



North Ayrshire Council

Annual audit report to
Members and the
Controller of Audit

September 2015

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

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

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

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

This report will be published on our website after it has been considered by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• Unqualified auditor's report on the 2014/15 financial statements.• Unqualified auditor's reports on the twelve charitable trusts administered by the council.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• Financial management remains strong with a robust budget setting process in place to deliver services in line with the council's priorities.• The council used £6.133 million of the capital fund to finance capital projects.• Underspends of £7.398 million are reported against revenue budgets.• The council has an adequate level of reserves and is containing its expenditure within annual budgets. It is on track to achieve the efficiencies required to fill projected funding gaps up to 2017/18.• There has been a recurring overspend of health and social care services in recent years. The council will require to ensure that arrangements are in place to maintain expenditure within the amounts agreed. Additional base funding has been allocated in 2015/16 to help address this.• The capital programme was revised in the year. Projects including the schools estates programme, the Irvine Leisure Centre and the upgrade of the B714 have been rescheduled.

 <p>Governance and transparency</p>	<ul style="list-style-type: none"> • The council has effective governance arrangements in place. • Systems of internal control are operating effectively. • The council has an effective internal audit function and anti-fraud arrangements. • Local residents have access to information on how the council delivers services and performs against its priorities. • The council has made excellent progress in the integration of Health and Social Care Services. The Independent Joint Board (IJB) was formed in April 2015. By this time the IJB strategic plan was approved, and due diligence of the budget transferred to the IJB was carried out.
 <p>Best Value</p>	<ul style="list-style-type: none"> • The council's 'Good to Great' improvement journey underpins its updated performance management strategy. • The 'Change Programme' seeks to address demographic and financial pressures through transformational change. • The Cabinet receives progress reports on the Council Plan and the Single Outcome Agreement (SOA) action plans. Reports show the council is on target to meet most of the actions. • The council was awarded Recognised for Excellence (R4E) from Quality Scotland in June 2015. An improvement plan is being developed to reflect the feedback report. • The council reports publicly on its performance.
 <p>Outlook</p>	<ul style="list-style-type: none"> • Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care. • North Ayrshire Council must continue to challenge how it delivers services into the future to respond to these pressures.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of North Ayrshire Council. The report is divided into sections which reflect our public sector audit model.
2. 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.
3. Our responsibility, as the external auditor of North Ayrshire Council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.
6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that North Ayrshire Council understands its risks and has arrangements in place to manage these risks. The council and executive officers group should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

Audit opinion	<ul style="list-style-type: none"> We have completed our audit and issued an unqualified independent auditor's report.
Going concern	<ul style="list-style-type: none"> The financial statements of the council, its group and the associated charitable trusts have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council, its group and associated charitable trusts ability to continue as a going concern.
Other information	<ul style="list-style-type: none"> We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.
Charitable trusts	<ul style="list-style-type: none"> We have completed our audit of the 2014/15 financial statements of the charitable trusts administered by North Ayrshire Council and issued an unqualified independent auditor's report for each of the relevant trusts.
Group accounts	<ul style="list-style-type: none"> The council has accounted for the financial results of three subsidiaries, one associate, and five joint ventures in its group accounts for 2014/15. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £20.804 million.
Whole of government accounts	<ul style="list-style-type: none"> The council submitted a consolidation pack for audit by the deadline. This has been audited and the certified return will be submitted to the Scottish Government.

Submission of financial statements for audit

9. We received the unaudited financial statements on 18 June 2015, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 25 May 2015.
11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the

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

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

Materiality

14. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
16. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of North Ayrshire Council we set our planning materiality for 2014/15 at £4.600 million (1% of gross expenditure). Performance materiality was calculated at £2.760 million, to ensure that uncorrected and undetected audit differences do not exceed our planning materiality level. Our plan

highlighted that we would report all misstatements greater than £50,000.

17. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

Evaluation of misstatements

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

Significant findings from the audit

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

Significant findings from the audit

Issue	Resolution
<p>Equal pay claims: As reported in previous years, the ultimate cost to the council of the claims made under the Equal Pay Act 1970 remains uncertain and it is likely that resolution of the issue will take some time. As the tribunal process unfolds the extent of the council's eventual liability will become clearer. A provision of £2.867 million has been included at 31 March 2015 for all known claims against the council, however actual settlements are subject to the outcome of several national test legal cases and could be settled at an amount that is different from this. The council have also disclosed a contingent liability for further unknown claims which may arise in the future and have earmarked £1.012 million of the general fund to cover this.</p>	<p>Management will review the equal pay provision annually to take account of any legal developments.</p>

Issue	Resolution
<p>International Accounting Standard (IAS19) pension liability: The pension liability represents the difference between the expected future payments to be made to former employees of the council and their spouse in the form of pension payments and the underlying value of pension fund assets to meet this cost. The calculation of the liability is assessed by professional actuaries each year and is an estimated figure.</p> <p>There has been a further increase in the pension liability of £51.202 million, from £171.903 million at 31 March 2014 to £223.105 million at 31 March 2015. This is due to falling bond yields being only partially offset by better than expected investment performance. The falling bond yields leads to a lower discount rate (i.e. the net price of inflation) which leads to a higher value being placed on liabilities. Although the liability will continue to vary, this information is necessary for the council to ensure the pension fund remains affordable and adequately funded.</p>	<p>The triennial valuations of the pension fund carried out by Strathclyde Pension Fund, which assures that the pension fund remains adequately funded. The financial statements have been prepared on the basis of these assumptions.</p>

Issue	Resolution
<p>Review of title deeds: The council completed the review of its title deeds to confirm that these are properly held by the council and appropriately recorded in the council's accounting records. The review identified two properties (Ardrossan Civic Centre and Millport Town Hall) that required to be transferred from the council to the common good. This was in addition to one property identified in 2013/14 (East Road Car Park, Irvine) that required to be transferred from the council to the common good and one property (Bartonholm Site, Irvine) that required to be transferred from the common good to the council. See paragraph 93 and 94 also on this issue.</p>	<p>The asset registers have been updated and the properties have been accounted for in the correct asset categories for the accounts. This has not had a significant impact on the asset values compared to previous years. The council are currently identifying whether the common good is due any income earned at these sites in previous years, although this is likely to very minor.</p>
<p>Trust funds: An audit is required for the financial statements of all registered charities where the local authority is the sole trustee, irrespective of the size of the charity. This is due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with the Charities Accounts (Scotland) Regulations 2006. Page 31 of the accounts provides a summary of the trust funds administered by the council. The results of our audit of these registered charities are included in a separate ISA260 letter to the council's Audit Committee.</p>	<p>For information</p>

