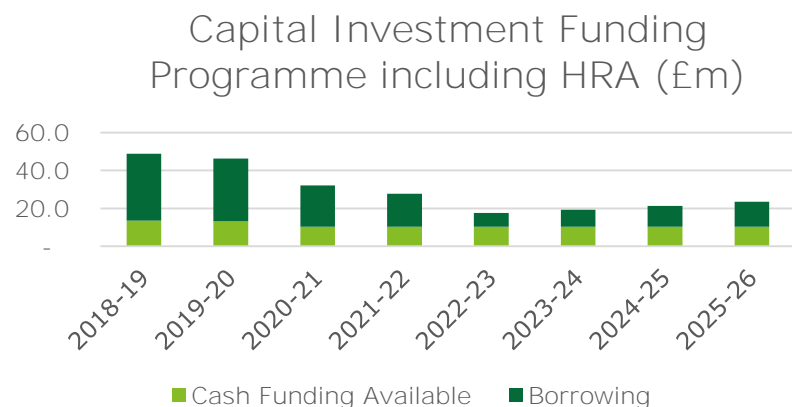
Audit dimensions (continued)

Financial sustainability (continued)

Capital investment programme

The Council updates its Capital investment programme on an annual basis. In March 2018, the programme has been refreshed for eight years to cover the period of 2018/19 to 2025/26 to allow for greater medium- to longer-term planning to take place. This details the **Council's** expected borrowing requirement compared to its operational boundaries and debt charge implications.

The below graph charts the projected cash funding position against the borrowing requirement with a lot of the capital investment activity projected to take place in the earlier years. In 2018/19, this is weighted towards Children and Families (£15.6m), Our Communities (£15.1m), and New Office Accommodation (£6.0m).



The reason for the higher levels of capital spend planned for the first couple years is due to planned expenditure for Children and Families of £15.6m for 2018/19 and £19.20m for 2019/20 relating, in part, to school new build projects. There is also planned expenditure for Communities of £15.1m for 2018/19 and £9.9m for 2019/20.

Workforce strategy and plan

As detailed in the Council Plan Objectives, the Council intends to ensure stable and productive workforce and improved staff consultation outcomes through succession planning, identifiable career paths, reviewed staff welfare provision, flexible work patterns to suit individual, family and community, circumstances.

Workforce Planning will be an essential element in ensuring effective and efficient service delivery, aligned to the aims and objectives of the Council Plan. The Council implemented its first corporate workforce plan in December 2017, which detailed a range of key workforce data and information, and which identified a range of workforce planning priorities when taking into account key factors identified by managers.

A series of recommendations were made, with associated actions to be completed during 2018-2022. Recommendations included an annual update published during the 4 year life of the workforce plan alongside revisions to accommodate the National Workforce Plan for Health & Social Care, and that Workforce Planning must form an intrinsic part of Service Plans.

The Council recognises the need for its employees to have the correct skill set and continually learn, develop and enhance the **staff's** skills, knowledge and behaviour to better meet the demands of their roles. Annual Performance Development Reviews are undertaken to determine individual training and development requirements.

As a large employer, the Council recognises that it has a key role to play in ensuring that equality is built into everything it does. The Council has developed an Equality and Diversity Strategy and the Council is committed to providing a positive, respectful and supportive working environment where equality is embedded in the culture and best practices applied by all member of the Council. Staff training is provided to support this.

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 also reviewed the effectiveness of the internal control environment. We noted in our audit plan that the Council was undergoing a significant restructure which could disrupt the status quo, and we kept this in mind when reviewing financial management arrangements.

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

We are satisfied the Council has strong budget setting and financial monitoring arrangements which are robust enough to sufficiently manage financial activity and capture and address any challenges to the achievement of financial targets.

We note that there is a large gap between the preparation of monitoring reports and their presentation to the Leadership Panel, which reduces the relevance of scrutiny and limits the time for improvements to be made. We therefore recommend that the reporting timelines be reviewed.

We have also reviewed internal audit reports issued in the year and note our broad agreement with their findings and conclusions.

From our testing throughout the audit we are satisfied that the Council appears to have adequate systems of internal controls in place.

South Ayrshire Council has an in-house Corporate Fraud service, which provides pro-active fraud prevention advice and investigates fraud within and against the Council. Additionally, the Council also participates in the NFI.

We are satisfied that the recent and ongoing management restructure has not directly impacted on the capacity of the finance team or the financial management arrangements in place given that this falls under the Chief Executive which was not subject to a management restructure.

We are satisfied South Ayrshire 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. Senior management and councillors regularly review progress. The Leadership Panel and the Audit and Governance Panel review financial performance each quarter.

The finance team is led by the Head of Finance and ICT and the Service Lead – Corporate Accounting, who are both experienced in local government finance roles for a number of years. We have not identified any issues with the financial skills, capacity and capability of the finance team.

Financial monitoring reports are reviewed by the senior management team monthly, and are then reviewed by the Leadership Panel every quarter. Due to the timing of the Leadership Panel meetings, this can sometimes mean up to a two month gap between the quarter-end and when the monitoring reports are considered by the Panel.

