



North Ayrshire Council

Annual report on the 2013/14 audit

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

October 2014



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Key messages

Financial statements

- We have given an unqualified auditor's report on North Ayrshire Council's 2013/14 financial statements.

Financial position

- Financial management is strong with a robust budget setting process in place to deliver services in line with the council's priorities.
- The council reported a general fund accounting deficit of £3.924 million and a HRA surplus of £1.709 million in 2013/14.
- Usable reserves have decreased by £4.213 million to £54.874 million at 31 March 2014. However, a reduction in the general fund of £ 9.784 million was planned and an underspend of £5.860 million against service budgets is reported.

Governance & accountability

- The council has effective governance arrangements in place.
- Systems of internal control operated effectively.

Best Value, use of resources & performance

- The Change Programme is making progress in reshaping services to reflect council priorities and resources
- A well developed framework is in place for monitoring and reporting performance against strategic priorities.
- In 2013/14 the council reported that it met or exceeded 73% of its performance targets.

Outlook

- Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care.
- Effective partnership working will be essential to make the best use of available resources.

Financial Statements

1. We have given an unqualified audit opinion that the financial statements of North Ayrshire Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2014 and of the income and expenditure for the year then ended.
2. We have also given an unqualified audit opinion on the 2013/14 financial statements of those charities registered by North Ayrshire Council and audited under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005.
3. Financial management remains strong with close budget monitoring and regular reporting to members.

Financial position

4. The general fund reported an accounting deficit of £3.924 million in 2013/14 and the HRA returned a surplus of £1.709 million in 2013/14. The council reported an underspend against its revenue budgets across all services except Social Services & Health.
5. Total usable reserves decreased by £4.213 million to £54.874 million at 31 March 2014. The decrease in reserves was due to the planned use of funds carried forward from 2012/13 to meet commitments in 2013/14. There was also a reduction in the repairs and renewals fund to finance capital expenditure. The

reserves balance, as a proportion of annual spend, is the same as the average for all Scottish councils.

6. The reserves have been built up over time to fund the council's change programme and smooth spending levels in response to reduced financial settlements.
7. The general fund balance was £25.155 million at 31 March 2014. Of the year end balance, £18.297 million is committed to earmarked projects. The uncommitted balance of £6.858 million is in accordance with the council's reserves strategy to retain 2-4% of budgeted expenditure.
8. After formally setting its budget for 2014/15 the council has a funding gap of £16.271m. The gap relates to the 2015/16 and 2016/17 financial years.
9. Capital budget profiling improved on previous years with slippage on the general fund being 5.7% of budgeted capital expenditure. This did not impact service delivery.

Governance and accountability

10. The council has effective governance arrangements in place. The key controls within the council's main financial systems operated effectively during 2013/14. The council also has an internal audit section that operates in accordance with Public Sector Internal Audit Standards.
11. Progress in developing plans for integration of Health and

Key Messages

Social Care has been well managed. A clear timeline for the implementation of various stages to full integration has been agreed with NHS Ayrshire and Arran. We are satisfied that arrangements are sufficiently advanced to be able to deliver integration on time.

Best Value, use of resources and performance

12. The council's Change Programme has delivered savings over the last few years and led to changes in the way that some services are delivered. Phase 2 of the programme is now in progress.
13. The council continues to improve its performance management and self evaluation arrangements. This includes regular reporting of performance of the council's key priorities to members and demonstrating continuous improvement through council wide participation in initiatives such as "Good to Great".

Outlook

14. Demands on services and resources continue to increase and these need to be managed alongside major reforms in the

welfare system and health and social care. This underlines the need for strong governance, leadership and decision making based on good cost and performance information.

15. The council faces a significant challenge in delivering services with resources which continue to reduce. The council's revenue budget for 2014/15 identifies the need to achieve efficiencies and savings measures of £6.231 million. In the medium term (2015/16 to 2016/17) more than £16 million of savings will be needed. Officers recognise that the council face difficult decisions over the medium term.
16. An outcome based budgeting approach is being developed in 2014/15 to improve the linkages between its priorities and allocation of financial resources.
17. Effective working with partners will be required to make the best use of available resources as well as innovation and vision to design and deliver the services needed to serve the future needs of citizens.

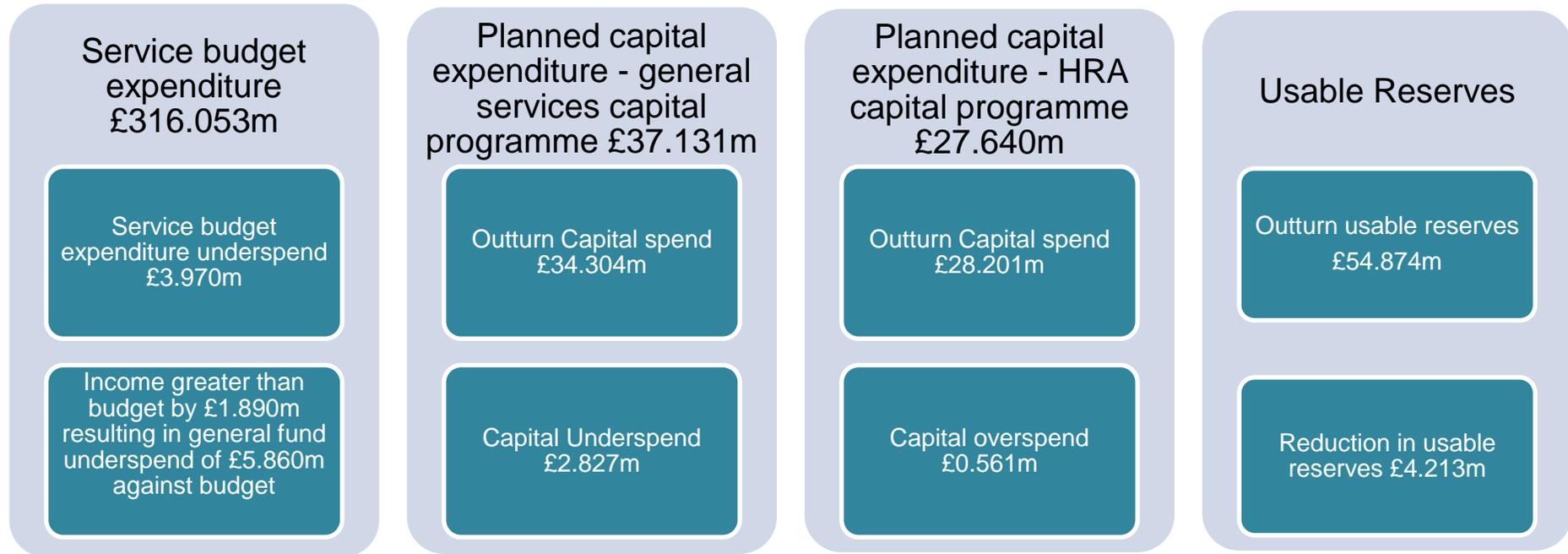
Introduction

18. This report is a summary of our findings arising from the 2013/14 audit of North Ayrshire Council. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.
19. Our responsibility, as the external auditor of North Ayrshire Council, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.
20. The management of North Ayrshire Council is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
21. This report is addressed to the members of North Ayrshire Council and the Controller of Audit and should form the basis of discussions with the Council as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.
22. This report will be published on our website after it has been considered by the council. The information in this report may be used for the Account's Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
23. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, shown at Appendices I and II, include recommendations for improvements. We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of North Ayrshire Council.
24. The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix III sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Introduction

25. Appendix IV is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response".
26. We recognise that not all risks can be eliminated or even minimised. What is important is that North Ayrshire Council understands its risks and has arrangements in place to manage these risks. The council and the Proper Officer should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.
27. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
28. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements



Audit opinion

29. We have given an unqualified opinion that the financial statements of North Ayrshire Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March and of the income and expenditure for the year then ended.

30. The council has assessed whether or not trading accounts are required for any of its services and whether these are significant enough to require a statutory trading account. The council has concluded that its Building Services meet this criteria. Building Services achieved a surplus of £1.737 million in 2013/14 and returned a cumulative surplus of £3.698 million over the last three years.