Future accounting and auditing developments

Revisions to the Code of Practice

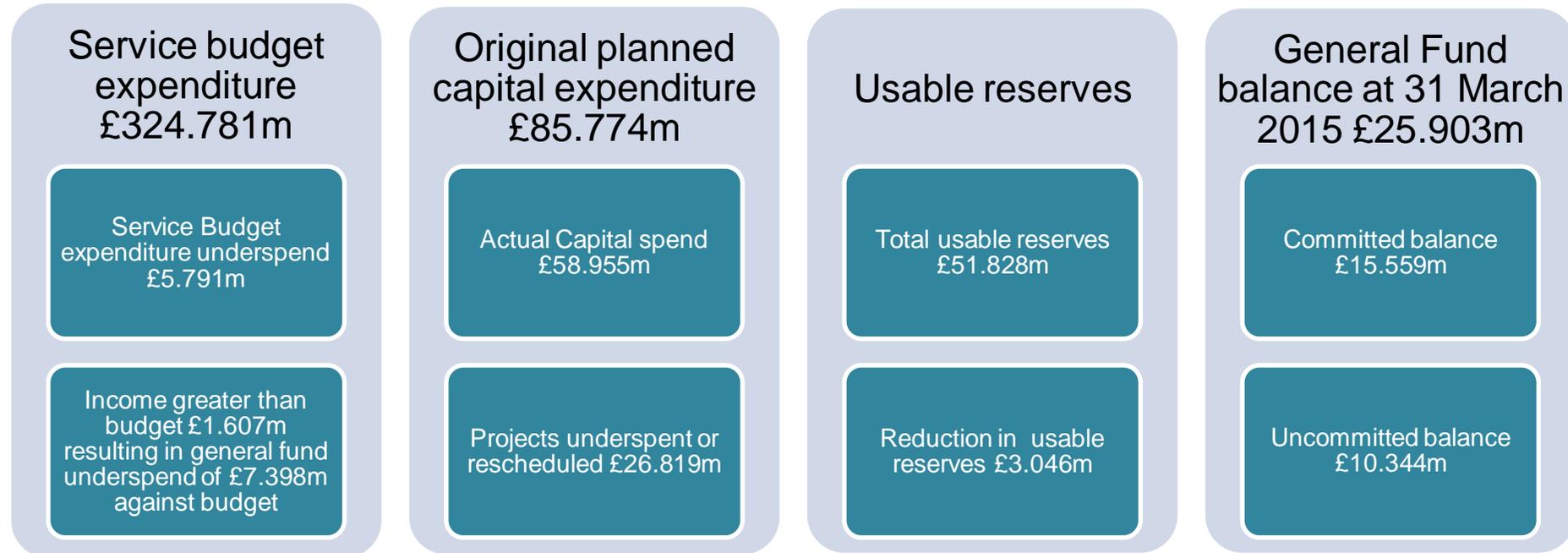
22. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. The following paragraphs set out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

24. **Transport infrastructure assets:** The council's highway assets are currently valued as infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code will require highways to be measured, for the first time, on a depreciated replacement cost basis. This is a major change in the valuation basis for highways and will require complete and accurate management information on highway assets. Management have provided us with assurance that work to obtain the necessary information is progressing well.

Health and Social Care Integration

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

Financial management and sustainability



Financial management

26. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.
27. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council tax and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

28. The general fund reported an underspend against budget of £7.398 million (or 2.3%). The council approved the carry forward of £3.912 million of the underspend into 2015/16 to finance expenditure that services have made commitments to. The council reported the main reasons for the residual underspend of £3.486 million as follows:
- savings in debt charges due to using internal balances to fund capital investment, together with slippage on the capital programme (£2.236 million), offset by the impairment of the deposit in Icelandic Bank Glitner (£0.705 million)
 - general inflation less than anticipated at the start of the year (£0.936 million), and
 - income higher than anticipated due to lower than anticipated council tax reduction eligibility and collection of council tax from prior year debts (£1.860 million).
29. This continues a trend of savings in loan debt charges and higher than anticipated council tax income that have contributed to underspends in previous years. The council should review its budgets for these items to ensure they reflect up to date projections.
30. Small underspends are reported for all services except the Health and Social Care Partnership. The Health and Social Care Partnership overspent by £2.637 million (or 2.7% of its budget). This was due to overspends in Older Peoples Services (£2.470 million) and Children and Families Services (£0.850 million). These were partly offset by underspends across other areas of the service.
31. The Management Commentary in the accounts shows how the management accounts underspend ties into the figures reported in the financial statements. Differences occur due to the accounting treatment required, timing of expenditure; or where there are plans for service delivery which will be delivered at a later date. This is an established part of the council's budget process.
32. The annual accounts show that the general fund recorded an accounting surplus of £1.740 million in 2014/15 prior to transferring £0.992 million to the capital fund. This is less than the management accounts underspend of £7.398 million due to £5.658 million committed balances being brought forward from 2013/14 to finance expenditure in 2014/15.
33. The housing revenue account (HRA) reported a surplus of £2.339 million in 2014/15 (or 5.0%). This surplus arose from reduced write offs of rent arrears as a result of Discretionary Housing Payments for under occupancy, savings from vacancy management,

underspends to repairs to housing stock, and savings on loan charges.

34. The HRA has a reserve balance of £11.063 million at 31 March 2015. Of this, £9.176 million has been earmarked for future investment in the housing improvement programme and other housing related costs such as meeting new building regulations and health and safety requirements. The housing service is reviewing the future development plans and beginning work on the new Local Housing Strategy. The remaining balance of £1.887 million will be used to support projects emerging from this.

Financial management arrangements

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

36. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the council complies with the statement's five principles.
37. The council's financial regulations are regularly revised. We consider these to be comprehensive and they are available on the council's website.
38. Revenue budget and capital monitoring data is prepared monthly for budget holders and directors. These are reported in an agreed format to the Cabinet every two months from July to January. An annual review for the year to March is provided with the annual accounts. Projections of the year end position are included in the reports.
39. A new reporting format was introduced in 2014/15 which focuses on the major movements in financial projections from the previous report to Cabinet. Full details of all major variances are available within the appendices to the reports. We consider the level of reporting is appropriate and addresses all variances (whether due to underspend, overspend, or slippage).
40. The projected outturn reported in March 2015 (up to period 10 - January 2015) forecast an underspend of £3.424 million. This is significantly less than the £7.398 million underspend reported for the year. This movement related mainly to provisions for severance costs no longer required (£1.100 million), delayed implementation of ICT equipment refresh in schools (£0.513 million), and specific government funding received late in the financial year that was not

spent at the year end (£1.370 million). These will be carried forward into 2015/16. While some of these factors were not known until after period 10, improved communication with services may have identified this for members in the projected outturn at period 10.

41. As auditors we attend a number of council and committee meetings each year. Members provide a good level of challenge and question budget holders on significant variances and service performance issues.

Conclusion on financial management

42. The council has good financial management arrangements which include departments being able to carry forward approved uncommitted elements of their budget.
43. There has been a recurring overspend of health and social care services in recent years. This is mainly due to the demand led nature of the service which makes it more difficult to predict costs. Due diligence was carried out in April 2015 to support the funding provided to the North Ayrshire Health & Social Care Partnership over the next three years. The demand led nature of the service together with some care services being led by the other Ayrshire Integrated Joint Boards increases the risk of the council not having control over costs. The council requires to ensure that arrangements are in place to maintain expenditure within the amounts agreed. See also paragraphs 107 -116.

Financial sustainability

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

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

Reserves

46. Whilst the council is reporting underspends against its budgets, the accounts show an overall £31.491 million deficit in providing services prior to statutory accounting adjustments of £28.445 million in accordance with the Code of Practice on local government accounting.
47. Exhibit 1 shows the impact of this on the level of usable reserves held by the council. They decreased by £3.046 million over the year to a total of £51.828 million. The general fund balance is made up of earmarked commitments of £15.559 million and an unallocated balance of £10.344, or 3.2% of net budgeted expenditure. This is in line with the council's policy of maintaining between 2% and 4% as specified in the council's Reserves Strategy.

48. Earmarked commitments from the general fund consist mainly of the change & service redesign fund including the cost of upgrades to ICT infrastructure, the affordable housing fund, amounts set aside for potential equal pay claims, and directorate expenditure projects that have been identified for 2015/16 and beyond.