We have seen a move in other bodies to reporting on a more risk-based approach, with higher risk areas being reported more regularly and lower risk areas less frequently. This can help with the management workload and allows Members to receive more up-to-date reports on areas more critical for decision making and action.

SAC has not considered [priority-based budgeting](#) yet. Given ongoing demand pressures and decreasing funding, as projected under all three scenarios in the 2018-22 Financial Strategy, it is imperative that SAC looks carefully at the services it currently provides and how spend can be prioritised.

[Outcome-based budgeting](#) has been considered by the Council in line with the Scottish Government new financial strategy. One of the main benefits of this approach noted by the Council is that it could help to reduce costs by identifying budgets that do not contribute enough to outcomes and simultaneously drive better outcomes by highlighting areas where investment can be more effective, but it was identified that this method has several drawbacks such as:

1. finding a direct correlation between resources deployed and outcomes achieved;
2. statutory obligations related to certain services inhibiting resource re-prioritisation and flexibility over some outcomes; and
3. the lack of human resource to implement the new methodology.

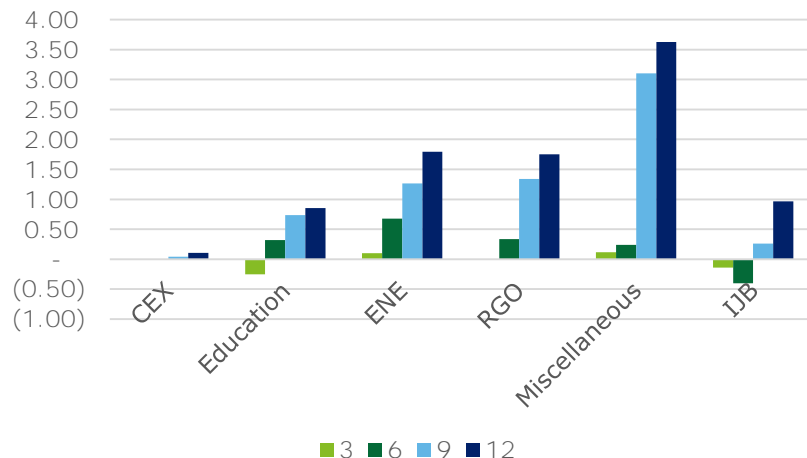
We noted as well that as part of the 2018-19 budget setting process, there was a public consultation that yielded circa 2,800 responses. The results found that the public were willing to pay more for services rather than have services removed/limited. About 100 examples of solutions were put forward and 10 of these will be implemented.

The Council should continue with its [participatory budgeting](#) to engage all sections of the community and involve them in decision making, particularly with regards to discussions around areas of service that should be considered for cutting or where the public may be open to raising fees and charges to ensure the continuation of services. The Scottish Government has set a target that at least 1% of local government budgets will be subject to participatory budgeting by the end of 2021. There is still a long way to go to achieve the 1% target given that only 0.3% (£0.64m) of net expenditure for 2017/18 was attributable to participatory budgeting.

Audit dimensions (continued)

Financial management (continued)

Projected Variance by Directorate
favourable/(adverse) (£m)



Financial performance – General Fund

The final position for 2017/18 was an underspend of £9.1 million against a final net expenditure budget of £277.9 million. Of the underspend, £1.9m of new earmarked requests is to be brought forward to 2018/19 bringing the total brought forward committed reserves to £21.0m, leaving £7.8m of uncommitted reserves.

The variances to budget reported throughout the year are summarised in the above chart by Directorate. The key reasons for the underspends were:

- Economy, Neighbourhood and Environment – *Enterprise* underspend of £402k mainly relating to third party payments; and *Sport, Leisure and Golf* underspend of £203k mainly due to efficiencies in relation to employee costs;
- Miscellaneous – £1,058k underspend relating to a revision to the employee related claims provision; and

Additional grant revenue funding from the Scottish Government (SG) of £728k earmarked for carry forward to 2018/19.

We are satisfied that the main reasons for the underspends are to do with previously unknown income amounts that would not have been known about at setting of the initial budget and efficiencies. As such, we are satisfied that there are robust budget setting and monitoring processes in place.

Capital investment

In 2017/18 the Council set itself a challenging capital programme across Our Children and Families (£18.557m), Our Adults and Older People (£0.400m), Our Communities (£5.501m), and Other Investment in Buildings, Information Technology and Other (£6.651m), totalling £31.109m. As at 31 March 2018, the final outturn for the capital programme is £25.963m versus a revised approved budget of £27.305m, representing 95% of budget, which is line with the past three years whereby spend has exceeded 95% of budget.

The main projects which were completed in the period include:

- Marr College Extension and Refurbishment;
- **Children’s Facility at Coylton**;
- Annbank Primary Dining Hall;
- Troon Primary Dining Hall;
- Ayr Cemetery Extension; and
- Kingcase Primary Upgrade.

A number of projects did not achieve the anticipated spend levels in the planned year due to slippages. This includes the following amounts of underspend: Ayrshire Roads Alliance (£0.267m), ICT (net £0.754m) and Troon Cemetery Extension (£0.300m). This contributed to an underspend of the adjusted 2017/18 budget of £1.3m.