Other information published with the financial statements

31. Auditors review and report on other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.

Legality

32. Through our planned audit work we consider the legality of the council's financial transactions. This includes obtaining written assurances from the Executive Director (Finance & Corporate Support). There are no legality issues arising from our audit which require to be reported.
33. When the financial statements are presented for audit, they are also advertised as available for public inspection. As part of this process, we received an objection to the accounts under section 101(2) (a) of the Local Government (Scotland) Act 1973. The majority of the issues related to the Largs Common Good and Trust Funds.
34. Having considered the objection raised we concluded that the issues raised by the objector did not have a material impact on the financial statements and there was no impact on our audit opinion. Further details are outlined at paragraphs 99-102.

The audit of charities financial statements

35. The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) sets out the accounting and auditing rules for Scottish charities. These required, for the first time in 2013/14, a full audit of all registered charities accounts where a local authority or some members are the sole trustees.
36. North Ayrshire Council had 12 funds which were subject to the full charities financial statements audit for 2013/14.
37. Auditors of registered charities' statement of accounts have responsibilities to:
- audit and express an opinion on whether the charity's financial statements give a true and fair view and are properly prepared in accordance with charities legislation
 - read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
 - report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).
38. We have given an unqualified opinion on these matters with respect to the 2013/14 financial statements of the relevant charities registered by North Ayrshire Council.
39. In our report to trustees we highlighted that:
- Five of the trusts remained dormant, with no donations, expenditure or payment of grants.

Financial statements

- The council were unable to locate the trust deeds for three small trusts included within the North Ayrshire Council Charitable Trust.
40. The council consider that the dormant trusts are still active and as grant applications come in, they will be reviewed by committee. Where it is appropriate, the council will take steps to wind up a trust. Where trust deeds can not be located then, if it is not possible to secure competent grant applications, the trusts will be amalgamated with other trusts having similar objects.

Group accounts

41. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations.
42. North Ayrshire Council has an interest in Common Good Funds, North Ayrshire Leisure Limited and several Joint Boards. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £21.003 million.
43. The net assets of the group at 31 March 2014 totalled £545.679 million, compared to £221.017 million in 2012/13. The increase is mainly due to the council no longer requiring to account for Police and Fire in its group accounts following the transfer of Police and Fire functions to the new authorities from

1 April 2013. This removed the pension liabilities of Police and Fire from the group accounts. The non inclusion of these bodies increases the Group Balance Sheet by £350 million. This has had no impact on the council's reserves.

Accounting issues arising

Presentational and monetary adjustments

44. A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the unaudited financial statements.

Whole of government accounts

45. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidation pack for audit by the deadline. This has been audited and the audited return submitted to the Scottish Government.

Report to those charged with governance

46. We presented to the Audit Committee, on 23 September 2014, our report to those charged with governance (ISA 260). The primary purpose of that report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main points are set out in

Financial statements

the following paragraphs.

- 47. Equal Pay Claims** - The ultimate cost to the council of the claims made under the Equal Pay Act 1970 remains uncertain. As the tribunal process unfolds the extent of the council's eventual liability will become clearer. A provision has been included at 31 March 2014 for all known claims against the council, however actual settlements could be different from this. The council have also disclosed a contingent liability for further unknown claims which may arise in the future and have earmarked funds to help address this.
- 48. Review of Title Deeds** - The council has carried out a review of its title deeds to confirm that these are properly held by the council and appropriately recorded in the council's accounting records. This is substantially complete but is still ongoing. To date, this has identified one asset that required to be transferred from the council to the common good; and one asset that required to be transferred from the common good to the council. The review of title deeds will be completed in 2014/15.

Outlook

- 49.** The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). New standards apply from 2014/15 which will effect the group financial statements and include a change to the definition of control.
- 50.** Highways assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code requires highways to be measured for the first time on a depreciated replacement cost basis. This represents a change in accounting policy from 1 April 2016 which will require a revised opening balance sheet as at 1 April 2015 and comparative information in respect of 2015/16. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets. The council should ensure it is planning ahead to allow full compliance with the Code.
- 51.** The revised Local Authority Accounts (Scotland) Regulations 2014 apply for financial years 2014/15 onwards. The regulations set out in more detail what is required in respect of financial management and internal control. The council has considered the implication of these regulations for the accounts.

Financial position

52. The council reported a general fund deficit on the provision of service of £15.716 million in 2013/14. Adjusting this balance to remove the accounting entries required by the Code, resulted in an accounting deficit in the council general fund balance of £3.924m prior to transferring £3.557 million to earmarked funds.
53. The budget process enables departments to earmark funds for spending in the following financial year. This forms part of the committed element of the general fund balance. These commitments are identified for specific purposes: either due to differences in the timing of expenditure; or where there are plans for service delivery which will be delivered at a later date. The council set a break even budget in 2013/14. The budget included the utilisation of balances brought forward of around £9.784 million. Actual expenditure incurred in 2013/14 was £5.860 million less than income available in the budget.
54. The council reported an underspend against its revenue budgets across all services except Social Services & Health. Overspends occurred mainly in Older Peoples Service and the Learning Disabilities Service. The principal underspends against budget include:
- An underspend of £3.070 million within Economic Development due to carry forwards from previous years and additional European grant funding. The underspends ranged across a number of programmes.
- Income from council tax was £1.081 million higher than budget due to council tax reduction payments being lower than anticipated and higher than expected income from prior year debts.
 - Savings from the early delivery of efficiency initiatives.
 - Lower than anticipated loan charges, as a result of the use of internal balances to fund capital investment, together with slippage on the capital programme.
55. The Housing Revenue Account had a surplus of £1.709 million in 2013/14. £0.258 million of this was transferred to the capital fund resulting in a closing balance for 2013/14 of £8.724 million. This surplus arose due to underspends in repairs to housing stock and insurance costs, savings from vacancy management, an underspend in debt charges as a result of higher revenue interest, and savings from write off of rent arrears being under budget. The balance of £8.724 million has been earmarked in full for future investment in the housing improvement programme and other housing related costs.
56. Usable reserves are part of a council's strategic financial management and councils will often have target levels of reserves. As shown in Exhibit 1, the overall level of usable reserves held by the council decreased by £4.213 million

Financial position

compared to the previous year and totalled £54.874 million. This halts a yearly increase in usable reserves that had built up over the previous four financial years as part of the council's financial strategy to meet known and anticipated commitments.

Exhibit 1: Usable reserves

| Description | 31 March 2012 | 31 March 2013 | 31 March 2014 |
|------------------------------|---------------|---------------|---------------|
| | £ million | £million | £million |
| General Fund | 29.102 | 32.636 | 25.155 |
| Housing Revenue Account | 8.230 | 7.173 | 8.724 |
| Capital Fund | 9.091 | 11.341 | 15.082 |
| Repair & Renewal Fund | 7.943 | 4.550 | 2.614 |
| Insurance Fund | 3.331 | 3.387 | 3.299 |
| Total Usable Reserves | 57.697 | 59.087 | 54.874 |

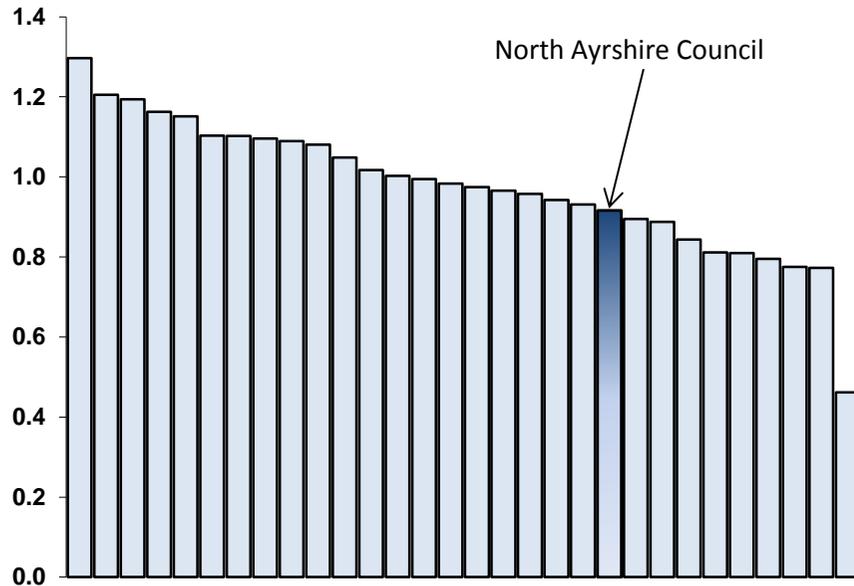
Source: North Ayrshire Council 2013/14 financial statements

57. The decrease in reserves was due to the planned use of funds from 2012/13 to meet commitments in 2013/14. There was

also a reduction in the repairs and renewals fund to finance capital expenditure.