Exhibit 1: Usable reserves

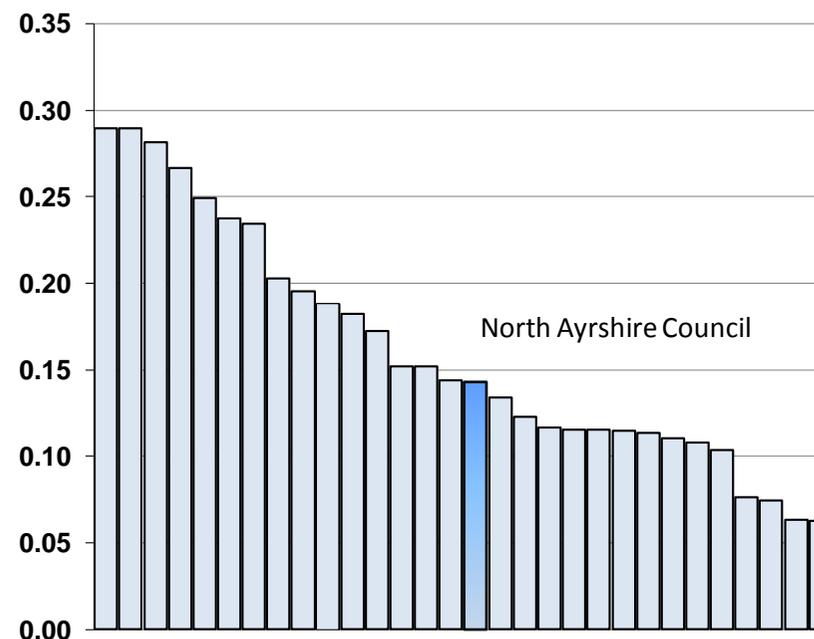
Description	31 March 2014 £ million	31 March 2015 £ million
General fund	25.155	25.903
Housing revenue reserve	8.724	11.063
Capital fund	15.082	9.919
Repair and renewal fund	2.614	1.627
Insurance fund	3.299	3.316
Total usable reserves	54.874	51.828

Source: North Ayrshire Council 2014/15 financial statements

49. The main reason for the decrease in usable reserves was due to the capital fund being used to finance capital projects during the year. The council plans to use the remaining balance of £9.919 million to fund the 2015/16 and 2016/17 capital programme.
50. Exhibit 2 below presents the council’s total usable reserves position in relation to net revenue stream for the year in comparison to other Scottish councils (net revenue stream being presented as general revenue grant, council tax, non domestic rates and dwelling rents).

North Ayrshire’s position (14.3%) is slightly lower than the median level of 14.4%.

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



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

Financial planning

51. The council carries out medium term financial planning on a rolling three year basis. This is supported by the council’s long term

financial strategy for the period to 2022/23. The expenditure requirements identified for 2015/16 to 2017/18 highlight a funding gap of £19.444 million over these years. Proposals for efficiencies and savings were approved at the budget setting meeting in December 2014. These proposals are aimed at delivering a balanced budget for 2015/16 through to 2017/18 and should help provide greater certainty for service planning.

52. The council has completed the first phase of an outcomes based budgeting approach. Existing budgets were analysed to determine whether they contribute to the council's core objectives and the extent to which they reflect an early intervention and prevention approach. Budgets were also reviewed against benchmarking information where this was available. The council intend to refresh this to reflect changes to the council's core objectives and to identify where further refinements can be made to assist the budget setting process.

Change programme

53. The council reported that the change programme aims to bring about council wide transformational change to address the demographic and financial pressures facing the council. A Transformation Board was established during 2014/15, chaired by the Executive Director (Finance & Corporate Support) and with senior representation from all council services. This board has oversight of all the council's significant transformation projects.
54. Projects have been approved to improve service delivery or enable efficiencies. An earmarked element of the general fund

(£5.727 million) is used to finance these projects. Many of these are ICT projects/infrastructure that are necessary to effect change.

55. The council tracks all agreed efficiencies when setting the annual budget. While these are not necessarily linked to the projects identified in the change programme, the council reported efficiency savings of £6.240 million in 2014/15.
56. The Corporate Management Team reviews and monitors the overall progress of the change programme. Progress should be provided more regularly to members as no formal updates have been provided since July 2014.

Capital programme 2014/15

57. The council spent £31.958 million on the general fund capital programme and £26.997 million on the HRA programme.
58. In 2014/15, the general service programmes concentrated on new build, refurbishment and repair of schools with the new Elderbank Primary School completed in year and work beginning on the Garnock Campus. There was delivery of works relating to ICT, roads and infrastructure. Bridgegate House was completed in 2014/15 and refurbishment of Cunninghame House is ongoing. Other projects completed in the year included Montrose House Care Home and Dirrans Rehabilitation Centre. The housing programme focused on major component replacement and new build of council houses. 126 new homes have been completed at Kilwinning and Irvine.

59. The initial general fund capital programme budget for 2014/15 set in December 2013 was £52.292 million. This was revised downwards during the year to £31.958 million (a reduction of 38.9%). This was mainly due to a legal challenge relating to Irvine Leisure Centre (£12.732 million), re-profiling of the school estates programme (£4.594 million), and £4.037million slippage relating to the upgrade of the B714.
60. The underspend of £1.813 million (or 5.4%) relates mainly to slippage of £1.700 million for projects between financial years e.g. £0.304 million relating to cemetery extensions and £0.362 million relating to enabling funds at Garnock campus.
61. The initial HRA Housing Investment Programme budget set in December 2013 was £33.482 million. This was revised downwards during the year to £27.999 million, a reduction of 16.4%. This was mainly due to slippage as projects were re-profiled into the following financial year.
62. Regular capital monitoring reports are provided to Cabinet which explain the reasons for the amendments to budget and the progress of the capital programme. The council's £243 million capital programme from 2014/15 to 2022/23 enables flexibility between years and ensures the programme is aligned to strategic priorities. We would highlight, though, that the re-profiling during the year accounted for a significant amount of both the general fund and HRA capital budgets.

Action Plan no 1

Asset management

63. The council has a Corporate Asset Strategy, together with Asset Management Plans (2014-2017) and associated action plans for each of its six core asset groups. All the action plans are reviewed annually. Six monthly progress reports on asset management plans are reported to the corporate management team and an annual report is prepared for Cabinet.
64. 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 has a Property Asset Disposal Strategy and this is included in the estates procedures manual. This was last revised in September 2014. 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.
65. The Capital Programme and Assets Group (CPAG) consider business cases for proposed capital projects, prior to presentation to members, and monitor the delivery of the capital programme.

Workforce management

66. Effective workforce management is essential to ensure that the council maximises the effectiveness of its employees. A workforce strategy is key to setting out how the council will ensure it has appropriately skilled people in place to deliver its services.
67. A People Strategy "Our People Connect" was approved by the Cabinet in May 2015. This aims to enable staff to deliver the

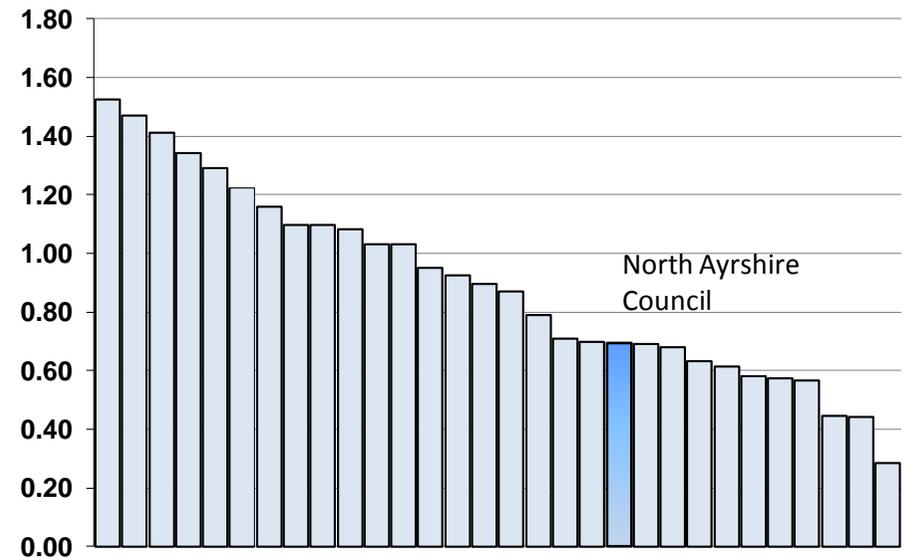
strategic priorities in the Council Plan, and, to identify more efficient ways of achieving this.