Audit dimensions (continued)

Financial management (continued)

Systems of internal financial control

As discussed on page 15, 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. One internal control insight has been raised on page 15 with regards to the prior year recommendation that we raised on bank account reconciliations. We conclude from our follow up work that while all the key bank account reconciliations are performed that not all have been completed on a very timely basis; therefore, this is still an area for ongoing improvement in terms of ensuring that they are completed on a timely basis.

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 28 February 2018, which concluded that the Council was fully engaged in the exercise.

Internal Audit

In addition to providing internal audit services to the Council, the internal audit team are also appointed to provide internal audit services to the Ayrshire Valuation Joint Board, and the IJB.

Maternity leave and staff absence whilst augmented by the appointment of an Acting Chief Internal Auditor and contract support from Glasgow City Council has reduced the capacity of the Internal Audit team during 2017/18 and delayed finalisation of audit reports. The team were supported in investigative work by the Corporate Fraud Team. One post became vacant in August 2018 as a result of structure proposals agreed in June 2017. We recommend that the internal audit team be embedded to ensure it is adequately resourced to meet the internal audit plan for the year.

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 Governance Panel 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 no **"High Risk"** graded recommendations and no instances of fraud. We are satisfied that internal audit were able to perform sufficient work in the period to substantiate their annual opinion on state of controls during the period.

At the May 2018 Audit and Governance Panel, the Acting Chief Internal Auditor presented the statement on internal controls for 2017/18, providing reasonable assurance over the framework of governance, risk management and control and that adequate controls were in place and operating through the Council in 2017/18.

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 relevant committee meetings to assess the effectiveness of the governance arrangements. Our attending at Audit and Governance Panels has also informed our work in this area.

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

Deloitte view

The Council has robust governance arrangements in place. We have followed up on the recommendation raised in 2016/17 that following the election of new councillors, management should take the opportunity to emphasise the overview and scrutiny role of members and this should be evidenced as far as practicable in the meeting minutes. We have reviewed the minutes of all relevant committee meetings to assess the effectiveness of the governance arrangements and the level of scrutiny and challenge and note that improvements have been made. Furthermore, we note that training has been provided to the new members by CIPFA on effective scrutiny back in February 2018. We conclude that this recommendation has been fully implemented.

From our wider scope procedures, we have identified that the attendance at seminars is at times poor and can be improved. We have therefore recommended a review to determine how to improve councillor attendance and participation at these events. We note that a survey has been issued to councillors to assess how improvements can be made.

The Council has a well established partnership with NHS Ayrshire & Arran through the South Ayrshire Integration Joint Board (IJB). As reported in our separate report to the IJB, increased focus must be given to developing an integrated budget, incorporating the set aside budget, rather than viewing it as two separate budgets. Finally, the current governance and reporting arrangements for the Lead Partnership arrangements is not as clear as for those areas under the direct control of the IJB. We have therefore recommended that these be reviewed to ensure that complete and consistent information is provided to the Board to allow it to fulfil its governance responsibilities effectively. It is important that the Council continue to work with the NHS and IJB to ensure the full benefits of integration are realised.

We have reviewed the financial and performance reporting to the Council during the year and identified a recommendation with the timeliness of these reports, as discussed further under financial management on page 31.

Audit dimensions (continued)

Governance and transparency (continued)

Leadership and vision

The Council Plan 2018-2022 sets out the Council's vision for the next four years, with a focus on 'Our People, Our **Place**'. The Council Plan was led by the new administration.

A restructuring of the organisation commenced in December 2017 and is ongoing in 2018/19 to align the management structure with 'Our People, Our **Place**'. The first part of the restructuring was focused on Directors and Heads of Service, with the next stage of focussed on third tier management (March 2018) and fourth tier management and below (June 2018). The original purpose of the proposal, set out in the December 2017 paper, was to establish a less hierarchical structure, which flattens and simplifies spans of control and which releases currently untapped capacity by empowering professionally proficient service (third tier) managers.

Governance arrangements

Following the local government elections in May 2017, the Council appointed elected members to the **Council's** decision making structure, including Leader, Deputy Leader and Cabinet members. 28 councillors were elected made up of 12 Scottish Conservative and Unionist, five Scottish Labour Party, nine Scottish National Party (SNP) and two independent, thereby forming a coalition administration formed between the SNP, Labour, and Independent councillors.

There are eight councillors on the Audit and Governance Panel, which is chaired by a member of the opposition party in accordance with best practice. Six of the members (including the chair and vice chair) were new to the Audit and Governance Panel following the election. From our observations at these meetings, they are generally well attended and a good level of scrutiny and debate.

However, while there is effective scrutiny and debate, per discussions with key members, it was identified that attendance at some seminars is poor and that this could be improved.

To ensure effective scrutiny and decision making, we recommend that consideration should be given as to how to improve councillor attendance and participation. We note that surveys have been distributed by the CEX to councillors to determine why attendance is decreasing and how it can be improved. Training tailored to each session may be useful in ensuring greater understanding of complex subject matters to give councillors confidence to make effective and informed decisions.

