



# North Ayrshire Council

2015/16 Annual audit  
report to Members and  
the Controller of Audit

23 September 2016

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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies ([www.audit-scotland.gov.uk/about/ac/](http://www.audit-scotland.gov.uk/about/ac/)). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General ([www.audit-scotland.gov.uk/about/](http://www.audit-scotland.gov.uk/about/)).

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.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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# Key messages

## Audit of financial statements

- Unqualified auditor's report on the 2015/16 financial statements.
- Unqualified auditor's reports on the ten charitable trusts administered by the council

## Financial management and sustainability

- Financial management remains strong with a robust budget setting process in place to deliver services in line with the council's priorities.
- Services reported a budget underspend of £5.150 million for the year. This has been earmarked for service expenditure and capital investment in 2016/17.
- The general fund reported a surplus of £5.914 million before transferring £3.931 million to other usable reserves. The general fund balance increased by £1.983 million to £27.886 million in 2015/16.
- The earmarked element of the general fund increased from £15.559 million in 2014/15 to £18.936 million in 2015/16. The unearmarked element of the general fund decreased from £10.344 million in 2014/15 to £8.950 million in 2015/16.
- The HRA reported a surplus of £1.161 million and the balance was £12.224 million in 2015/16.
- A balanced budget has been set for 2016/17, with a funding gap of £3.836 million and £17 million forecast for 2017/18 and 2018/19 respectively. Work is underway to bridge these gaps. The 2017/18 budget gap includes the use of £2.811 million from earmarked reserves following a review of these balances.
- The council fully funded the North Ayrshire Integration Joint Board (IJB) overspend of £2.109 million in 2015/16 on a non recurring basis. The IJB has committed to achieve efficiency savings of £4.000 million in 2016/17. The financial position for both the council and the IJB is extremely challenging.



**Governance  
and  
transparency**

- The council has effective governance arrangements in place.
- Systems of internal control operated effectively during the year.
- Local residents have access to information on how the council delivers services and performs against its priorities.
- The council has an effective internal audit function and anti-fraud arrangements.



**Best Value**

- The council's 'Good to Great' improvement journey underpins the performance management strategy. This is incorporated into each of the three year Directorate Plans.
- The 'Transformation 2 (T2) programme' seeks to address demographic and financial pressures through transformational change.
- The council receive progress reports on the Single Outcome Agreement (SOA) action plan and the Directorate Plans. The latter incorporate Council Plan progress. These show the council is on target to meet most of its measures or actions.
- The council was awarded Recognised for Excellence (R4E) from Quality Scotland in June 2015. Work is underway to implement improvements as a result of the R4E feedback.



**Outlook**

- North Ayrshire Council must continue to challenge how it delivers services into the future to respond to its pressures. The new transformation programme will be an important element in deciding how these choices are determined.

# Introduction

1. This report is a summary of our findings arising from the 2015/16 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 [appendix II](#) and [appendix 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.
9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of North Ayrshire Council will be Deloitte LLP. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

# Audit of the 2015/16 financial statements

<p><b>Audit opinion</b></p>	<ul style="list-style-type: none"> <li>We have completed our audit of the council and its group and issued an unqualified independent auditor's report.</li> </ul>
<p><b>Going concern</b></p>	<ul style="list-style-type: none"> <li>The financial statements of the council, its group and the associated charitable trusts have been prepared on the going concern basis. We are not aware of any events or conditions that may cast significant doubt on the council, its group and associated charitable trusts' ability to continue as a going concern.</li> </ul>
<p><b>Other information</b></p>	<ul style="list-style-type: none"> <li>We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.</li> </ul>
<p><b>Charitable trusts</b></p>	<ul style="list-style-type: none"> <li>We have completed our audit of the 2015/16 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.</li> </ul>
<p><b>Group accounts</b></p>	<ul style="list-style-type: none"> <li>The council has accounted for the financial results of three subsidiaries, four associates, and three joint ventures in its group accounts for 2015/16. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £24.207 million.</li> </ul>
<p><b>Whole of government accounts</b></p>	<ul style="list-style-type: none"> <li>The council submitted a consolidation pack for audit by the deadline of 26 August 2016. This will be certified and submitted to the NAO by the due deadline of 30 September.</li> </ul>

## Submission of financial statements for audit

10. We received the unaudited financial statements on 17 June 2016, 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.
11. The financial results of North Ayrshire Integration Joint Board have been reflected in the council's group accounts in 2015/16, with the Board being operational since April 2015. The Board prepared the financial statements within statutory timescales, including the consideration of assurance arrangements relating to the annual governance statement.