Treasury management

- 68. At 31 March 2015 long term borrowing stood at £288,252 million (including PPP capital repayments due), an increase of £1.828 million on the 2014 long term borrowing level of £286.424 million. During the same period, short term borrowing increased from £4.463 million to £11.750 million. The council borrowed £10 million in 2014/15 which is in line with the Treasury Management Strategy for 2014/15, which was to make use of internally generated funds and to minimise the exposure to investment risk. Interest payable and similar charges increased slightly from £18.271 million in 2013/14 to £18.739 million. Over the same period, the council's average rate on borrowing (excluding PPP debt) reduced from 5.71% to 5.68%.
- 69. Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 3 shows long term borrowing at 31 March 2015 as a ratio of net revenue stream for the year for all mainland councils in Scotland. The council continues to remain lower than the average for Scotland. This provides flexibility in managing the council's revenue and capital budgets.
- 70. Short term investments include £1.309 million regarding the amount still due on the £10 million investment in the Icelandic Bank Glitner when it collapsed in 2008. These funds are held in an Escrow account in Iceland. This investment has been written down by

£0.705 million from the £2.014 million balance included in the 2013/14 financial statements, which the council expect to receive in final settlement later in 2015.

Exhibit 3: Scottish councils' long term borrowing as a percentage of net revenue stream



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

Pension liability

- 71. The council's pension liability increased by £51.202 million from £171.903 million to £223.105 million. This is also reflected in the balance sheet for the group.

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

Conclusion on financial sustainability

73. The council has an adequate level of reserves and is containing expenditure within annual budgets. It is achieving the efficiencies required to meet the projected funding gaps in its financial plans up to 2017/18.

74. The council recognises it needs to forecast and deliver efficiencies, both over the medium and long term, if it is to manage ongoing financial pressures. The council has a ten year financial strategy to 2022/23 which incorporates assumptions about future demands on services and funding levels.

75. Overall we conclude that the financial position is sustainable currently and in the foreseeable future, although rising demand and costs of services will continue to place a strain on the council's capacity to deliver services at the current levels.

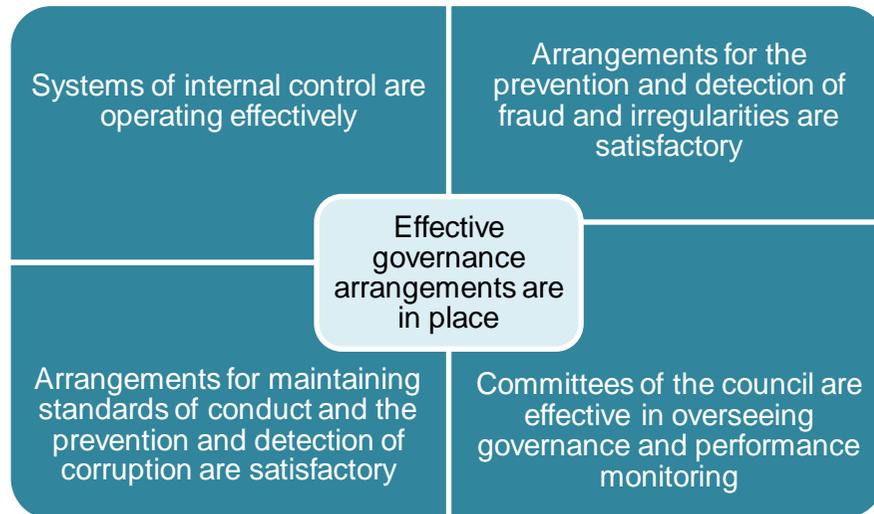
Outlook

76. Councils face increasingly difficult financial challenges. In the context of overall reductions in public sector budgets, between 2010/11 and 2013/14, Scottish Government funding for councils

decreased by 8.5% in real terms to £10.3 billion. At the same time, demand for council services has increased, largely due to population changes. Increased pension contributions and national insurance changes will create further cost pressures on the council. Tough decisions will be required in North Ayrshire to balance budgets, particularly in areas such as Social Services which has overspent in recent years.

77. 2016-17 budget proposals will not be produced until after the UK government's spending review in late November. This delay will give the council less time to produce its budget for next year. The Scottish government is anticipating a reduction in the block grant available to fund devolved services like health, education, local government, and law and order.

Governance and transparency



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

to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources. Overall we concluded that the council is open and transparent.

Corporate governance

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

Local code of corporate governance

- 81. The council has developed and adopted a local code of corporate governance which reflects the key components as set out in the CIPFA/SOLACE Delivering Good Governance in Local Government. The local code is subject to annual review by a working group of members and officers.

Internal control

- 82. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.
- 83. We reported our findings to the Audit Committee in August 2015. No material weaknesses in the accounting and internal control

systems were identified which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. Whilst we reported a number of recommendations to enhance controls, overall we concluded that systems of internal control are operating effectively.

Internal audit

84. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
85. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place. We placed formal reliance on the work of internal audit for council tax and aspects of the payroll system. In respect of our wider governance and performance audit work we also reviewed the findings and considered other areas of internal audit work including the roads costing system, awarding of major contracts, information management, performance indicators, and public sector network compliance.

ICT audit

86. Information Communication and Technology (ICT) plays a key role in the delivery of the council's services and meeting the challenges of maintaining and improving services. As part of our audit planning process we carried out an overview of the council's ICT arrangements. This included a review of the council's ICT strategy, data security and protection, and business continuity management. We did not identify any areas which required specific ICT audit work to be completed. We continued to monitor the council's arrangements in the following key areas:
- **Public Sector Network (PSN) compliance** - the council continues to meet PSN certification requirements. The Internal Audit service has concluded that IT services take a pro-active approach to ensuring continued compliance with PSN and that there is a coordinated and timely approach taken toward the annual certification submission.
 - **Information management and data protection** – Responsibility for information governance, assurance, management, freedom of information and data protection sits with Democratic & Administration Services. Progress is being made to further improve the processes for information management and data protection, including ensuring ongoing compliance with legislation.

Arrangements for the prevention and detection of fraud

87. The council's arrangements in relation to the prevention and detection of fraud and irregularities are satisfactory.
88. The council transferred the investigation of housing benefit fraud to the DWP Single Fraud Investigation Service (SFIS) in February 2015 as part of the DWP welfare reforms. No council staff were transferred to the DWP. Concurrent to this, the council formed a Corporate Fraud Team. The team includes staff that were redeployed from the benefits fraud investigation team. They are responsible for investigating non benefit fraud such as council tax reduction fraud, tenancy fraud and other corporate fraud. This team also co-ordinates the council's NFI work. We consider these new arrangements to be satisfactory.

National Fraud Initiative in Scotland

89. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, and other agencies, to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

90. Overall the council has satisfactory arrangements for the 2014/15 NFI exercise including its approach to planning, follow up of matches and recording/reporting results. Dedicated resources are available. This includes the NFI key contact, designated key contacts within each service area and a contact within IT to support the process. While the exercise is not yet complete, we are satisfied with the progress to date and that it is being managed effectively in consultation with the service areas.

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

91. 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.

Correspondence referred to the auditor by Audit Scotland / Statutory objections to the accounts

92. 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.
93. In our response to the objector we reported that the council has now completed its review of the title deeds to ascertain that ownership and title of properties has been correctly recorded and accounted

for. Overall, this resulted in three properties being transferred from the council's balance sheet to the common good and one property being transferred from the common good to the council.