Council meetings are held in public and all papers and minutes are available through the **Council's** website. The Council is open and transparent about the way it conducts its business and decisions made.

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.

The Council has robust centralised procurement processes in place to ensure best value is procured. As well as this, internal audit also carried out specific audits on Following the Public Pound, for example they submitted a report following their audit of the revised Scheme of Grants in June 2017 which provided substantial assurance on processes in place around officers giving grants to applicants in the period.

Audit dimensions (continued)

Governance and transparency (continued)

Health and social care integration

The Council and the NHS have a well established partnership, strengthened by the South Ayrshire Integration Joint Board (IJB) which was formed 1 April 2015 following the establishment of a Shadow Integration Board on 1 April 2014.

For 2017/18, the IJB approved an initial balanced budget of £167.7m (2016/17: £164.1m), excluding expenditure relating to Lead Partnership and the set aside budget. This relied on the use of reserves of £1.3m which were carried forward from 2016/17. During the year, changes were made to the budget. The final position of the IJB was a marginal underspend of £1.0m (£0.2m relating to services commissioned from the Council and £0.8m relating to services commission from the NHS). No additional funding was required from either the Council or NHS to achieve this final position.

An indicative 2018/19 budget was approved by the IJB in June 2018. This budgeted total expenditure of £ 211.7m.

From discussions with key members it was noted that there is scope for improvement with regards to the information that is disseminated up from the IJB up to the Council. In particular, it was noted that members receive volumes of information (a lot of jargon) from the IJB which is sometimes difficult for councillors to understand. It is recommended that consideration be given to training for councillors relating to specific agenda points as well as how the quality/length of reports can be improved to make them more understandable for members.

	2017/18 budget (£'000)	2017/18 revised budget (£'000)	2017/18 actual (£'000)	2018/19 draft budget (£'000)
Council managed budget	70,860	73,359	73,139	71,465
NHS managed budget	96,848	99,378	98,630	99,456
Lead Partnerships (net position)		19,170	19,170	19,344
Set Aside budget		21,461	21,461	21,461
Total	167,708	213,368	212,400	211,726

At present, the IJB budget is still monitored against "SAC" and "NHS A&A" managed budgets, rather than a genuine pooled budget for the IJB as a whole. In addition, the set aside budget is not fully integrated into the IJB budget process. In 2017/18, the South Ayrshire share of the set aside resource was £21.461m, however, due to recurring budget pressures as a consequence of increased activity within acute hospital services, no element of the set aside resource has been released to facilitate the movement in the balance of care towards community based services. As is the case across Scotland, the IJB should continue to work to resolve funding issues around shifting the balance of care between hospitals and communities.

The IJB recognise that this is a significant financial risk of achieving a balanced position at a time of increasing demand for services. In addition, the lack of a confirmed funding position from NHS Ayrshire and Arran at the start of the financial year increases this risk. It is critical that the IJB has confirmed funding in advance of the start of the year and to have savings plans agreed early to ensure that it has sufficient lead time to implement any changes required.

Audit dimensions (continued)

Governance and transparency (continued)

Community engagement

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.

The Council has done the following to give people more influence over how their council plans services:

- The [Community Planning Partnership](#) website is available to the public where they can access and provide feedback on any issues they are facing;
- South Ayrshire [1000 Citizens Panel](#): is a group of circa 950 residents in South Ayrshire who are consulted on different matters. They are asked to complete a survey every two years about the quality of life in South Ayrshire. In between these twice-yearly surveys, there are also smaller surveys completed by sub groups of the panel;
- [Champions for Change](#) provides a platform for young people to talk directly to Council staff, elected members and service providers about the challenges that being in care can bring and how these challenges can be faced and overcome with the right support. 18 young people sit on the Champions Board; and

- The Council has a [Participatory Budget \(PB\) initiative](#), which give residents the opportunity to decide where public money is spent in their communities. The Council has a Community Grant Programme where they use PB to allocate small grants at locality planning level. Overall, 16 decision day events took place with over 4,700 votes cast and 331 groups funded through the scheme.

While we note that there are various measures in place for the Council to consult with the public, there is scope for improvement when it comes to community empowerment, community takeover and participatory budgeting. One example that has been implemented is Quay Zone, in Girvan, which the community has control of via South Carrick Community Leisure.

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, with performance regularly considered by management and the Council members.

During 2017/18 we have reviewed how the Council is addressing areas where targets are not being met and also how the implementation of transformational change is **impacting on how the Council's performance is measured** and reported.

Deloitte view

There is a clear framework in place to ensure that council performance is monitored and reported.

Performance reports and plans, including quarterly performance updates, are available for the public to view on the Council website.

We are satisfied that the performance is appropriately discussed within the Management Commentary in the Annual Accounts and management have introduced plans to address areas where progress has not been satisfactory.

External peer reviews could be performed on services. This should help to ensure there is constructive challenge to service performance and we are aware of other Councils who have derived significant benefit from these reviews. This was discussed with senior management and they have agreed to look into options for external peer review.