## Overview of the scope of the audit of the financial statements

12. Information on the integrity and objectivity of the appointed auditor and audit staff, and the scope of the audit were outlined in our Audit Plan presented to the Audit Committee on 23 May 2016.
13. 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 2015/16 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.
14. 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.

15. 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

16. 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).
17. 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.

18. 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 2015/16 at £4.813 million (1% of gross expenditure). Performance materiality was calculated at £3.610 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.
19. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and adjusted planning materiality to £5.616 million. Performance materiality was amended to £4.212 million. This was due to a higher level of gross expenditure compared to previous years caused by the prescribed method for accounting for IJBs. We have reported all misstatements greater than £0.055 million to members.
20. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements. The effect of these adjustments is to increase the net cost of services recorded in the comprehensive income and expenditure account by £0.565 million. This related to the understatement of a landfill tax cost, the overstatement of a council tax exemption provision, and the understatement of the carbon reduction commitment debtor. This, consequently, reduces the general fund balance reported in the movement in reserves fund from £28.451 million to £27.886 million.
21. As noted on page 10 there were two depreciation misstatements in the unaudited accounts. These were compensating misstatements which net to £1.872 million. All depreciation adjustments are mitigated in the movement in reserves statement in accordance with a statutory adjustment prescribed in the 2015/16 local government accounting code (the "Code"). Hence, there is no impact on the general fund. However, the deficit on provision of services reported in the comprehensive income and expenditure account increased by £1.872 million; and the statutory adjustment reported in the movement in reserves account increased by the same amount to compensate this.
22. The council's share of group reserves reported in the group balance sheet has increased by £1.759 million to £24.207 million. This is mainly due to inter group balances between the council and its joint ventures previously being erroneously eliminated prior to calculating the council's share of the joint ventures' assets and liabilities.

## Evaluation of misstatements

## Significant findings from the audit

23. 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.
24. The following table details those issues or audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.

**Table 1: Significant findings from the audit**

## Significant findings from the audit in accordance with ISA260

### Equal Pay Claims

A provision of £2.867 million is included at 31 March 2016 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 £1.011 million of the general fund to cover this. As the tribunal process unfolds the extent of the council's eventual liability will become clearer.

**Resolution:** Management will review the equal pay provision annually to take account of any legal developments.

### 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.

There has been a reduction in the 'net liability arising from defined benefit obligation' of £71.796 million to £151.309 million at 31 March 2016. This is due, in part, to a rise in the net discount rate decreasing the assessed value of liabilities, as a lower value is placed on benefits paid in the future. Although the liability will continue to vary, this information is necessary for the council to ensure the pension fund remains affordable and adequately funded.

**Resolution:** The triennial valuations of the pension fund carried out by Strathclyde Pension Fund assures that the pension fund remains adequately funded. The financial statements have been prepared on the basis of these assumptions.

## Significant findings from the audit in accordance with ISA260

### Depreciation of Council Dwellings

Council dwellings were revalued in 2014/15. The land element, which is not depreciable, was not separately identified, resulting in depreciation being overcharged by £3.003 million in 2014/15. We agreed with officers that a prior year adjustment was not required in this year's accounts on the grounds that the overcharge was not material, was not representative of an error in a wider population, and would be corrected in 2015/16. However, the unaudited accounts did not properly reflect the journals that were processed to correct this. As a result, the depreciation charge applied in the Comprehensive Income and Expenditure Statement (CIES) in the unaudited accounts was overstated by £3.003 in 2015/16.