94. In determining the ownership of assets the council identifies common good properties in accordance with LASAAC guidance. We are satisfied with the methodology used by the council in its review. The review substantiates the ownership of fixed assets included in the accounts of the council and the common good funds. Any subsequent challenge to the conclusions of this review would need to be determined by the courts.
95. The council advised us that they obtain court approval before disposing or amending the terms of any common good assets. In 2014/15 there were three cases of this and all were referred to in the objection. Two of these related to the council's intention to dispose common good properties and the other related to the council extending the lease of a property owned by the common good. In each case the court ruled that the council should reach mutual agreement regarding some of the terms raised by the objector. A joint minute of agreement was reached between the council and the objector enabling the Sheriff to permit the disposal and long lease. As this occurred after the year end this will be reflected in the 2015/16 accounts.

Transparency

96. Local residents should be able to hold the council to account for the services it provides. Transparency means that residents have

access to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources.

97. North Ayrshire Council produces an annual performance report. This aims to summarise performance in relation to Statutory Performance Indicators (SPIs) as well as progress and achievement on joint activity with Community Planning Partners. This helps to encourage dialogue and accountability between local communities and the council.
98. The council held public consultations on its annual financial budget, community plan, and other significant strategic decisions. This enabled local communities and stakeholders to have an input on what the council's priorities should be over the coming years. Members of the public can also attend council meetings and have ready access to agenda papers through the council's website. Council papers provide comprehensive information on all aspects of performance including SPI's and the council's own performance monitoring arrangements.
99. Financial reporting at the council is open and sufficiently detailed. Annual financial statements, alongside regular financial monitoring reports are available as public documents, and are open to scrutiny from members.
100. We have concluded that the council is open and transparent in the way it conducts its business, with the public able to attend all council meetings and the publication of the Annual Performance Review.

Freedom of Information requests

- 101.** The council's website provides information on how to submit a FOI request. In 2014, the council received 1,368 such requests and responded to 1,281 (88.5%) of these within the statutory timescale. A total of 45 (3.5%) refusal notices were also issued, resulting in eight requests for review. There were seven where the council's approach was upheld and one where the council's approach was partially upheld.
- 102.** Overall, we concluded that the council is meeting its responsibilities in terms of Freedom of Information requests and we are not aware of any concerns that require to be brought to the attention of members.

Following the public pound

- 103.** Last year we reported that the council had a solid framework in place for monitoring the financial and service performance of its Arms Length External Organisations (ALEOs). This conclusion was based on the arrangements between North Ayrshire Council and North Ayrshire Leisure Limited. We 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.
- 104.** In January 2015 the Accounts Commission sent a letter to councils encouraging them to apply good practice more consistently across

ALEOs and more widely where the council provides funding to third parties.

- 105.** In North Ayrshire, services that authorise payments to third parties are responsible for monitoring the arrangements and for ensuring that these are used for their intended purpose. Our review of council minutes identified that payments to third parties are generally notified to members for noting or approval.
- 106.** We are satisfied that the council is meeting the good practice contained in the letter issued by the Accounts Commission. We will review this arrangement as part of the 2015/16 audit.

Integration of health and social care

- 107.** 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.
- 108.** The council has made excellent progress to date. The jointly prepared Integration Scheme required by the 2014 Act has been approved by the Council, NHS Ayrshire and Arran (NHSAA), and the Scottish Government. The scheme sets out the functions that are to be delegated to the Health & Social Care Partnership.
- 109.** The integration scheme includes the services that each of the three Ayrshire partnership will lead. For example, the North Ayrshire Health & Social Care Partnership will lead the delivery of Mental Health Services. Further work will be required in respect of the allocation of lead partnership services across the Ayrshire

partnerships to fairly and effectively monitor, manage and share risks.

- 110. The Partnership approved its three year strategic plan in April 2015. This sets out priorities that are consistent with the Council Plan aim for people in North Ayrshire to have a safe, healthy, and active life.
- 111. The strategic plan sets out five strategic priorities, and aims to use the nationally defined Health and Wellbeing Outcomes as a starting point to define proposed outcomes. The next key requirement that the council needs to address is to agree a performance management framework for the partnership, and to specify the targets and milestones which will demonstrate what progress is being made.
- 112. The 2015/16 budget allocation for the partnership is £204.818 million. This comprises £84.468 million from the council budget and £120.350 million from NHSAA budget. This incorporates efficiency savings of £2.817 million which will be delivered through the change programme. Further savings will be required in 2016/17 and 2017/18 when the budget for the partnership reduces further to £199.833 million and £198.453 million respectively.
- 113. A process of due diligence was carried out by the IJB section 95 officer which analysed historic spend patterns, projected resource requirement and current efficiency initiatives to support a judgement on the adequacy of delegated resources to the H&SCP. It is the opinion of the IJBs Chief Financial Officer that the initial budget allocated to the Partnership is sufficient to deliver the outcomes

highlighted within the Strategic Plan, subject to effective risk mitigation and the successful delivery of efficiency initiatives.

- 114. Concurrent to this, the Executive Director (Finance and Corporate Support) submitted a report to Cabinet and to the Audit Committee. This explained the approach taken to develop the IJB budgets and noted that due diligence had been carried out. It also outlined the risks to the council going forward.
- 115. Internal Audit did not provide an opinion on the due diligence process as recommended by the Scottish Government in their Guidance for Integration Financial Assurance. The final guidance issued by the Scottish Government was not issued until after the Health and Social Care Partnership was formed.
- 116. Given the needs led nature of Health and Social Care Services, and recent overspends in these services, budgets will need to be kept under close scrutiny. Projected outturn against budget will be subject to ongoing monitoring and review and will be reported to the IJB at regular intervals. It is important that any budget variations, together with remedial proposals are brought to the attention of the IJB and the council at the earliest opportunity to ensure that services are delivered within budget.

Action Plan no 2

Welfare reform

- 117. The rollout of Universal Credit began in February 2015 for single working age persons who would have otherwise been eligible for income based jobseekers allowance, including those with existing

housing benefit and working tax credit claims. North Ayrshire were amongst the first tranche of sites to be rolled out with Irvine, Kilbirnie and Saltcoats Job Centre Plus offices accepting universal credit claims from April 2015.

- 118.** Universal credit will be established across the country with new claims to legacy benefit (such as housing benefit) closed from 2016. Migration will follow thereafter. Uncertainties remain which make it difficult for councils to plan effectively. In particular, the migration timeline from housing benefit to universal credit is uncertain.
- 119.** The council has been 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.
- 120.** Progress on implementation of the action plan is monitored by the Cabinet at regular intervals. In April 2015 the Cabinet noted that a delivery partnership agreement has been agreed with the DWP to support the delivery of universal credit in North Ayrshire from 27 April 2015 to 31 March 2016. It also noted that arrangements are in place to provide customers with the support they require to complete online application forms and personal budgetary support. Overall, the council are on track to respond to the reforms contained in the Welfare Reform Act 2012.

- 121.** The Scottish Housing Regulator published its Scottish Landlord Report in August 2014. The council's performance in 2013/14 in relation to gross rent arrears as a percentage of rent due was 3.2% compared to a Scottish average of 5.1%. An element of the rent arrears relates to the impact of welfare reform.

Housing and council tax benefits performance audit

- 122.** We carried out an assessment of the council's housing benefits performance as part of Audit Scotland's housing benefit risk assessment programme. Our work compared performance to the previous risk assessment in November 2010 and focussed on the benefits services approach to: national and local priorities; business planning and reporting; and delivering outcomes.
- 123.** At the time of Audit Scotland's previous risk assessment in November 2010, the council had a strong speed of processing performance that placed it in the upper quartile in Scotland. This strong performance was retained up to and including 2013/14 despite the significant resources required to plan, implement, and answer the increased enquiries on the various changes being introduced as part of the welfare reform agenda.
- 124.** However, the unprecedented staff turnover that saw nine (33%) HB processors leave the council between April and November 2014 resulted in a backlog of work. This peaked in March 2015 and since then there has been progress in clearing the work outstanding.