58. From an analysis of Scottish councils' unaudited 2013/14 accounts, over half of all councils utilised reserves brought forward, with around half of all councils ending 2013/14 with lower levels of reserves than they had at the start of 2012/13.

Exhibit 2: Total Usable Reserves – Balances carried forward as a proportion of balances brought forward

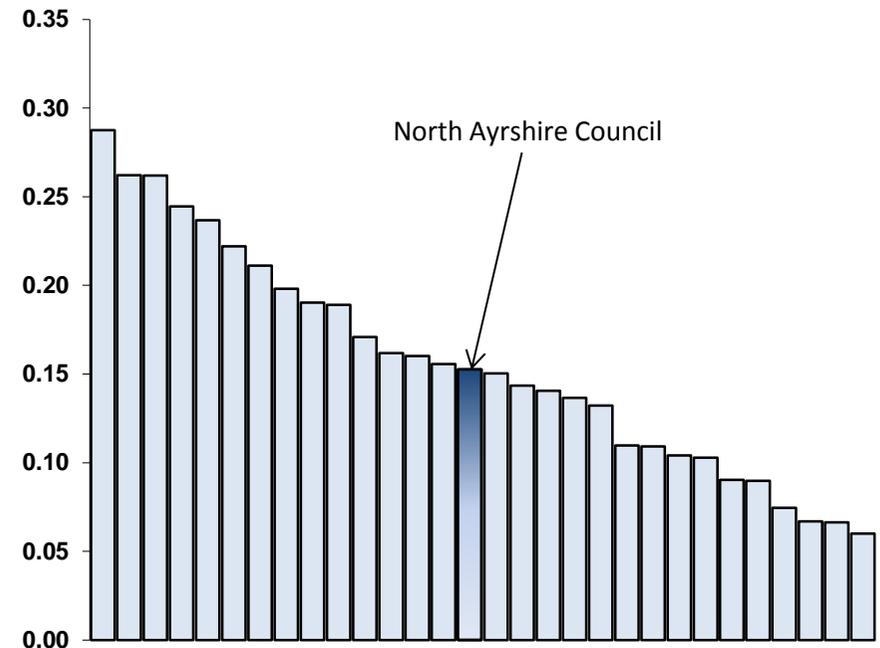


Source: Scottish councils' unaudited accounts 2013/14

- 59. The council has a well established budget setting process in place. As part of this, members review the council's level of reserves so that they can make informed decisions about future service delivery options. This is facilitated by an annual review of the reserves strategy.
- 60. Exhibit 3 below presents the council's total usable reserves position in relation to net revenue stream for the year in comparison to other Scottish councils (net revenue stream

being presented as general revenue grant, council tax, non domestic rates and dwelling rents). North Ayrshire's position (15%) is the same as the median level of 15%.

Exhibit 3: Total Usable Reserves as a proportion of net revenue stream



Source: Scottish councils' unaudited accounts 2013/14

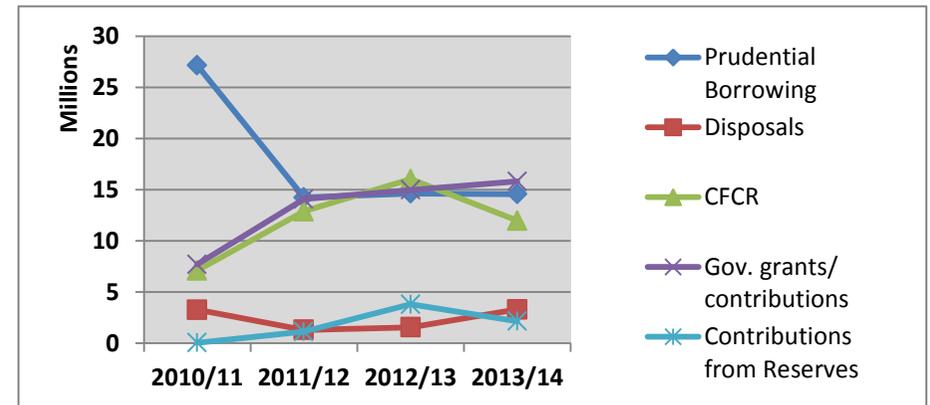
Financial position

61. The general fund balance at 31 March 2014 is made up of earmarked commitments of £18.297 million and an unallocated balance of £6.858 million, or 2.2% of net budgeted expenditure. This position is in line with the council's policy of maintaining uncommitted reserves at between 2% and 4% as specified in the councils Reserve Strategy. Of the earmarked commitments, £8.747 million is committed for use within departmental budgets and the remaining £9.550 million is to be used principally to finance the council's Change and Service Redesign Fund or to fund potential equal pay claims.
62. Overall, we consider that the council has a robust financial review process for the use of earmarked funds and performance against budget allocation. The council has demonstrated a strong commitment to its fiscal responsibilities in the current year and has taken appropriate steps to ensure that services are appropriately funded in future years.

Capital investment and performance 2013/14

63. The council spent £34.304 million on the general fund capital programme and £28.201 million on the HRA programme. The capital programme was funded as shown in exhibit 4 below.

**Exhibit 4: Sources of finance for capital expenditure
2010/11 – 2013/14**



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

64. As shown in exhibit 4, the main source of financing continue to come from the prudential borrowing, grants and other contributions, and capital expenditure financed from the revenue accounts. The council used £11.978 million from the general fund and HRA to finance capital expenditure in 2013/14. This is a continuation of a similar trend in previous years. Despite significant capital expenditure in the last three years totalling £155.572 million, the council's external debt (excluding PPP) has increased by only £3.955 million since 31 March 2011.
65. The budgeted general fund capital programme for 2013/14 was £37.131 million. Actual expenditure was £2.827 million (7.6%)

Financial position

below budget. £2.135 million of the underspend (5.7%) is due to slippage and acceleration of projects between financial years, £0.393 million relates to externally funded projects that will no longer proceed, and the remaining £0.299 million will be carried forward to assist in funding new projects in later years. The slippage primarily relates to some IT projects caused by the need to address more pressing Public Sector Network requirements (£0.574 million), the completion of Bridgegate House (£0.380 million), and Irvine Leisure Centre (£0.531 million) due to planning objections.

66. The slippage encountered in 2013/14 is an improvement on previous years and has not had a significant impact on services.
67. The HRA Housing Investment Programme incurred expenditure of £28.201 million against a budget of £27.640 million resulting in an overspend of £0.561 million (2.0%). The overspend is due to acceleration of projects (£0.745 million) into 2014/15 leaving a true underspend of £0.184 million. The council reported that 96.3% of houses were assessed as having met the Scottish Housing Quality Standard.
68. Overall, the council have demonstrated good management of their capital programme during 2013/14 and have improved the profiling of their capital budget. Regular monitoring reports are presented to the Cabinet. The council's £243 million capital programme to 2022/23 enables this flexibility and ensures the

programme is aligned to strategic priorities.

Treasury Management

69. High levels of debt may reduce a council's budget flexibility going forward as revenue resource has to be set-a-side to service that debt. The impact that debt levels have on net revenue expenditure will be affected by interest rates and repayment periods.
70. As shown in Exhibit 5, the council's net external debt (i.e. including PPP and offset for investments) as a proportion of net revenue stream continues to remain in the lower quartile relative to other Scottish councils and has reduced slightly from 2012/13. This should help to reduce the impact of interest charges and provide flexibility in managing the council's revenue and capital budgets.

Exhibit 5: Net external debt as a ratio of net revenue stream



Source: Scottish councils' unaudited accounts 2013/14

71. At 31 March 2014 the council had total external borrowings and long term liabilities of £290,887 million (2012/13 £293.031 million) including PPP liabilities of £70.170 million. Of this, 72% is at a fixed rate of interest and 28% at variable rate. Gross borrowing of the council is within the authorised limit and operational boundary set by the treasury management strategy.