**Resolution:** The audited financial statements were amended. This has no overall impact on the general fund balance at 31 March 2016 recorded in the Movement in Reserves Statement (MIRS) as all depreciation charges to the CIES are eliminated each year through a statutory adjustment.

### Non Current Assets – Depreciation based on Revaluation as required by the Code

In accordance with the 2015/16 local government accounting code, the depreciation charge each year requires to be based on the revalued values of assets. An adjustment is then processed in the MIRS to reduce this to depreciation based on the cost of the asset. However, this was not correctly reflected in the CIES as depreciation in the CIES was based on the historic cost of assets. As a result, the depreciation charge in the CIES in the unaudited accounts was understated by £4.875 million in 2015/16.

**Resolution:** The audited financial statements were amended. This has no overall impact on the general fund balance at 31 March 2016 recorded in the MIRS as all depreciation charges to the CIES are eliminated each year through a statutory adjustment.

## Significant findings from the audit in accordance with ISA260

### Creditors - Landfill Tax

Subsequent to preparing the unaudited accounts, the council identified that it had understated its landfill tax liability by £0.806 million. This relates to errors incurred when weighing amounts going to landfill over the last four years.

**Resolution:** The audited financial statements were amended. The general fund is therefore reduced by £0.806 million.

## Future accounting and auditing developments

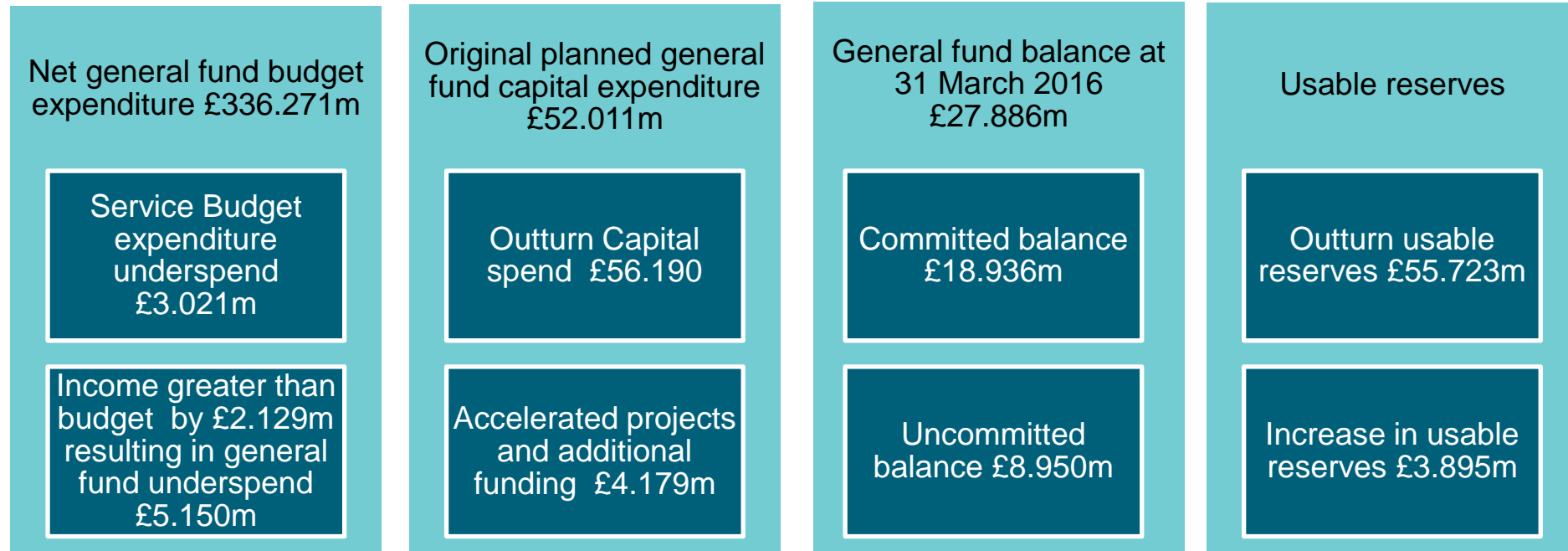
### Highways network assets

25. The 2016/17 local government accounting Code will adopt a new measurement requirement for the valuation of the highways network asset. They will be measured on a depreciated replacement costs basis. This will have a significant impact on the value of local authority balance sheets. Officers consider there is a high level of information available in readiness for the change in accounting practice.