Audit dimensions (continued)

Value for money (continued)

Performance Reporting

The Council gathers performance information to monitor, track and improve service delivery to the community. The Council Plan 2018-22 (six strategic objectives) and the Single Outcome Agreement (SOA) 2013-27 (six strategic priorities) are the main strategic tools which are used to plan for and report on the **Council's** performance.

SAC has a number of methods for reporting performance via:

1. Annual Performance Report;
2. SOA Progress report;
3. Service and Improvement Plans (SIP) progress reports; and
4. Local Outcomes Improvement Plan

The SIPs are supported by service risk registers and are underpinned by the service revenue budgets, including any efficiencies that require to be achieved, so that the overall plans are realistic and reflect achievable outcomes.

Performance Measurement

The SIPs set out service level activities that support the delivery of strategic objectives identified in the Council Plan. They set out what each service aims to develop over the coming year and the targets that should be achieved in terms of performance. These include targets which must be met to enable the day-to-day business to be carried out effectively, and also key improvement actions to enable day-to-day business to be more effective and to improve outcomes. This provides a degree of linkage between money spent and outputs/outcomes delivered.

SAC perform self-reviews on services, within the terms of the Service Review guidance. Per discussions with senior management they identified that reviews are not as critical/scrutinising as they could be. As such, we recommend that SAC consider the use of external peer reviews for service areas to ensure continuous improvement is achieved.

The performance monitoring system used by the Council is Pentana. Members and Officers can see performance through this platform, although it is only updated twice-yearly for reporting purposes. The dashboard shows how the **Council's** SIP actions and KPIs are performing at any time, allowing them to drill down and get the latest reported position against them, so as to help focus and direct scrutiny, support and attention as appropriate. SIP sets out plans, taking into consideration financial resources available to them.

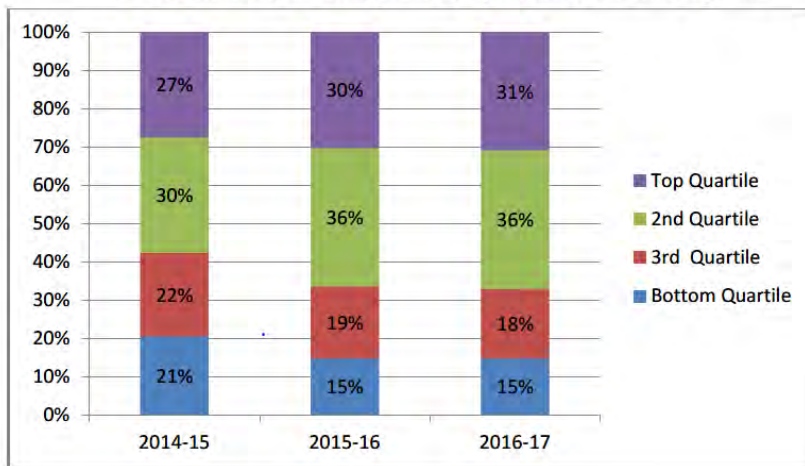
Audit dimensions (continued)

Value for money (continued)

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); note that the 2017/18 data is not due to be reported on until November 2018. Performance is summarised in the below table.

LGBF Measures analysed by quartile over last 3 years



67% of the 75 indicators in 2016/17 were either in the top quartile or second quartile, i.e. performing above the Scottish average, demonstrating that the Council is performing well compared to their peers.

What is worth noting is that 16 of these indicators relate to measures of spend/cost; of these four improved and 12 got worse. While it may be useful to compare spend/cost on, for example, road maintenance, this is not a measure of performance as this is more indicative of a policy decision to improve the existing condition of roads in the Council area.

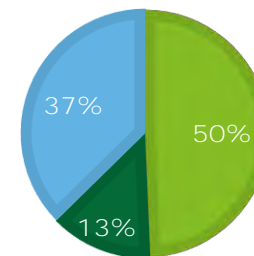
The year-on-year picture from 2015/16 to 2016/17 is as follows (which is also demonstrated in the below pie chart):

- 37 indicators have improved compared to the Scottish average;
- 10 indicators have not changed compared to the Scottish average; and
- 28 indicators have declined compared to the average.

It is positive to note that there have been more improving indicators than ones that have declined.