- 125.** Clearing the backlog has resulted in a further dip in performance and the latest performance information for April 2015 shows new claims at 30 days and changes of circumstances at 23 days. The council reports that it continually monitors speed of processing to make sure changes of circumstances are calculated quickly and overpayments are minimised. It is hoped that the backlog will be cleared quickly to avoid any potential loss of subsidy for 2015/16.
- 126.** Despite the challenges, the key aim to deliver a quality service to its customers and stakeholders has remained. In recognition of this, the Cabinet Office's Customer Service Excellence accreditation, originally awarded in August 2010, was retained during 2014/15.
- 127.** During the previous risk assessment in November 2010, Audit Scotland identified eight risks to continuous improvement. We found during this risk assessment that seven risks have been addressed in full. The one risk outstanding relates to analysing overpayments to minimise future occurrence which the council commits to addressing. An action plan addressing this, together with two new risks has been agreed with management.

Local scrutiny plan

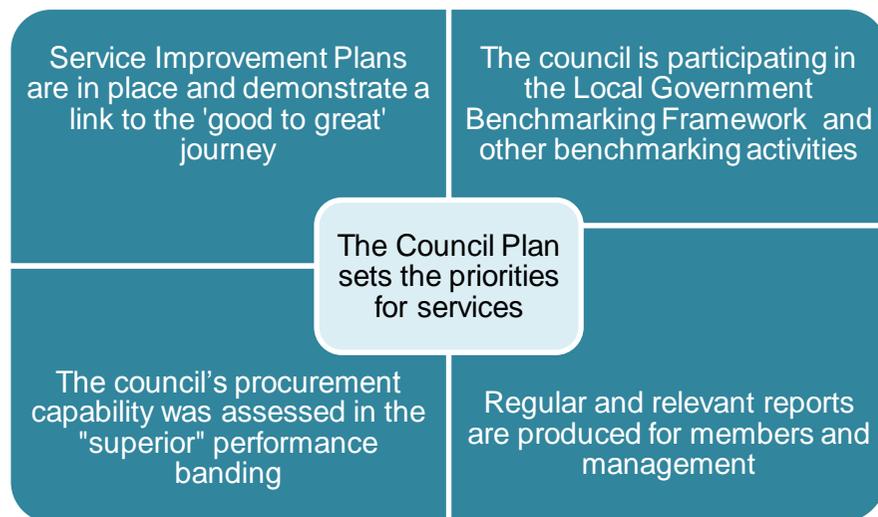
- 128.** The 2015/16 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners for the council was submitted to the Cabinet on 20 April 2015.
- 129.** No scrutiny risks were identified which require additional scrutiny or audit work in 2014/15. A range of nationally driven scrutiny activity

will be undertaken in 2015/16. The nature and timing will be reflected in the next scrutiny plan.

Outlook

- 130.** Councils will continue to operate in a changing environment within continuing financial constraints. Under these circumstances councils will be obliged to consider the delivery of services by different means. Good governance will be particularly important where council resources and service delivery are devolved to partnerships, joint working and third party organisations. In these arrangements it will be crucial that the council continues to demonstrate best value and the accountability for public money.
- 131.** In 2015/16 community planning and health and social care integration will require particular focus on governance and assurance to ensure that the council's priorities are being achieved.

Best Value



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

Arrangements for securing Best Value

133. The council created the Change Programme following the 2010/11 budget setting process. The programme seeks to address demographic and financial pressures through council-wide transformational change.

134. Change projects are integrated with the council's service planning and budgeting processes. The business change team assists services across the council to identify, design and execute the projects. 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. The council are on course to introduce phase two of the transformation programme in 2015/16.
135. 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.

Performance management

136. The council refreshed its 2012/15 performance management strategy in April 2015. This set out the council's vision of where they want to be – which is to be recognised internally and externally as a great council. The council's "Good to Great" improvement journey underpins the strategy and is incorporated within each of the Directorate service plans. 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. There are clear links between the council's strategic priorities, service plans and performance reports. The single outcome agreement (SOA) and the council plan each

have an associated action plan. In addition each service has an annual service plan and action plan. Progress against each of these plans is reported bi-annually to Cabinet and the Scrutiny and Petitions Committee. The detailed reporting of service plans is supported by the use of Covalent, the electronic performance management system.

- 137. A performance management forum (PMF) has been in place since 2013. This includes membership from all directorates and their role is to embed a high performance culture throughout the council.
- 138. The 'North Ayrshire Performs' section of the council's website is dedicated to performance and is accessible to the public. This provides a range of information including performance indicators, the performance management strategy, financial information, service plans, inspections, and achievements. 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.
- 139. The council works with other Scottish councils and the Improvement Service to develop and improve the Local Government Benchmarking Framework (LGBF). Progress and relative ranking is reported to members. The council also participates in several other benchmarking groups and uses the information from this to share good practice and attain external recognition.
- 140. 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 were incorporated into the Recognised for Excellence (R4E) submission or are monitored by the PMF.

- 141. Following the achievement of the Committed to Excellence award in 2012, the council was awarded three star R4E from Quality Scotland in June 2015. R4E is a level of excellence designed largely for organisations that are 'on the way' to excellence. It is a recognition scheme that demonstrates high levels of performance against the nine criteria of the European Foundation for Quality Management (EFQM) Excellence Model.
- 142. The council is developing an improvement plan to address the areas for improvement recorded in the R4E award feedback report. This includes the need to more fully demonstrate that benchmarking work identifies how highly rated councils achieve improved performance, and to incorporate this into Directorate service plans.
- 143. The council has a team of EFQM accredited assessors across services to provide a greater awareness of the improvement framework. Various self assessments have taken place in a number of service areas in recent years, including the recent review by Education and Youth Employment to ensure its schools are achieving improvements.
- 144. We are satisfied that the council has appropriate performance management arrangements in place.

Overview of performance targets in 2014/15

- 145. The council produced an annual performance report in September 2015 which provides a balanced scorecard of the council's progress in achieving their objectives and improving the overall level of performance.
- 146. The report demonstrates the council's progress against 134 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 79% met or exceeded target, 7% were slightly adrift and 14% of indicators were significantly adrift of target. The report also highlighted the results of benchmarking against the Local Government Benchmarking Framework (LGBF).
- 147. The Cabinet also receives six monthly progress reports on the Council Plan action plan and the Single Outcome Agreement (SOA) action plan.

Statutory performance indicators (SPIs)

- 148. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.
- 149. For 2014/15 three (SPIs) were prescribed:
 - SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
 - SPI 2: covering a range of information relating to service performance
 - SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.
- 150. An evaluation of all Scottish councils' approaches to public performance reporting was carried out by Audit Scotland's Performance Audit and Best Value group during 2015 and reported to the Accounts Commission in June 2015. This followed a previous evaluation that was carried out in September 2014. An individual assessment for North Ayrshire Council was issued to the Leader, Chief Executive, and Chair of the Audit Committee in July 2015. This contains information that will help the council make further improvements in performance reporting.
- 151. In last year's assessment, councils were assessed as either 'fully', 'partially' or 'not' meeting requirements. For this year's evaluation we introduced a simpler and clearer assessment scale which also promoted a stronger focus on continuous improvement. This assessed councils as either fully meeting requirements or having an 'area for improvement'.
- 152. The change in methodology means it is not possible to make exact comparisons between the 2014 and 2015 assessments. It is clear, though, that the council is meeting its requirement to report publicly on its performance with 88% of indicators and themes fully meeting

reporting requirements and 12% identified as having an area for improvement. This placed the council's public performance reporting within the best grouping of authorities in Scotland.