### Code of Audit Practice

26. A new Code of Audit Practice will apply to all audits from financial year 2016/17. There will be a focus on four areas:
- Financial sustainability
  - Financial management
  - Governance and transparency; and
  - Value for money
27. In addition, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website.

# Financial management and sustainability



## Financial management

28. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.
29. 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

30. The council reported an underspend of £5.150 million in 2015/16 against its break even budget. This is being carried forward as part

of earmarked balances to fund service expenditure in 2016/17. The council reported the main reasons for the underspend as follows:

- The level of funding available from the Scottish Government to fund Discretionary Housing Payments and the Council Tax Reduction scheme resulted in the funds set aside by the Council no longer being required (£1.2 million).
  - Delays in the implementation of Universal Credit for residents within the homelessness service meant that funds set aside to meet the funding shortfall were not required (£1.0 million).
  - Lower levels of inflation than anticipated when setting the current year budget (£1 million).
  - Vacancy management efficiencies (£0.8 million).
  - Funds earmarked for employability projects carried forward to 2016/17 (£0.8 million).
  - Underspend in economic development due to delays in European Social Funding grant award notifications and underspend in Irvine Bay regeneration programmes (£0.7 million).
31. This was partly off-set by an overspend within services provided to North Ayrshire Health and Social Care Partnership of £2.109 million (or 2.4% of its budget). This was mainly due to overspends within Children and Families due to demand for residential and community packages (£1.651 million).
32. The overspend was fully funded by North Ayrshire Council on a non recurring basis. A recovery plan, including improvements to budget

forecasting and monitoring processes was approved by the partnership, and reported to the Council and NHS Ayrshire & Arran.

33. This follows an overspend in social care cost of £2.637 million in 2014/15 and further overspends by this service in most of the last five years. The service has committed to achieving efficiency savings of £4 million in 2016/17 and this will be extremely challenging.

#### **Action Plan 1**

34. 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.
35. The annual accounts show that the general fund recorded an accounting surplus of £5.914 million in 2015/16 prior to transferring £3.931 million to the capital fund. This is more than the management accounts underspend of £5.150 million. This arises because the management accounts include expenditure which the council budgeted to transfer to earmarked fund (£5.630 million); which is offset by expenditure incurred in 2015/16 that was financed by reserves rather than in year income (£4.866 million).
36. The housing revenue account (HRA) reported a management accounts underspend of £1.862 million in 2015/16 (or 4.1% of income). This underspend arose due to:

- a net saving in loan charges as a result of external borrowing falling below anticipated levels due to continued use of internal funds instead of new borrowing (£1.3 million)
  - underspends in repairs and adaptations to housing stock (£0.5 million); and
  - reduced write off of rent arrears reflective of current collection levels (£0.27 million).
37. This was partly offset by a reduction in the rental income base as a result of the demolition of houses linked to the acceleration of new house building projects (£0.2 million).
38. Of this underspend, £0.701m was financed from the housing revenue account fund balance brought forward from 2014/15 rather than from income received in the year. This results in an accounting surplus for the HRA of £1.161 million.
39. The HRA has a reserve fund balance of £12.224 million at 31 March 2016. Of this, £12.167 million has been earmarked for future use in respect of council house building; mitigating the impact of welfare reform; sheltered housing unit works; infrastructure improvements; major refurbishment works, and a £1 million contingency to meet any unforeseen costs. The remaining uncommitted balance is £0.057 million.

## Financial management arrangements

40. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the proper officer has sufficient status within the council to be able to deliver good financial management
  - financial regulations are comprehensive, current and promoted within the council
  - reports monitoring performance against budgets are accurate and provided regularly to budget holders
  - monitoring reports do not just contain financial data but are linked to information about performance
  - members provide a good level of challenge and question budget holders on significant variances.
41. 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.
42. We reviewed the council's financial regulations, which are revised annually, and concluded that they are comprehensive and current. The council's financial regulations are available on the council's website.
43. 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.