2016/17 PERFORMANCE COMPARED WITH THE PREVIOUS YEAR

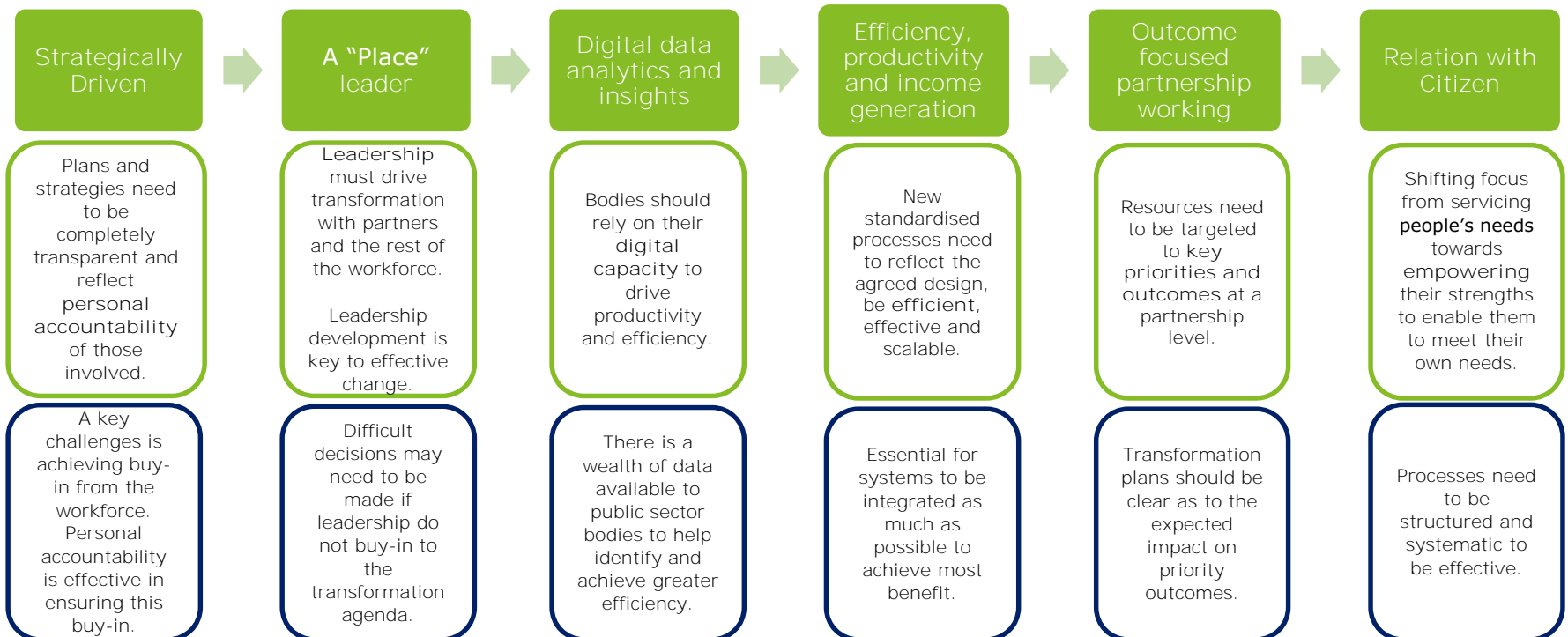
■ Increase ■ No Change ■ Decrease



Audit dimensions (continued)

Sharing best practice

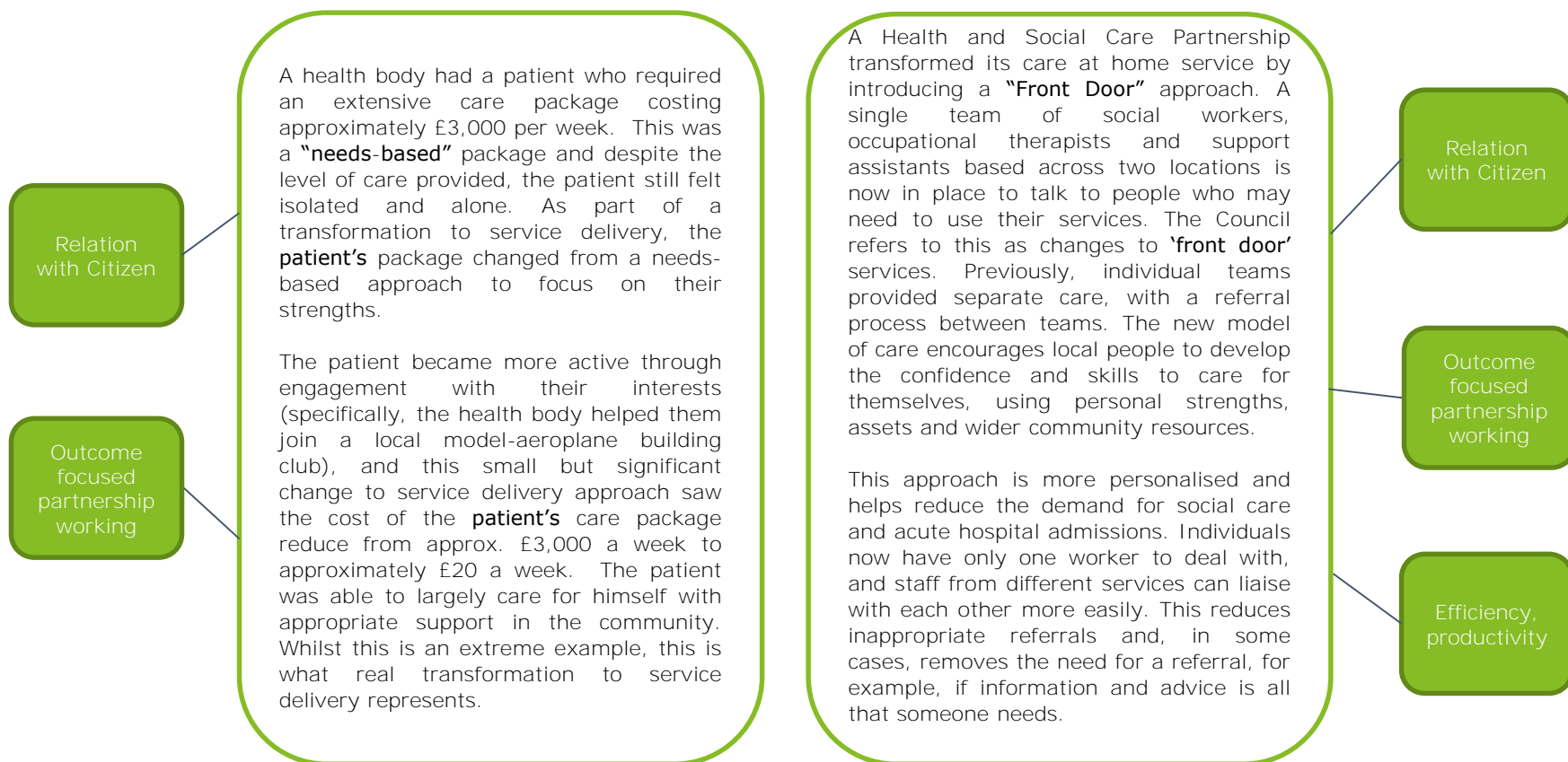
From our experience, public sector leader bodies that have successfully delivered and sustained transformational change have tended to focus on the following six key requirements. The overarching aspect throughout a transformation programme is having strong leadership that believes in and can drive transformational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