153. Plans for collection and reporting of indicators (both local and statutory indicators) remain unchanged from previous years. A detailed check of five indicators by internal audit and three indicators by external audit identified that procedural instructions are not available for all indicators and some indicators required to be re-calculated. We also noted indicators that were estimated with no back up to substantiate them. Procedural instructions and clear definitions of all PIs should be prepared and back up retained to support the indicators reported. We raised similar concerns in our 2013/14 annual audit report.

Action Plan no 3

Procurement

154. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice.
155. The council's most recent PCA was held in November 2014. The council scored 72%, which was 11% higher than that for 2013 and above the target of 64%. The score achieved in 2014 was also well above the national average of 62%. The council has 11 procurement performance indicators. Targets are set for each of these and progress reports are provided to the Scrutiny & Petitions

Committee and Cabinet every six months. These include the number of apprenticeships created through community benefit clauses, procurement savings, and the proportion of spend with local suppliers.

Audit of community planning partnerships

156. Audit Scotland has audited 8 community planning partnerships (CPPs) since 2013 and produced a national report on community planning in Scotland *Community planning: turning ambition into action* in November 2014. Our audit report on North Ayrshire CPP was published in March 2013 as part of the first tranche of three local CPP audits that took place during 2012/13.
157. This report included a nine point improvement agenda for the CPP and in 2015 Audit Scotland carried out some follow up work to assess what progress the CPP has made in addressing these improvement areas. Our findings are summarised as follows:
- **Strategic Direction:** actions and indicators were identified for the CPP action plan for 2013/14 and 2014/15 and these were tied in with outcomes. A similar process was carried out for 2015/16 although the most recent action plan is more focused with a small number of key strategic actions for each priority. A more targeted approach has also been taken this year for resource mapping, for example in relation to children and young people to focus on the CPPs Improving Children's Outcomes initiative.

- **Performance Reporting:** there continues to be good performance reporting, with quarterly performance reports going to thematic groups and the Strategic Management Team and six monthly reports to the Board. This information is provided at a variety of SOA levels with good level discussion and challenge taking place. The Resource Information Performance and Evaluation (RIPE) Group is being reviewed and revised to ensure it is as effective as possible in its role in scrutinising performance.
- **Community Engagement:** the CPP continues to make good progress with its locality planning work. A second round of consultation events took place across the six neighbourhoods in early 2015 providing information on the areas strengths and needs. This work was carried out following formal training on community engagement and consultation from an external organisation with a range of partners involved. The CPP will now consider the governance structures of locality forums and a community engagement and consultation portal has been developed.

National performance audit reports

158. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the council. These are outlined in appendix III. The council has processes in place to ensure that all national

reports are considered by members. This generally includes comments on the council's position in relation to the key messages contained in the report.

Equalities

159. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
160. The council's Equality Outcomes and Corporate Equality Group is responsible for directing, supporting and reviewing the arrangements for promoting equality. The council published its report on equality outcomes within the deadline required by the Act and this can be viewed on the council's website.

Outlook

161. As choices on how to address funding gaps become increasingly difficult, councils will have to focus on making the very best use of all available resources and to challenge existing ways of doing things. The council's regular review of performance, and implementing the improvement plan following the R4E findings will be critical to the council continuing to achieve its key priorities and achieving best value.

Appendix I – Significant audit risks

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

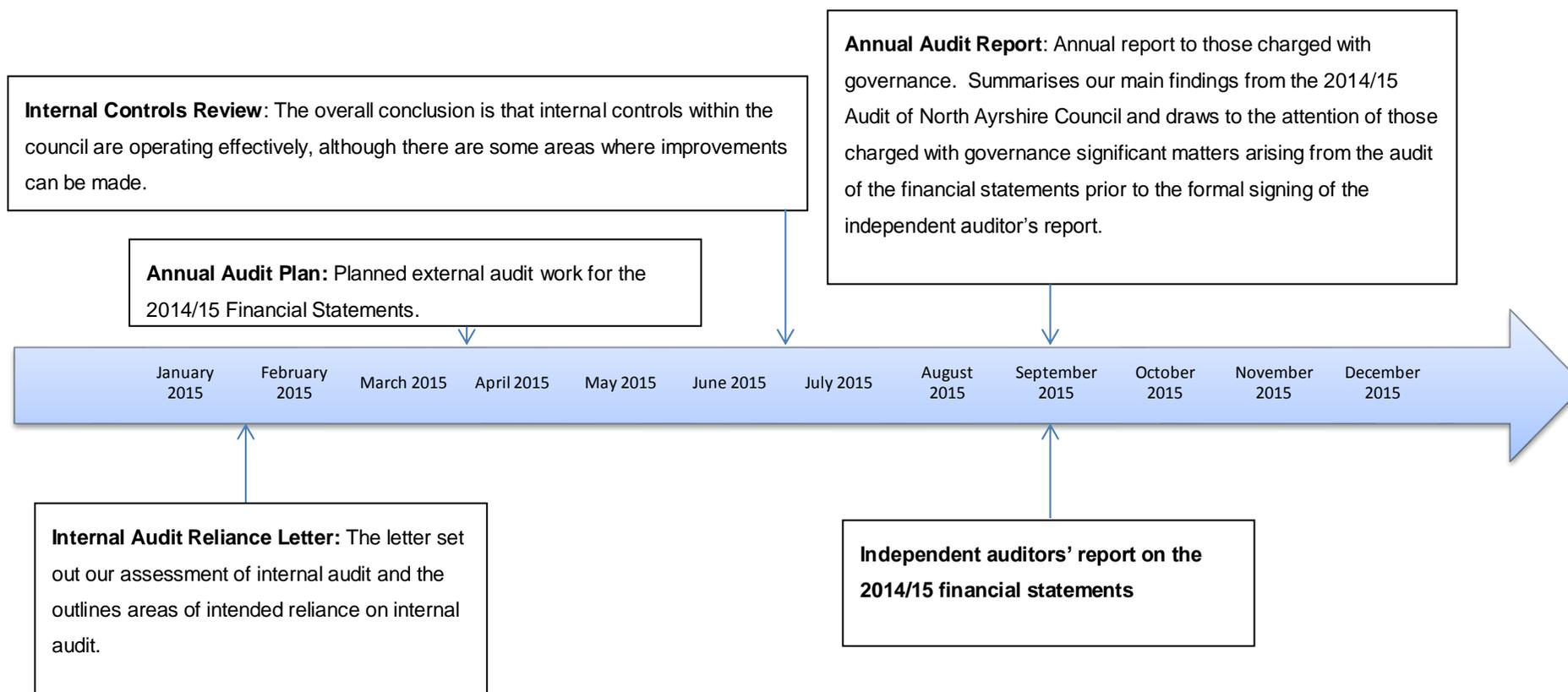
Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Income</p> <p>North Ayrshire Council receives a significant amount of income from numerous sources in addition to SG funding.</p> <p>Risk</p> <p>The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.</p>	<ul style="list-style-type: none"> • Controls testing of Accounts Receivables. • Testing of revenue transactions across each service area. • Testing of significant grants received. • Focused testing of the Non Domestic Rates and Council Tax Income Account. 	<p>Audit testing of various categories of income generated by the council's main accounting systems was satisfactory.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Management override of control</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p>Risk</p> <p>Management’s ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Reviewed accounting estimates for bias. • Evaluated significant transactions that are outside the normal course of business. • Focussed testing of the regularity and cut-off assertions during the financial statements audit. 	<p>Audit testing of accounting estimates and provisions, journal entries and cut off was satisfactory and did not identify any management override of controls.</p>
<p>Group accounts</p> <p>There may be changes to the group structure arising from amendments to The Code of Practice for Local Authority Accounting, reflecting the adoption of the following group accounts standards;</p> <ul style="list-style-type: none"> • IFRS 10 Consolidated financial statements • IFRS 11 Joint arrangements • IFRS 12 Disclosure of interests in other entities • IAS 28 Investments in associates and joint ventures (as amended). <p>Risk</p> <p>There is a risk that the council and its group are not properly presented in the financial statements.</p>	<ul style="list-style-type: none"> • We liaised with officers during the course of the year regarding the group accounts arrangements. • Reviewed group account disclosures to ensure the new accounting standards have been followed. 	<p>The council provided evidence that they reviewed the potential impact on the group structure as a result of changes to the Code of Practice for Local Authority Accounting.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Equal pay provision</p> <p>The potential liability resulting from equal pay claims remains uncertain and is subject to the outcome of several national test legal cases.</p> <p>Risk</p> <p>There is a risk that the ultimate cost to the council is significantly different from that provided in the financial statements.</p>	<ul style="list-style-type: none"> We monitored developments throughout the year and reviewed the equal pay provision as part of the 2014/15 financial statements audit process. 	<p>Satisfactory working papers in support of the year end equal pay provision were provided.</p>
<p>Review of title deeds</p> <p>During 2013/14 the council 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 exercise is substantially complete but is still ongoing.</p> <p>Risk</p> <p>Until the review is complete, there remains a risk that some common good assets may not be correctly identified and reflected in the fixed asset register. As a result they may not be correctly classified in the financial statements.</p>	<ul style="list-style-type: none"> We reviewed the residual work undertaken by the council, and the methodology for establishing ownership. Sample tested title deeds. 	<p>The council concluded its review of title deeds. Overall, this identified three properties that should be transferred from the council to the common good; and one property that should be transferred from the common good to the council. This demonstrates that titles are properly held by the council. The methodology used by the council to establish ownership was appropriate.</p>