Outlook

72. When approving the 2013/14 budget, the council identified a funding gap of £22.168 million over the three year period to 2015/16. At that stage, the council also approved a package of strategic savings that reduced the gap to £3.778 million.
73. The council set a balanced budget for 2014/15 which incorporated £6.231 million of savings. When doing so, the council also noted the funding gap of £11.174 million in 2016/17 for the first time as part of its three year rolling budget. The three year budget to 2016/17 highlights a funding gap of £16.271m. The gap relates to the 2015/16 and 2016/17 financial years.
74. Budgetary control information to 31 July 2014 highlighted that, in addition to the budget approved in December 2013 earmarked funds of £3.497 million was carried forward from 2013/14 for service expenditure in 2014/15. A net in-year surplus of £1.394 million for general services is projected to 31 March 2015. The net projection on the housing revenue account is a surplus of £1.799 million for the year.
75. Phase two of the council's Change Programme is outcome focused with an emphasis on giving greater value. The council recognises the need to improve the linkages between its priorities and allocation of financial resources. An outcome based budgeting approach is being developed in 2014/15 to contribute to the development of the council's change agenda.

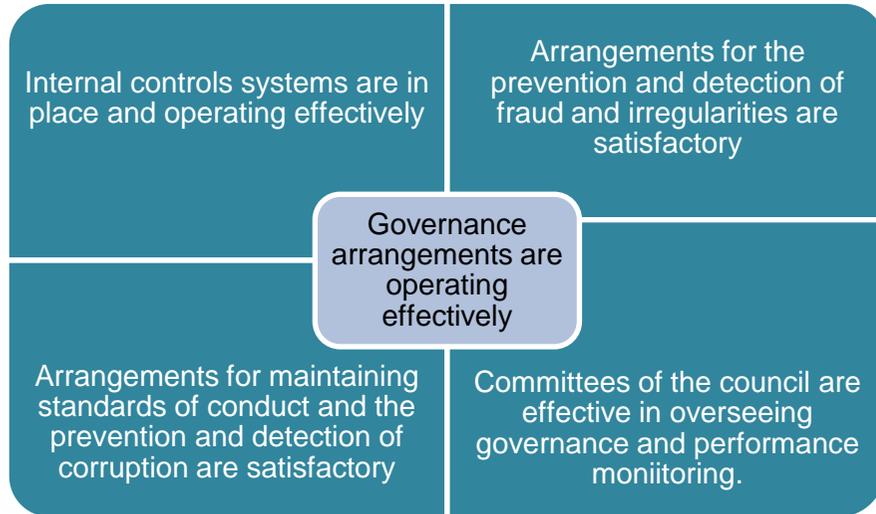
Financial position

76. The council will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings achieved in previous years

Recommendation No 1

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Governance and accountability



77. Members of the council and the Proper Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of North Ayrshire Council and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

78. The corporate governance framework within North Ayrshire Council is centred on the council which is supported by the following standing committees.



79. Based on our observations and audit work our overall conclusion is that the governance arrangements within North Ayrshire Council are operating effectively.

Internal control

80. As part of our audit we reviewed the high level controls in a number of the council’s systems that impact on the financial statements. This audit work covered trade payables (including corporate procurement cards), council tax billing/collection and housing rents. We also relied on previous years’ audit work in relation to general ledger, payroll, trade receivables, treasury management and cash & cash equivalents.

81. Our overall conclusion was that appropriate systems of internal control are in place and they operated effectively during 2013/14.

Internal audit

82. Internal audit provides members of the council and the Proper Officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where appropriate.
83. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place. We placed formal reliance on the work of internal audit for Non Domestic Rates. In respect of our wider governance and performance audit work we also reviewed the findings and considered other areas of internal audit work including fraud prevention arrangements, ICT business continuity, performance indicators, welfare reform arrangements, PECOS workflow processes and selected aspects of the general ledger, payroll and sundry debtors systems.

ICT audit

84. The council continues to make effective use of information communications technology (ICT) to support and deliver services. Governance arrangements have improved through the introduction of an ICT Change Advisory Board (CAB). The CAB assesses all IT investments and changes to ensure they are prioritised and aligned with the council's business needs.
85. The council's ICT strategy 2011-16 is reviewed annually. The 2014 review identified the strategic priorities for the next two years, recognising the need to align the council's ICT strategy with the National and Local Government ICT strategies and the council's transformational programme.
86. The council participated in the Your Business at Risk Survey in 2014. The council previously participated in the survey in 2008/09 and 2009/10.
87. The survey concluded that there is a good and continuing level of IT security awareness within the council, including:
- 85% of users continue to recognise that security is everyone's responsibility rather than an IT department/IT security role.
 - 94% of users are aware of the council's policy and procedures for using the internet, email and telephone.
 - 98% of users would either change their password immediately or seek advice if they suspected that someone knew their password.
 - Almost 100% of users do not use their work email address for personal use.
88. However there remain a number of areas that still need to be

Governance and accountability

addressed to improve overall staff awareness of information security. For example:

- Sharing of passwords remains prevalent at over 31%.
- 26% of users indicated that they still send 'personally identifiable' electronic information (internally or externally) via unencrypted emails.
- 5% of users indicated that they would access work related confidential information when out of the office by emailing the documents to a personal email account.

89. Recent work by the Scottish Housing regulator, assisted by Audit Scotland, identified some issues with personal data security in the council's homeless services. The council acknowledged that breaches of its personal data policies had occurred and refresher training on information security policies has been provided to homeless service staff and more widely.
90. For the first time in 2012/13, councils had to apply to connect to the Public Services Network (PSN) to allow the sharing of electronic data with other public bodies, such as the Department of Works and Pensions. PSN accreditation is now required on an annual basis. Without accreditation the council could lose electronic access to a number of PSN networked services.
91. The council achieved PSN accreditation in November 2013 and the council's transition to the PSN network was completed in May 2014. Accreditation requires to be achieved annually

with the next assessment due in January 2015.

92. Due to a three year programme of work, which was already underway as part of the ICT strategy 2011-16 there was no additional capital expenditure required to achieve PSN accreditation as a lot of work on replacement of hardware/software had already been completed or was in progress leading up to the initial accreditation in 2013. There were, however, additional revenue costs of around £0.060 million to cover the cost of achieving accreditation.
93. While a number of projects were temporarily delayed during the accreditation process, the council considers that this did not impact services provided. The council has satisfactory arrangements in place to ensure continuing PSN accreditation. It has identified further changes to facilitate this as well as the costs associated with these changes. The capital cost of achieving this is estimated at £0.320 million in 2014/15 and £0.115 million in 2015/16. Additional annual revenue costs to support PSN compliance have been estimated at £0.070 million.
94. Going forward health and social care integration is likely to create new challenges especially if the NHS continues to be out with the PSN compliance framework. The council are taking steps to address this through the IT and information sharing workstream of the North Ayrshire Health & Social Care Partnership.

Arrangements for the prevention and detection of fraud

95. The council's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.
96. North Ayrshire Council participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI. This included a designated NFI key contact within the Internal Audit Section, with responsibility for monitoring the implementation of NFI, including the review of all datasets.
97. Eleven frauds were identified, all within Housing Benefits Payments and relating to undeclared income. The council are in the process of recovering around £0.034 million as a result.

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

98. The arrangements for the prevention and detection of corruption in North Ayrshire Council are satisfactory and we

are not aware of any specific issues that we need to record in this report.

Objection to the accounts

99. We received an objection to the accounts covering issues related to the Largs Common Good and Trust Funds. We met with the objector and considered the issues and evidence provided. We are satisfied that this did not identify any issues which had an impact on our opinion on the financial statements.
100. In our response to the objector we reported on the progress made by the council in reviewing title deeds to ascertain that ownership and title of properties has been correctly recorded and accounted for. We noted that the council have substantially completed their review of its title deeds but that some are still to be concluded. The council expect to complete this by March 2015.
101. In determining the ownership of assets the council identifies common good properties in accordance with LASAAC guidance. We are satisfied with the methodology adopted by the council in its review of its title deeds and we will continue to monitor this until the council's review of title deeds is completed.
102. Whilst we feel this is an approach in line with the LASAAC expectations, we recognise that ultimately only the courts can

Governance and accountability

decide on the outcome of a legal challenge on the title and use of land and property. We are aware that there are two impending court cases in connection with objections raised against the council disposing of land in one case and extending a lease in the other. We will monitor the outcome of the court cases which are due to be held in December 2014.