44. The reports focus 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).
45. 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

46. The council has good financial management arrangements which include services being able to carry forward approved uncommitted elements of their budget.
47. Although year on year underspends have contributed to increasing levels of reserves, we are satisfied this is part of a policy to build reserves for use in future years. As noted in the following “financial sustainability” section, this will enable the council to effectively manage and plan service delivery over the longer term.
48. Despite the overall underspends, there has been a recurring overspend of health and social care services in recent years. This is partly due to the demand led nature of the service which makes it

more difficult to predict costs. The council requires to seek assurances from the IJB that robust financial management arrangements are in place to maintain expenditure within the amounts agreed. See also paragraphs 123-128.

## Financial sustainability

49. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.
50. In assessing financial sustainability we are concerned with whether:
  - there is an adequate level of reserves
  - spending is being balanced with income in the short term
  - long term financial pressures are understood and planned for
  - investment in services and assets is effective.
51. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability. See paragraph 171 for our findings on workforce planning.

## Reserves

52. Exhibit 1 shows the level of usable reserves held by the council. They increased by £3.895 million over the year to a total of £55.723 million. The general fund balance is made up of earmarked commitments of £18.936 million and an unallocated balance of £8.950 million.



**Exhibit 1: Usable reserves**

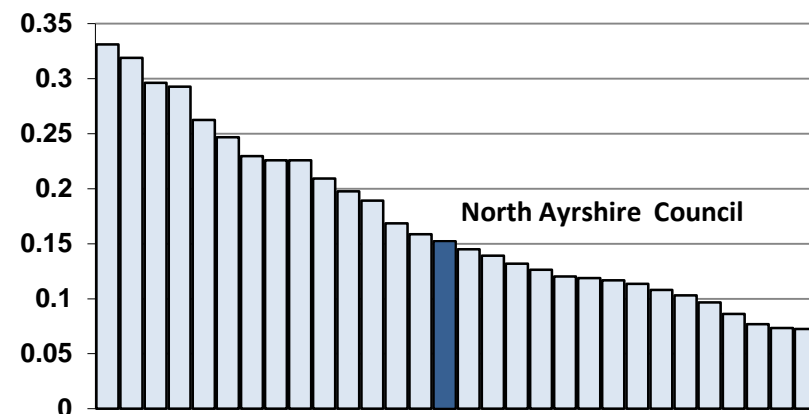
Description	31 March 2015 £ million	31 March 2016 £ million
General fund	25.903	27.886
Housing revenue reserve	11.063	12.224
Capital Fund	9.919	12.729
Repair and renewal fund	1.627	0.286
Insurance fund	3.316	2.598
<b>Total usable reserves</b>	<b>51.828</b>	<b>55.723</b>

Source: North Ayrshire Council 2015/16 financial statements

53. The increase in usable reserves is mainly due to the accounting surplus generated by both the general fund and the HRA. The capital fund increased due to contributions from the general fund during the year being higher than the amounts that were then used to finance capital projects. The remaining capital fund balance is intended to be used to help fund the capital programme to 2020/21 and to enhance the learning environment in secondary schools.
54. The general fund reserve has no restrictions on its use. The principal purpose of holding a general fund reserve is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows.
55. The council's Reserves Strategy, which is reviewed annually, specifies that uncommitted reserves should of between 2% and 4%