Audit dimensions (continued)

Sharing best practice (continued)

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



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

- 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

Your Part

- 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

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.

Digital data analytics and insights

Wider scope audit work

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	<p>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.</p> <p>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:</p> <p>Workforce: the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.</p> <p>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.</p> <p>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.</p> <p>The Council has noted that this is unlikely to have a significant impact on its operations but should keep a watching brief as the details are developed. The Council has agreed that a Member/Officer Working Group be established to examine how Brexit would affect South Ayrshire.</p>
New financial powers	<p>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.</p> <p>As a result of this, there is an expectation that public bodies will be seen before subject committees of the Parliament more often. The 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.</p> <p>The potential volatility of Scottish Government funding has also been acknowledged and addressed in the three future years' scenarios presented in the 2018-22 Financial Strategy.</p>

Wider scope audit work (continued)

Specific risks (continued)

Risk identified	Response
Ending public sector pay cap	<p>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. SAC has incorporated a tiered approach as recommended by the SG into their budget. Teachers have asked for a 10% increase and non-teachers 6.5%. A final decision has not yet been made on this.</p>
Cyber security risk	<p>The Council have passed their Scottish Government Cyber Essentials Scheme Test Specification.</p> <p>There have been no ransomware attacks during the year. An annual IT health check was carried out which identified some weaknesses that have been the focus for attention throughout the year.</p> <p>The Transform South Ayrshire (TSA) strategy is largely focused on improving technology within the Council in terms of improving resilience and modernising the Council's systems.</p> <p>As part of GDPR implementation, mandatory training was provided for all staff, which would have refreshed cyber risks.</p> <p>There were a small number of areas to focus on including contingency planning/disaster recovery planning. For example, a robust testing plan needs to be documented and a testing regime established; and full application recovery plans still need to be formally documented in a standard manner (works have been initiated in this sphere). Completion timescales are not available at this stage.</p>
Openness and transparency	<p>From our audit work, we are satisfied that the Council is appropriately open and transparent in its operations and decision making.</p> <p>The Delivering Good Governance Framework is never static, is reviewed over the course of each year, and is subject to ongoing review and development. The principles are regularly reviewed by the Audit and Governance Panel and a year-end assessment is signed off by both the Chief Executive and Leader of the Council.</p>

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 a 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, South 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 (continued)

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 have issued the consultation and notification of the issue of the consultation was made 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).

Input into the consultation process closed for comments on 7 September 2018.

Potential impact on the Council

£4,686k 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.

The Council is actively preparing for the introduction of this standard by sourcing all current operating lease documentation for all equipment/plant type assets. Discussions have also taken place with the Councils Asset team to source all land/property operating lease information. A programme of communication with all service managers is being prepared in order to raise awareness of the need to seek guidance and advice before services enter in to any new lease arrangements that may fall under this new standard.

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 Governance Panel 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; and
- 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.

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

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 Governance Panel, 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.



for and on behalf of Deloitte LLP
Glasgow

19 September 2018

Audit adjustments

Summary of uncorrected misstatements and disclosure deficiencies

There are no uncorrected misstatements above our clearly trivial threshold or uncorrected material disclosure deficiencies. We identified a small number of adjustments which management have corrected.