Integration of adult health and social care

- 103.** The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.
- 104.** The integration will be complex and challenging and the council will need to engage with the health board to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose. This will require:
- The establishment of a local integrated partnership and related governance arrangements.
 - Integrated budgets for health and social care.
 - Joint responsibility for strategic and locality planning in the area served.
- 105.** The council have made good progress around the establishment of the Health and Social Care Partnership governance arrangements.
- 106.** A Transition Integration Board (TIB) was established with responsibility for overseeing the arrangements being put in place to allow the Shadow Integration Board (SIB) to assume responsibility for the delivery of a social work and health service from 1st April 2014.
- 107.** The SIB's key remit is to establish a Shadow Health and Social Care Partnership, under a joint board arrangement, for the area. This includes directing a number of work streams and defining transition arrangements. The SIB meets regularly and monitors the progress on a wide range of governance arrangements including: the programme plan; the communication plan; development of the strategic plan; IT and information sharing; budgets and financial reporting; service configuration and interim service management arrangements.
- 108.** There are a number of workstreams in place. This includes the finance work stream which has three sub-groups responsible for developing arrangements for financial governance and planning; financial controls, assurance and risk; and financial management.
- 109.** Pan-Ayrshire work has been co-ordinated with South and East Ayrshire Councils and NHS Ayrshire and Arran, and a programme management plan is in place. The strategic alliance integration sub group (SAISG) meets weekly to discuss integration issues common to all the Ayrshire partners and to oversee progress in terms of the various workstreams.

Governance and accountability

- 110. Key appointments have been made, including the Director of the North Ayrshire Health and Social Care Partnership (NAH&SCP), the Chief Social Worker and some of the Heads of Service.
- 111. The council delegated all Social Services and Health functions, except Housing, Anti-Social Behaviour and Community Safety services to the NAH&SCP.
- 112. We are satisfied that arrangements are sufficiently advanced to be able to deliver integration on time.

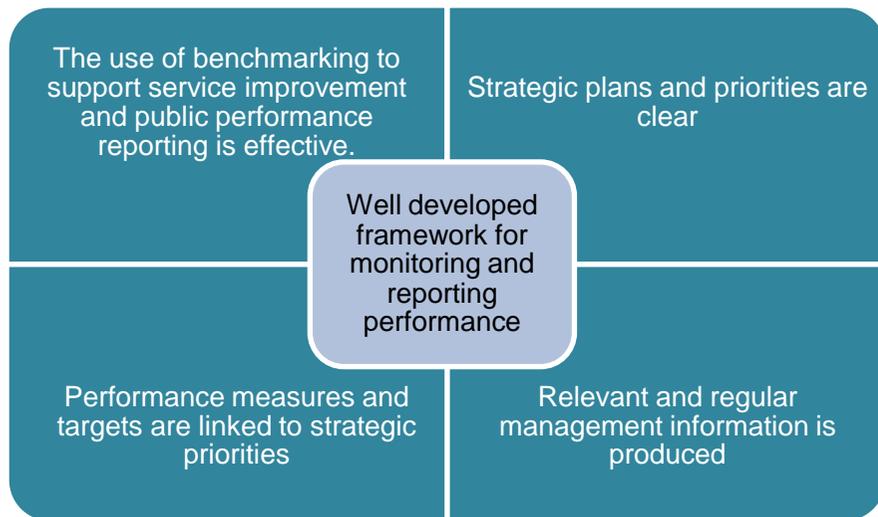
Welfare Reform

- 113. The council recognises the impact that the changes to the UK welfare system could have on resources and service provision. 2013/14 was a period of significant change with council tax benefits being replaced by the new Council Tax Reduction Scheme and the introduction of the Scottish Welfare Fund. Councils continue to face uncertainties over the roll out of the Universal Credit and there is the potential for even further reforms after the Scottish independence referendum.
- 114. The council has been effectively monitoring and planning ahead to mitigate against the impact of the reforms. The council established a welfare reform working group in December 2012 and a welfare reform action plan which focuses on assessing the impact on the community and the council, providing support in the community, raising awareness, developing a training strategy, working with partners, and ensuring the council's IT systems are fit for purpose.
- 115. Progress on implementation of the action plan is monitored by the Cabinet at regular intervals. In June 2014 Cabinet noted progress made during 2013/14 and approved the 2014-17 action plan and baseline indicators for 2014/15 to 2016/17. This will ensure the council continue to mitigate the impact of welfare reform and help them with delivery of future reforms.
- 116. The council's website has a section dedicated to welfare reform where the public can access information on the main changes arising from welfare reform. Staff training has also taken place to ensure that council staff are informed and prepared for the reforms. A Welfare Advice Team has been established to offer assistance and support to council tenants affected by the reforms. During 2013/14 a number of welfare reform communication events took place to raise awareness.
- 117. The council have identified the impact of welfare reform on its rent collection levels. At 31 March 2014 the council reported rent arrears of £0.851 million (5.1%). Of this amount, £0.178 million relates entirely to under occupation. This is a significant increase from rent arrears of £0.545 million (3.6%) reported at the end of March 2013. Discretionary Housing Payments (DHP) to council tenants of £0.629 million has helped to counteract the impact of the reforms, with funding met by the Department of Work and Pensions (DWP) and the Scottish Government.

Outlook

118. Councils continue to face rising demands for services alongside managing major reforms in welfare and health and social care. There is now a greater need than ever for strong governance and leadership. The integration of health and social care is a complex and challenging process and the council will need to continue to engage with partners to ensure that the unified service is in place by 1 April 2016.
119. There are to be major changes in councils' responsibilities for the investigation of fraud. The new Single Fraud Investigation Service (SFIS) is a national fraud investigation service within the Department for Works and Pensions which will take over the responsibility for the investigation of housing benefit frauds. The investigation of the Local Council Tax Reduction Scheme and corporate frauds will remain within councils. The SFIS will be implemented across councils on a phased basis during the period July 2014 and March 2016 and will see the transfer of staff from councils to the DWP. There is a risk that councils' arrangements for the prevention and detection of fraud may be weakened due to the loss of experienced investigators to the SFIS.

Best value, use of resources and performance



120. Local authorities have a statutory duty to provide best value in those services they provide directly as well as those provided through agreements with Arms Length External Organisations. This requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. There is also the duty to report performance publicly so that local people and other stakeholders know what quality of service is being

delivered and what they can expect in the future.

Arrangements for securing Best Value

121. The council created the Change Programme following the 2010/11 budget setting process due to the significant financial pressures that were imminent. The programme seeks to address demographic and financial pressures through council-wide transformational change.
122. Change projects are implemented through integration with the council's service planning and budgeting process rather than as a standalone project. The business change team assists services across the council to identify, design and execute transformational change. At the early stages of phase one the council appointed a strategic partner (iMPOWER) to provide assistance to services in the development of change projects as well as providing outside challenge.
123. Members are involved throughout the budget setting process in identifying efficiencies. Officers held seminars for each service with all members, presented the proposed efficiencies and provided them with an opportunity to discuss and question them. Service Directors outlined the priorities and pressures facing each service and explained the implications of each efficiency saving.