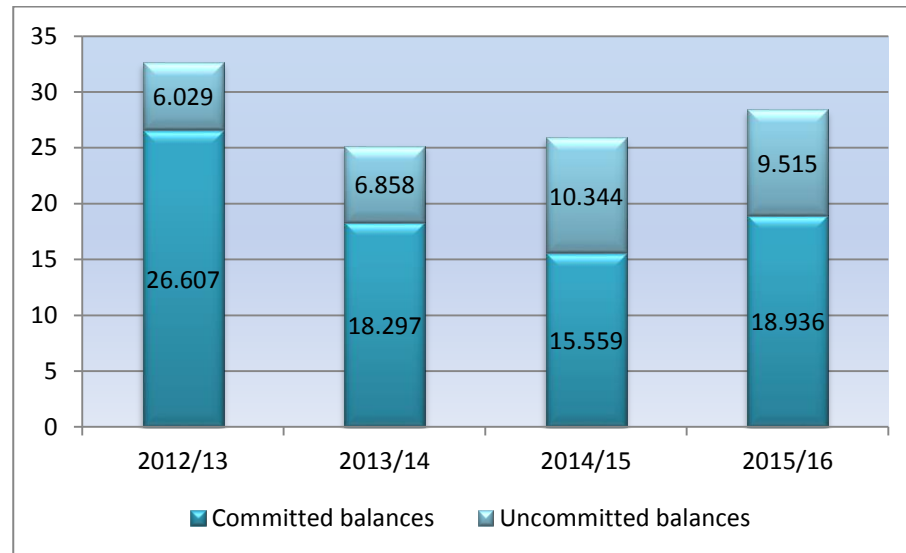
should be maintained. This is the equivalent of between £6.7million and £13.5 million for the council. As at 31 March 2016, the council's unallocated reserve is £8.950 million or 2.7% of net budgeted expenditure.

56. 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: 15.2% (2014/15: 14.3%) is in line with the median level for Scotland of 15% (2014/15: 14.4%).

**Exhibit 2: Total useable reserves as a proportion of net revenue stream plus HRA rents**

57. Exhibit 3 demonstrates the movement in the committed and uncommitted element of the general fund balance over the last four years.

**Exhibit 3: Committed and Uncommitted balances**



58. Information from unaudited council accounts across Scotland indicates that councils have continued to increase usable reserves, including their General Fund reserves, to help smooth expected reductions in funding. The earmarked commitments of £18.936 million will be used to finance the change & service redesign fund, affordable housing, potential additional equal pay claims, and directorate expenditure projects that have been identified for 2016/17 and beyond.

## Financial planning

59. 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.
60. Local government revenue funding across Scotland for 2016/17 is 3.4% less than for 2015/16. This resulted in the council receiving £10 million (3.63%) less than the settlement for 2015/16. The council has estimated that there will be reductions of 2.5% in both 2017/18 and 2018/19. Projections for future expenditure and savings requirements are based on this.
61. A balanced budget has been set for 2016/17, with a funding gap of £3.836 million and £17 million forecast for 2017/18 and 2018/19 respectively. This is based on:
- Delivery of previously approved savings of £11.616 million and £4.452 million in 2016/17 and 2017/18 respectively
  - Approval of new savings of £2.204 million and £2.421 million in 2016/17 and 2017/18 respectively
  - A review of earmarked reserves which determined that £2.811 million can be applied to 2017/18 to help reduce the forecast deficit for the year.
62. Work is underway to identify options to bridge the anticipated funding gaps in 2017/18 and 2018/19. Various service reform options are under review.
63. The Council continues to develop its strategic financial framework as part of the budget setting process to ensure resources align with

outcomes. When setting the budget for 2016/17 reports to members aligned budget decisions to outcomes. The Council intends to use its strategic framework more directly for future year budget setting.

### Capital programme 2015/16

64. The council approved its general services and housing capital programme for 2015/16 in December 2014. As outlined in Exhibit 4 below, capital budgets were revised during the year. Total planned expenditure reduced by £4.799 million (5.90%).

#### Exhibit 4: Capital Expenditure 2015/16

Capital Programme 2015/16	Approved budget £million	Revised budget £million	Expenditure in year £million	Variance £million %
General	52.011	55.456	56.190	0.734 1.32%
Housing	29.329	21.085	19.972	(1.113) (5.28%)
<b>Total</b>	<b>81.340</b>	<b>76.541</b>	<b>76.172</b>	<b>(0.369)</b> <b>0.48%</b>

65. Regular reports on the capital programme were prepared for the Cabinet, who approved various adjustments to the capital programme budget. The main projects completed in the year

included Salcoats town hall, the Millport field centre, and the strategic investment site in the Irvine Enterprise Area.