Action plan

Recommendations for improvement

To support the Council in preparing for its Best Value review expected in the next two to three years, we have made a number of recommendations for the Council to consider around the four audit dimensions.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Long-term financial strategy (discussed on p27)	We recommend that a longer term financial strategy (five to ten years) be developed. Taking a more long-term view would provide Members with a greater ability to take a 'future focused' approach to decision making.	Consideration will be given to extending the current medium term view to a more longer term approach when the Financial Strategy is next updated in 2019.	Head of Finance & ICT	March 2020	Low
Financial sustainability – savings targets (discussed on p26)	We recommend that milestones/savings targets are built into future strategy documents/plans to ensure responsible persons are held to account.	Savings targets will feature in the 2019/20 budget and in future Financial Strategies.	Head of Finance & ICT	March 2020	High
Financial sustainability – transformation plan (discussed on pp 28 and 41)	We recommend that future transformation plans apply the best practice six key requirements as set out on page 41.	Consideration will be given to best practice approaches when developing future transformation plans.	Executive Leadership Team	March 2019	Medium
Financial management – budget setting (discussed on p31)	We recommend that priority-based budgeting be considered/incorporated into annual budget setting processes.	This will be considered as part of the 2019/20 budget process.	Head of Finance & ICT	March 2019	Medium

Action plan (continued)

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Governance – internal audit (discussed on p33)	We recommend that the staffing of the internal audit team be embedded to ensure more timely production of audit reports in line with the internal audit plan.	Action has already been taken to address this recommendation.	Chief Executive	December 2018	Medium
Governance – seminar/ meeting attendance (discussed on p35)	We recommend that consideration be given as to how to improve Councillor attendance and participation.	Action has already taken place to address this recommendation.	Chief Executive	March 2019	Medium
Governance – community involvement (discussed on p37)	We recommend that SAC improve community involvement via increased community empowerment, community takeover and participatory budgeting.	Discussions is already underway with consideration of options available to address this requirement. An engagement strategy is currently being developed.	Corporate Leadership Team	March 2019	Medium
Value for money – improvement (discussed on p38)	We recommend that SAC consider external peer reviews on services to ensure there is enough challenge/scrutiny to ensure improvement of services.	Consideration will be given to the benefits of this recommendation.	Executive Leadership Team	March 2019	Medium

Action plan (continued)

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Charitable Trusts – accounts (discussed on p14)	<p>The connected charity provisions in place under The Charities Accounts (Scotland) Regulations 2006 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 three trusts into one set of annual accounts going forward.</p>	<p>Consideration will be given to the merits of the suggested changes.</p>	<p>Head of Finance & ICT and Head of Regulatory Services</p>	<p>March 2019</p>	<p>Low</p>

Action plan

Follow up of 2016/17 recommendations

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
PPE	When uploading revaluation data onto Technology Forge we recommend the upload spreadsheet is reviewed prior to its upload.	Additional procedures will be added to the new protocols introduced in 2016/17.	Asset Systems Manager	March 2018	Low	<i>Implemented</i> – per review of controls in place, satisfied that as part of year-end processes that the valuers sense check each other's work prior to upload to TechForge.
Governance	With the election of new councillors, management should take the opportunity to emphasise the overview and scrutiny role of members and this should be evidenced as far as practicable in the meeting minutes.	Members' Briefing sessions will be tailored to emphasise this role for Members, including the importance of Members evidencing their overview and scrutiny at Council and Panel meetings.	Head of Legal and Democratic Services	March 2018	Medium	<i>Implemented</i> – per our attendance at AGP meetings, from evidence of CIPFA-provided training to the new councillors on effective governance, and from review of meeting minutes, we are satisfied that there is adequate documentation of scrutiny and challenge by the councillors.

Action plan

Follow up of 2016/17 recommendations (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Financial sustainability/transformation	Management should note the baseline position of the Council against the Strategic Audit Priorities, outlined on pages 32-33. As part of our ongoing work, External Audit will monitor the Councils performance over the course of our five year appointment.	Management has noted the position identified by the auditors and will work to deliver improvements against this position over the course to their appointment.	Best Value Working Group	March 2021	Low	<p>We note that the following are currently under way:</p> <ul style="list-style-type: none"> • examining how good the Council is in relation to the five 'Strategic Audit Priorities' as evidenced through the most recent HGIOC work; • reviewing the assessment provided by Deloitte in their Annual Report on the 2016/17 Audit; • examining the observations made to date in the new Best Value Assurance Reports of other councils; • reflecting on the early consideration of the Best Value Working Group on 23 Aug 17; • taking account of the aspirations within the 'Programme for Effective Governance'; and <p>This recommendation is not yet due – we will continue to monitor progress for the remainder of the five year contract.</p>

Action plan

Follow up of 2016/17 recommendations

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2017/18 Update
Bank account reconciliations	We recommend that management ensure the control procedures in relation to bank reconciliations are fully applied to confirm that unmatched items are matched accurately and in a timely manner.	Control procedures will be reviewed to ensure timely action taken.	Corporate accounting manager	March 2017	Low	<i>Partially implemented</i> – we have reviewed year-end bank account reconciliations and note that all key bank reconciliations have been prioritised. The list of reconciliations is extensive and includes lower priority suspense account reconciliation. We accept that not all of the suspense account reconciliations have been completed on a very timely basis and this is an area for ongoing improvement given resource constraints.

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 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 Governance Panel 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 and Ireland), 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	<p>The audit fee for 2017/18 is £163,500 as detailed in our Audit Plan, and £3,000 for the audit of the Charitable Trusts.</p> <p>No non-audit fees have been charged by Deloitte in the period.</p>
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	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board 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.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>

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>



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