Use of resources

- 124. Change Programme:** Phase one of the Change Programme is nearing completion. Key programmes implemented in this phase include; the reshaping of social services; improving outcomes for vulnerable children in North Ayrshire; the introduction of a catering hub and Spoke model with improved productivity; and a centralised transport hub which includes enhanced planning, budgeting, scheduling and procurement. The council have now adopted Lean Six Sigma which is an approach to help eliminate waste in their processes and increase customer value.
- 125.** The council has commenced work to identify the most appropriate areas of change going forward for phase two. The emphasis on phase two is outcome focused and also on giving greater value.
- 126.** The council has reported that the change programme workstreams have contributed to almost £48 million of savings since 2010/11.
- 127. Asset Management:** The council has a Corporate Asset Strategy in place, together with Asset Management Plans (2014-2017) and associated action plans for each of its six core asset groups. The 2014-17 Property Asset Management Plan supports the transfer of assets through exploring partnership opportunities and option appraisals on the disposal of surplus assets. The council are currently developing a longer term strategy for disposal of surplus assets. A Community Asset Transfer Policy is also in place to provide a framework which enables and manages the transfer of assets from the council to voluntary or community organisations.
- 128.** The council has a Capital Investment Programme for the period 2014/15 to 2022/23 and a Capital Programme and Assets Group (CPAG) to consider business cases in relation to proposed capital projects, prior to presentation to members, and monitor the delivery of the council's capital programme.
- 129. Workforce Management:** The council operates a Voluntary Early Retirement (VER) programme to help achieve efficiencies. Severance payments of £3.758 million relating to 146 employees were incurred during 2013/14. These all require to achieve a pay back period of no more than two years.
- 130.** A policy is in place which highlights the criteria for approving VER payments. This includes the requirement to carry out a risk assessment for each VER application. While this is completed in all cases, there is no guidance to managers to enable them to carry out a consistent risk assessment which would stand up to scrutiny. The council is currently developing this and its implementation is being monitored by internal audit.
- 131.** The decision to approve applications will become more difficult as the workforce shrinks and the potential impact on service delivery is amplified. Intellectual capital is increasingly being

Best value, use of resources and performance

retained by fewer staff, and the departure of key staff could adversely impact on the council's ability to function effectively. The council needs to continue to ensure that decisions on workforce reduction not only demonstrate value for money, but consider the impact on service delivery.

- 132. Risk Management:** The council's risk management strategy is reviewed annually and provides a framework for a consistent approach to the management of risk. The risk management framework is fully embedded within the service planning and budgeting processes. The risk register is subject to review annually.

Performance management

- 133.** In accordance with the council's Performance Management Strategy 2012/15 the council have a series of formal plans including the Single Outcome Agreement (SOA) and the council plan. Each of these has an associated action plan. Progress against the plans is reported bi-annually to Cabinet and the Scrutiny and Petitions Committee.
- 134.** In addition each service has an annual service plan and action plan. Performance against this is also reported bi-annually to Cabinet and the Scrutiny and Petitions Committee. and includes a summary of overall service performance, together with the capacity for improvement, financial performance, and progress against the priority areas identified in the service plan. The detailed reporting of service plans is supported by the use

of Covalent, the electronic performance management system.

- 135.** There are clear links between the council's strategic priorities, service plans and performance reports.
- 136.** The council has a section of its website dedicated to performance, 'North Ayrshire Performs' which is accessible to the public. This provides a range of information including performance indicators, the performance management strategy, financial information and service plans. Each indicator on North Ayrshire Performs links to the council plan and explains why it is measured. It also compares current performance against target, explains what can affect performance, and what action is being taken to improve performance.
- 137.** The council also participates in the Local Government Benchmarking Framework (LGBF) in conjunction with the Improvement Service (IS). They use this to help support continuous improvement and self evaluation.
- 138.** Following the council wide self assessment in 2013, a corporate improvement plan was developed to address areas identified for improvement by the self assessment. Bi-annual updates are provided to the Cabinet. Issues that require to be taken forward are incorporated into the Recognised for Excellence (R4E) submission or are monitored by the Performance Management Forum.
- 139.** Additionally, to demonstrate its commitment to continuous

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improvement, the council has enrolled in and achieved the Committed to Excellence award from Quality Scotland. Having achieved the Committed to Excellence award, the council is now working towards the R4E award from Quality Scotland. The council are embarking on a “Good to Great” improvement journey which includes service transformation and cultural change. This focuses on five themes (communities, places, partnerships, processes and people) and demonstrates where the council are on this journey and the steps they require to take to improve.

140. We are satisfied that the council has appropriate performance management arrangements in place.

Overview of performance targets in 2013/14

141. The council produced an annual performance report in September 2014 which provides a balanced scorecard of the council’s progress in achieving their objectives and improving the overall level of performance.
142. The report which went to Cabinet on 7 October 2014 demonstrates the council’s progress against 119 performance indicators (PI). The range of PIs takes into account the Accounts Commission’s Corporate Management and Service Performance reporting requirements. The analysis showed that 73% met or exceeded target, 10% were slightly adrift and 17% of indicators were significantly adrift of target.

143. The report also highlighted the results of benchmarking against the LGBF. It showed that 68% of the PIs are improving faster than the average council (58% in 12/13). Also, the council has significantly fewer PIs in the bottom two quartiles i.e. 37% (45% in 12/13).

Statutory performance indicators

144. The Accounts Commission has a statutory power to define performance information that councils must publish locally and it does this through its annual Statutory Performance Information Direction. Since its 2008 Direction, the Accounts Commission has moved away from specifying individual indicators and has focused on public performance reporting and councils’ requirement to take responsibility for the performance information they report.
145. The audit of Statutory Performance Indicators in 2013/14 is a two stage process. The first stage requires auditors to ascertain and appraise councils’ arrangements for public performance reporting and the completion of the Local Government Benchmarking Framework indicators. This focuses on three statutory performance indicators (SPIs) namely:
- SPI 1: covers a range of information relating to areas of corporate management such as employees, assets and equalities and diversity.
 - SPI 2: covers a range of information relating to service

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performance.

- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

146. The second stage involves an assessment of the quality of the information being reported by the council to the public. An evaluation of all Scottish Local Authorities' approaches to public performance reporting (PPR) has been carried out by Audit Scotland's Performance Audit and Best Value section, the results of which were reported to the Accounts Commission in June 2014.
147. Individual assessments were also reported to councils' Chief Executives, Leaders and Chairs of Audit Committees. These highlighted the extent to which their PPR material either fully, partially or did not meet the criteria used in the evaluation. The results for North Ayrshire Council were good, with 57% fully, 38% partially and 5% not meeting the criteria. A further evaluation of councils' approaches to PPR is due to be carried out by Audit Scotland in spring 2015.
148. Our work during the year concluded that North Ayrshire Council continue to meet the requirements of SPI 1 and 2. There are procedures for consulting with the community to identify issues that are of most concern or interest to them (e.g. the People's panel survey for 2014). Each of the objectives covered in the SOA and/or council plan are covered in local

performance indicators.

149. Plans for collection and reporting of indicators remain unchanged from previous years and it is our view that the authority is taking reasonable steps towards collation of performance indicators. However, a detailed check of eight indicators by internal audit identified that procedural instructions are not available for all indicators. As a result, three of the eight indicators checked by them were incorrectly calculated and required to be amended. Procedural instructions and clear definitions of all PIs should be prepared.

Assurance and improvement plan 2014-17

150. The Assurance and Improvement Plan (AIP) covering the period 2014 to 2017 was prepared by the Local Area Network (LAN) of scrutiny partners. This has been published on Audit Scotland's website and was submitted to Council at their meeting on 25 June 2014.
151. The conclusion of this year's shared risk assessment was that there were no scrutiny risks identified which require specific scrutiny by the LAN this year. This is the same position as in the previous year.

Local performance audit reports

152. In 2013/14 we carried out two targeted follow-up audits to assess progress in areas that had been reported nationally by

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Audit Scotland, namely:

- Arm's-length external organisations (ALEOs).
- Major capital investment in councils.

- 153. Arm's-length External Organisation (ALEOs):** This was a targeted follow-up study carried out across all local authorities in Scotland. A key aim of the study was to provide the Accounts Commission with a position statement on councils' use of ALEOs and, on progress since the '*Arms-length External Organisations: Are you getting it right*' report published in 2011. More specifically, we carried out a high level assessment of the governance arrangements that the council has in place for overseeing ALEOs.
- 154.** Our findings were principally based on the arrangements between North Ayrshire Council and North Ayrshire Leisure Limited. Our audit work also considered the high level arrangements between the council and Irvine Bay Regeneration Company Limited and Irvine Bay Development Company Limited. These are the only significant ALEOs which the council has an interest in.
- 155.** We consider that there is a solid framework in place for monitoring the financial and service performance of its ALEOs.
- 156. Major capital investment in councils:** Audit Scotland's national report on *Major capital investments in councils* published in March 2013 assessed how well councils direct, manage and deliver capital investments. The report focused on

major capital projects i.e. those with an individual value exceeding £5 million. Local follow-up audits were carried out at all 32 councils in Scotland.