66. The increase in the general services capital budget was mainly due to accelerating expenditure at Garnock Campus from 2016/17 into 2015/16. This was offset by movements in the spending profile on work currently in progress at Irvine Leisure Centre and Largs Academy; and slippage in the learning disability day centres and the cemetery works programme.
67. The initial HRA Housing Investment Programme budget set in December 2014 was revised downwards during the year by £8.244 million (28.1%). This was mainly due to a delay in design work for the new build at Fencedyke (£4.460 million) which will slip to 2016/17. Also, savings in the tender prices achieved across various programmes and a reduction in the works required to meet energy efficiency standards by 2020 (£2.953 million) has been carried forward for future housing projects.
68. The HRA variance of £1.113 million consisted of an underspend on the programme of £0.126 million, with the remaining underspend for the year of £0.987 million carried forward for the House Building programme. The housing programme focused on major component replacement and the building of council dwellings. 56 new homes were completed during the year at Irvine and Kilbirnie.

### Asset Management

69. 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 Executive Leadership Team and an annual report is prepared for Cabinet.

70. The Property Asset Management Plan 2014-17 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. 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. This is being updated to reflect the rules and regulations in the Community Empowerment (Scotland) Act 2015.
71. 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.
72. At 31 March 2016 long term borrowing stood at £208.740 million (excluding PPP), a decrease of £10.911 million on the 2014/15 borrowing level of £219.651 million. During the same period, short term borrowing increased from £11.750 million to £17.462 million. New long term loans of only £1.625 million were taken out during the year. The levels of borrowing are in line with the council's Treasury Management Strategy for 2015/16.
73. Interest payable and similar charges fell by £0.787 million in 2015/16 to £17.952 million. This was due to the reduction in borrowing. Over the same period, the council's average rate on borrowing (excluding PPP debt) reduced from 5.68% to 5.50%.
74. The financing for the council's £276 million capital programme from 2016/17 to 2025/26 is outlined in the Treasury Management and Investment Strategy 2016/17. All services identified their requirements for capital investment and applied pre-determined criteria to identify the top priority projects.
75. The underlying borrowing requirement between 2016/17 and 2019/20 arising from the planned levels of capital investment are summarised in exhibits 5 and 6. The general fund is based on the capital investment strategy for 2016/17 to 2025/26; and the HRA reflects the capital investment programme for 2016/17 to 2017/18 and the longer term reflects the latest business plan.

## Treasury Management

72. At 31 March 2016 long term borrowing stood at £208.740 million (excluding PPP), a decrease of £10.911 million on the 2014/15 borrowing level of £219.651 million. During the same period, short term borrowing increased from £11.750 million to £17.462 million. New long term loans of only £1.625 million were taken out during the year. The levels of borrowing are in line with the council's Treasury Management Strategy for 2015/16.

**Exhibit 5: General Fund Capital Financing**

<b>General Fund Capital</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Capital Expenditure	64.087	37.348	18.908	19.911
<b>Source of Funds</b>				
Capital Grants/Receipts	14.950	14.181	17.408	19.911
CFCR	0.629	-	-	-
Reserves	10.805	0.450	-	-
<b>Expenditure to be financed by Borrowing</b>	<b>37.703</b>	<b>22.717</b>	<b>1.500</b>	<b>-</b>

Source: North Ayrshire Council 2016/17 Treasury Management and Investment Strategy

76. The General Services capital programme has an indicative borrowing requirement of £61.920 million between 2016/17 and 2019/20. The Housing Investment programme, as shown below, identifies required borrowing of £42.760 million. Forecast cumulative borrowing throughout the period to 2026/27 is within the council's "operational boundary" for borrowing.