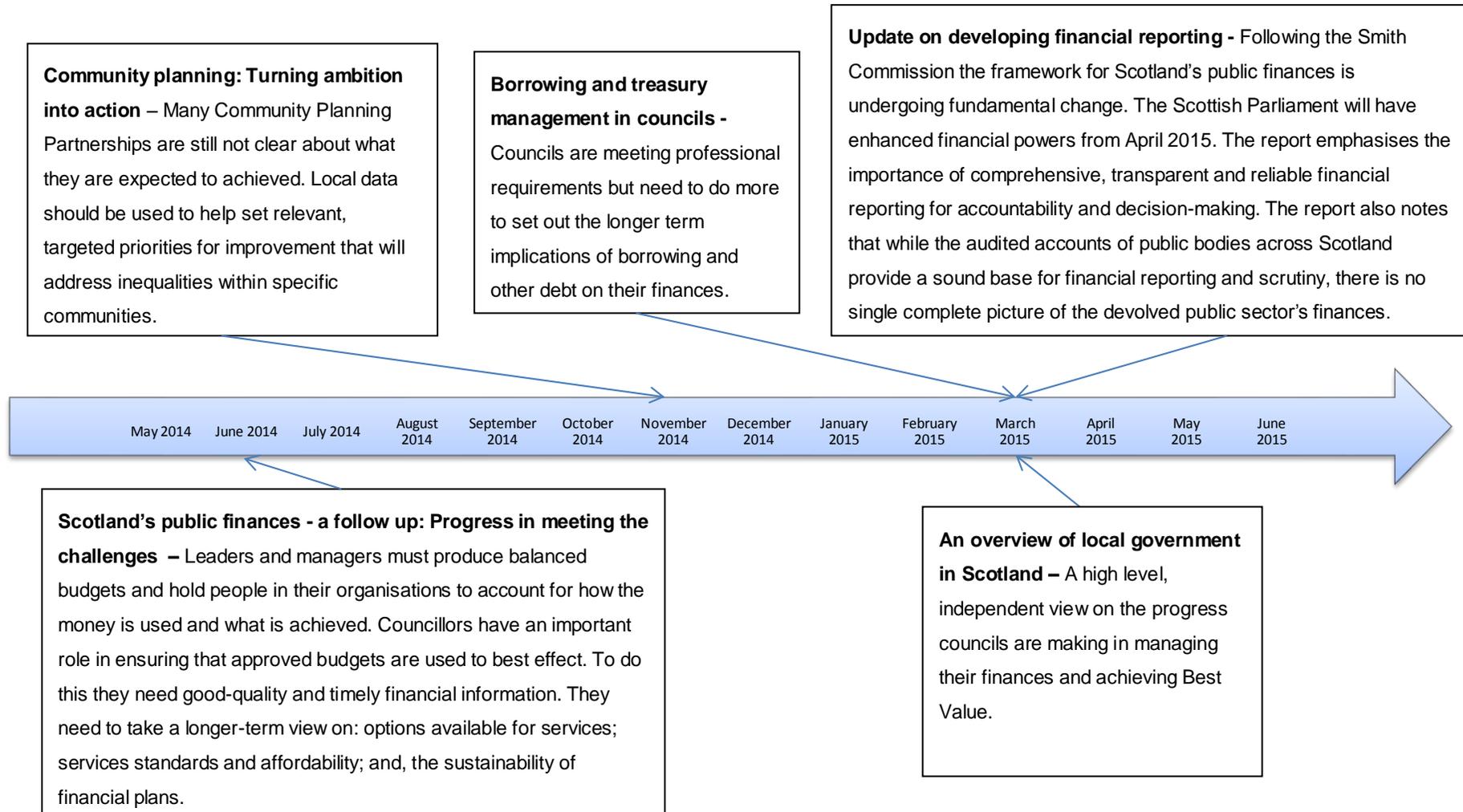
Appendix II

Summary of North Ayrshire Council local audit reports 2014/15



Appendix III

Summary of Audit Scotland national reports 2013/14



Appendix IV

Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
<p>1 20/62</p>	<p>Issue</p> <p>The general fund capital budget was reduced by 38.9% during the year; and the HRA capital budget was reduced by 16.4% during the year. A number of projects have been rescheduled and delayed.</p> <p>Risk</p> <p>Strategic priorities that are dependent on capital projects being completed may not be met. Service delivery may also be affected.</p> <p>Recommendation</p> <p>The timing of projects in the capital programme should be fully aligned to council's strategic priorities and ensure that rescheduling has not had a significant impact on meeting the council's strategic priorities. .</p>	<p>Capital projects are fully aligned to the Council's strategic priorities. All reasonable steps will be taken to minimise delay in the delivery of capital projects.</p>	<p>Executive Director (Finance and Corporate Support)</p>	<p>March 2016</p>

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 28/116	<p>Issue</p> <p>Whilst preparations have been good, the effectiveness of the IJBs in delivering health and social care services is unproven. There has been a recurring overspend of Health and Social Care services in recent years.</p> <p>Risk</p> <p>Given the needs led nature of health and social care services, there is a risk of overspends in the Health and Social Care Partnership budgets if scrutiny arrangements are not effective.</p> <p>Recommendation</p> <p>The council should review its arrangements to ensure that IJB services are delivered within budget.</p>	<p>The Council and IJB s95 officers work closely to ensure there is a clear understanding of the IJB's financial performance and any corrective action required to deliver services within available resources.</p> <p>Meetings are scheduled to take place between the Council's Chief Executive, the Chief Officer and the section 95 officers.</p> <p>Financial performance of the IJB will be reported to Cabinet alongside the Council's revenue budget monitoring statements.</p>	Executive Director (Finance and Corporate Support)	March 2016

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
<p>3 34/153</p>	<p>Issue</p> <p>There are no procedural instructions on how to collect data for some performance indicators. In other cases sample tested, there was little or no evidence in support of the indicator reported.</p> <p>Risk</p> <p>Performance data reported may be based on information that is not robust.</p> <p>Recommendation</p> <p>There should be a clear audit trail for all performance indicators reported.</p>	<p>Further work will be undertaken to ensure robust procedures and clear audit trails are available for all performance indicators.</p>	<p>Head of Democratic and Administrative Services</p>	<p>March 2016</p>