- 157.** The report was considered by the Audit Committee and the Capital Programme and Assets Group (CPAG) in May 2013. All three parts of the report were considered and the council have taken on-board the findings and recommendations. They have also used the good practice checklist and guidance as a means of improving project management governance for all major projects. Forward looking actions are in place to further address recommendations of the report.
- 158.** The council has improved its asset management and capital programme monitoring in recent years with the introduction of their capital asset strategy and 10 year capital programme. Overall, we are satisfied with council's financial governance framework for capital investment including its reporting to members.

National performance audit reports

- 159.** All national reports are considered by the council's Audit Committee. The reports are accompanied by a covering report, presented by the relevant corporate director, outlining the key findings of the report, together with any progress and/or action plans as appropriate. A relevant officer from the service area is normally in attendance in order to provide answers/additional information to members.

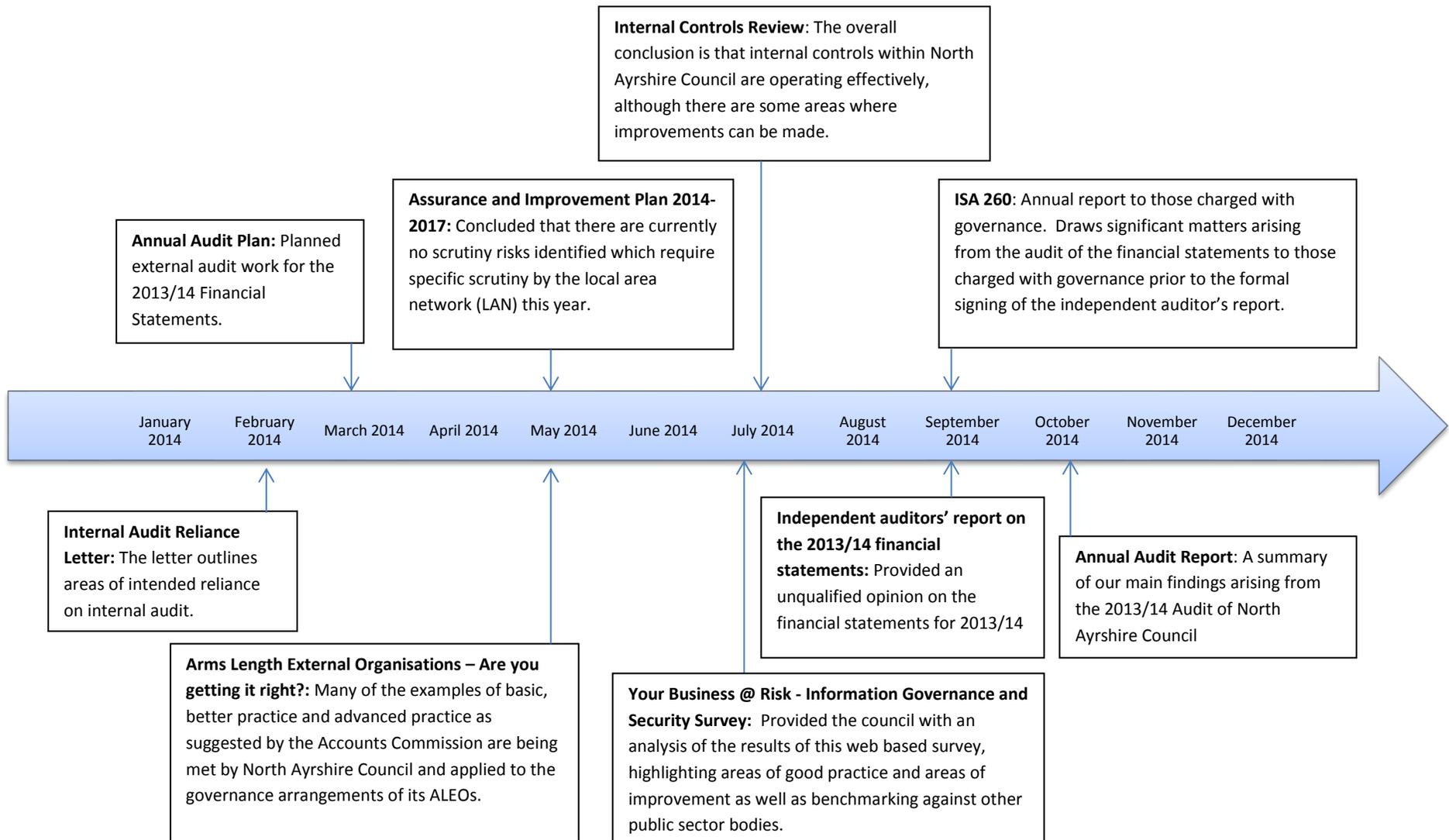
Best value, use of resources and performance

160. A summary of national performance audit reports, along with local audit reports, is included in Appendices I and II.

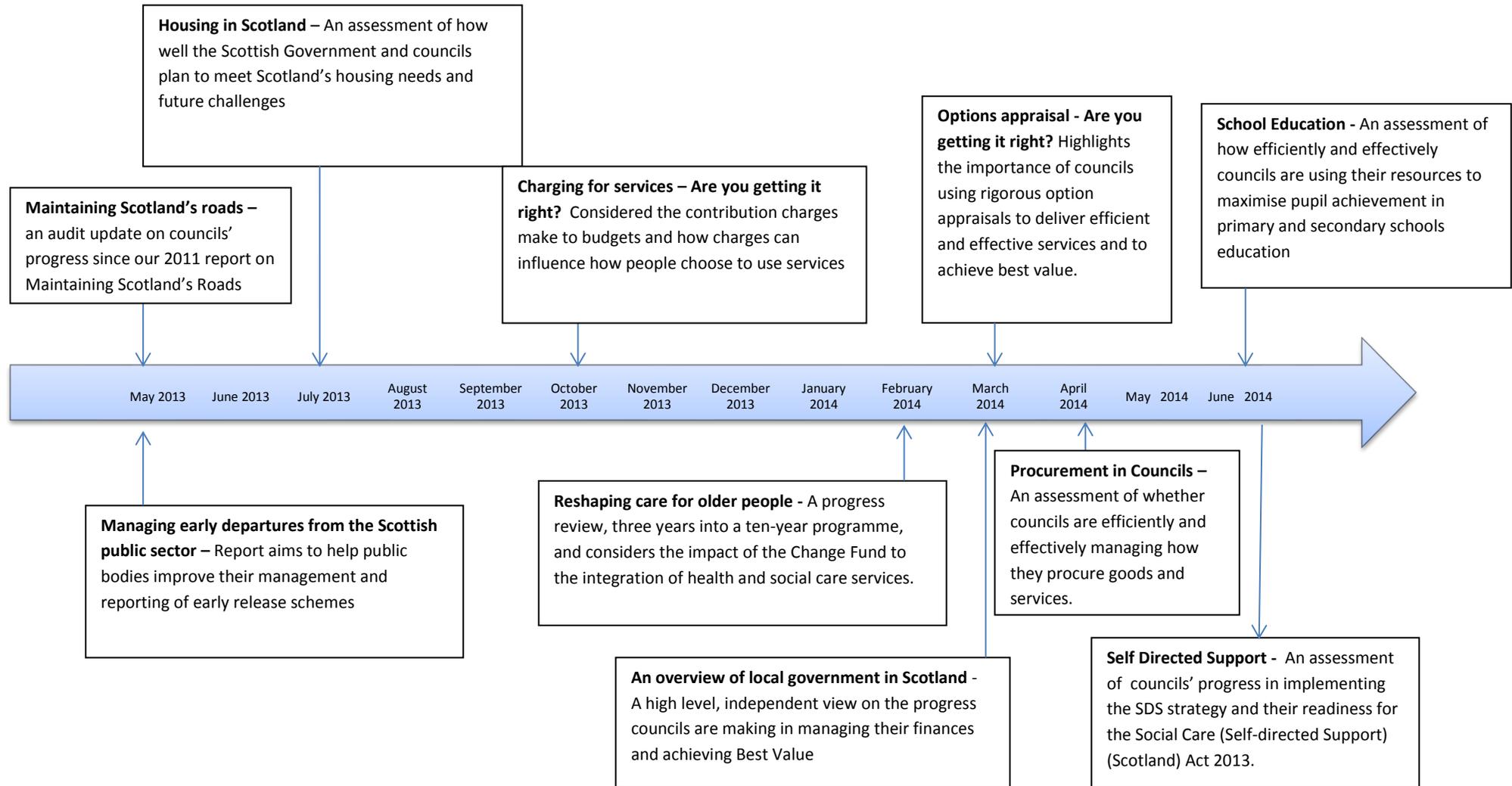
Outlook

161. In common with other councils, North Ayrshire Council faces the key challenges of reducing budgets, an ageing workforce, an ageing population with higher levels of need and the public expectation of high quality services. Savings have been made in recent years largely by reductions in the workforce through the change programme. However, as choices on how to address funding gaps becomes increasingly difficult, councils will have to continue to focus on making the very best use of all available resources and to challenge existing ways of doing things. The council's Change Programme will be key to achieving this.

Appendix I – Summary of North Ayrshire Council local audit reports 2013/14



Appendix II – Summary of Audit Scotland national reports 2013/14



Appendix III – Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

| Audit Risk | Assurance procedure |
|---|---|
| <p>Charitable Trust Accounting</p> <p>Separate financial statements and an audit are required, from 2013/14, for registered charities where the council is the sole trustee.</p> <p><i>There is a risk that trust deeds may not be in place or reflect the objectives of the charity; or that information required to be disclosed in the financial statements may not be available.</i></p> | <p>Work was completed to establish the status of each trust by reviewing the trust deeds. We also established the arrangements put in place by the council for restructuring the trusts.</p> <hr/> <p>The financial statements for each registered charitable trust were audited as part of our end of year procedures.</p> |

Appendix III – Significant audit risks

| Audit Risk | Assurance procedure |
|---|--|
| <p>Equal pay</p> <p>The council have a number of equal pay and single status claims currently sitting with an employment tribunal. Actual settlements are subject to the outcome of several national test legal cases and the ultimate cost to the council remains uncertain.</p> <p><i>There is a risk that the ultimate cost to the council may be significantly different from the amount provided for in the financial statements.</i></p> | <p>Discussed equal pay with senior staff. Input to the provision calculation is provided by Human Resources and Finance. The council also use the advice of a specialist legal team.</p> <p>The equal pay provision was audited as part of the financial statements audit process. The provision is supported by detailed listings of known claims and there is an appropriate methodology for calculating the provision.</p> |
| <p>Title deeds - common good</p> <p><i>Until the council completes its review of title deeds there is a risk that the fixed asset register may not be accurate and that common good assets may not be identified in accordance with LASAAC guidance</i></p> | <p>Discussions were held with Legal Services throughout the year to ascertain the council's methodology/ approach for the review of title deeds and to obtain regular reports on how it was progressing.</p> <p>The Council's review of title deeds was audited as part of the financial statements audit process. The council's methodology/approach was found to be robust with no exceptions noted in our sample testing.</p> <p>The exercise is substantially complete but is still ongoing. To date, this has identified one asset that required to be transferred from the council to the common good; and one asset that required to be transferred from the common good to the council. The review of title deeds is ongoing and will be completed in 2014/15.</p> |

Appendix III – Significant audit risks

| Audit Risk | Assurance procedure |
|---|---|
| <p>Financial Statements working papers</p> <p>The 2012/13 audit highlighted some areas where information supporting the financial statements and whole of government accounts (WGA) could be improved.</p> <p>In particular, the figures recorded in the accounts for movements in fixed assets and reserves should agree to supporting working papers.</p> | <p>Feedback discussions were held between the audit team and council finance staff. We provided a year end working papers checklist, which was completed by finance staff.</p> <hr/> <p>The financial statements audit highlighted a significant improvement on 2012/13. The working papers in support of the 2013/14 financial statements were of a good standard.</p> |
| <p>Provision for restoration of landfill and other extraction sites</p> <p>The council have provided for all known costs to address any future costs in connection with the restoration of landfill or mineral extraction sites.</p> <p><i>The council should continue to keep themselves up to date regarding any future costs otherwise there is a risk that the provision is misstated.</i></p> | <p>The provision for restoration of the Shewalton landfill was audited as part of the financial statements audit process. The council have complied with current guidance and the capital provision includes the costs for restoration of cell 4 at Shewalton plus the discounted value of aftercare costs until 2023/24.</p> |

Appendix III – Significant audit risks

| Audit Risk | Assurance procedure |
|---|--|
| <p>Commercial refuse Income</p> <p>Weaknesses have been reported by internal audit regarding the monitoring of contract agreements, invoices not being raised promptly; insufficient controls in place in relation to collections, and inadequate processes for chasing outstanding debtors.</p> <p><i>This increases the risk of inaccuracies in the financial statements in terms of completeness, accuracy and valuation of income and debtors.</i></p> | <p>Steps are being taken to manage/ process this income through the corporate Accounts Receivable system.</p> <p>We have monitored the implementation of the issues recorded in the action plan and note that the majority of the action points due for implementation in 2013/14 were implemented, with only one action still outstanding. There are five recommendations due to be completed in 2014/15.</p> <p>We are satisfied that the commercial refuse income issue, whilst serious, was limited to one specific service area and the value of income relatively small. Hence this was not reported in the annual governance statement.</p> |
| <p>Financial management and sustainability</p> <p>The council has a funding gap of £16.271 million for the three year period to 2016/17. The gap relates to the 2015/16 and 2016/17 financial years.</p> <p><i>There is a risk that the council will not identify savings that are strategically determined or sustainable.</i></p> | <p>Budgetary control reports were reviewed throughout the year as part of the ongoing audit process.</p> <p>The council's financial plans were discussed with senior officers to ascertain progress in addressing predicted funding gaps over the coming years.</p> <p>Discussed any potential impact of budget changes to the transformation strategy with senior finance officers.</p> |

Appendix III – Significant audit risks

| Audit Risk | Assurance procedure |
|--|---|
| <p>Data management and information security</p> <p>Areas of the information management strategy require to be implemented across all services.</p> <p>The review of the IT security policy and acceptable use policy require to be finalised.</p> <p><i>This increases the risk of the release of personal and/or sensitive information, which could result in monetary penalties and reputational damage for the council.</i></p> <p><i>The absence of up to date policies means that staff may not be aware of the council's rules and their own responsibilities for IT Security from both a council and legislative point of view. This in turn leads to an increased risk of breaches of the policies.</i></p> | <p>Reviewed the progress being made by the council in the area of Information Management. For example, the role of Information and Records Manager has been re-evaluated and a new data protection officer post has been created. Both posts have now been filled enabling them to progress the remaining action points in this area.</p> <p>The Your Business at Risk Survey (YB@R) was carried out in 2014. Overall, there is a good and continuing level of IT security awareness within the Council, however there remains a number of areas that still need to be addressed to improve overall staff awareness of information security</p> <p>Management were provided with all our analysis and the survey data from the YB@R survey to help them target training and address awareness/behavioural issues in specific areas.</p> |

Appendix III – Significant audit risks

| Audit Risk | Assurance procedure |
|--|--|
| <p>Capital investment and performance</p> <p>The council re-profiled significant elements of its general service and HRA capital budgets from 2012/13 to 2013/14.</p> <p><i>There is a risk that capital budgets are not accurately profiled. This could impact decisions taken regarding borrowing requirements.</i></p> | <p>We reviewed the arrangements for profiling capital budgets. The Council are making progress in line with their capital plan. They have monthly capital meetings and regular reporting to members.</p> <hr/> <p>There has been an improvement in capital budget profiling in 2013/14 with much reduced slippage compared to prior years.</p> |

Appendix IV – Action plan

| Action plan point/page | Issue, risk and recommendation | Management action/response | Responsible officer | Target date |
|------------------------|---|--|---|-----------------|
| 1/18 | <p>Outlook - Efficiency savings</p> <p>The council achieved efficiency savings of £6.231 million in 2013/14 but noted that there is a funding gap of £16.271 million over the medium term (2015/16 and 2016/17).</p> <p>Risk</p> <p>The council is unable to achieve required efficiency savings and maintain existing standards of service delivery within reduced resources.</p> <p>Recommendation</p> <p>The council should ensure that robust medium term financial plans, based on outcome priorities, are produced covering all the required savings to meet known funding gaps.</p> | <p>The Council will continue to review its budget on a rolling 3 years basis.</p> <p>The estimated funding gap will be considered during the 2015/16 budget setting process.</p> | Executive Director (Finance and Corporate Support). | 9 December 2014 |