**Exhibit 6: Housing Investment Programme Capital Financing**

<b>HRA Capital</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Capital Expenditure	25.998	36.512	23.313	25.387
<b>Source of Funds</b>				
Capital Grants/Receipts	5.018	2.300	2.300	2.300
CFCR	13.668	13.569	13.255	13.232
Reserves	1.008	0.600	0.600	0.600
<b>Expenditure to be financed by borrowing</b>	<b>6.304</b>	<b>20.043</b>	<b>7.158</b>	<b>9.255</b>

Source: North Ayrshire Council 2016/17 Treasury Management Strategy

77. The council intends to continue with its strategy of internal borrowing by reducing temporary investment balances and using them to fund capital expenditure in the short term. External borrowing will therefore be lower than that reported above. It is forecast, though that the use of internal funds will reduce over time and is forecast to end in 2018/19.
78. The treasury management borrowing strategy demonstrates that the council plans to continue to finance a substantial element of the housing capital programme from revenue funding. This is

forecast at £53.424 million over the four years to 2019/20. In 2015/16 £10.479 million housing revenue funding was used to finance capital programme work. The council consider this to be sustainable over the period covered by the strategy.

79. The financial implications of the treasury management borrowing strategy have been incorporated into the council's financial planning assumptions for the general and housing revenue accounts and the council will continue to keep these under review. Based on current projections we consider this to be sustainable.

### Pension liability

80. Balance sheet net assets increased from £407.653 million in 2014/15 to £489.538 million in 2015/16, an increase of £81.885 million. This is mainly due to the £71.796 million decrease in the pension liability from £223.105 million to £151.309 million.
81. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost.
82. At the last triennial valuation (in 2014) the Strathclyde Pension Fund was 94.3% funded and had assets of £13.949 billion. The next valuation will take place in 2017 when contribution rates will be re-assessed.

### Conclusion on financial sustainability

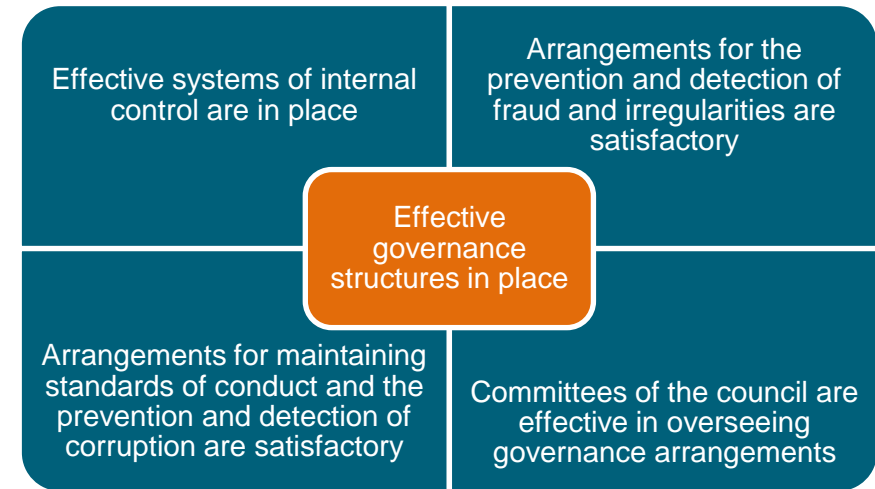
83. The council has an adequate level of reserves and is containing expenditure within annual budgets. To date, it has achieved the efficiencies required to meet its projected funding gaps.
84. The council recognises it needs to forecast and deliver efficiencies, both over the medium and long term, if it is to manage ongoing financial pressures. This is reflected in its rolling three year financial plans and is supported by its ten year financial strategy to 2022/23, which incorporates assumptions about future demands on services and funding levels.
85. Overall we conclude that the financial position is sustainable but challenging currently and in the foreseeable future. There will be a strain to deliver services at the current levels.

### Outlook

86. In common with other Scottish councils, North Ayrshire Council faces increasingly difficult financial challenges in the foreseeable future. The council has identified a budget gap of £21 million over the next two years to 2018/19. This excludes the use of nearly £3 million from the uncommitted general fund to help finance the 2017/18 projected gap. The financial challenges are heightened by a lower than anticipated Local Government Finance Settlement in 2016/17 and expected reductions in cash terms in the following two years. The council's Transformation (T2) programme will need to identify savings and monitor the impact from all service reviews.

- 87. The council's Masterpiece system is the primary source of financial information across services. The council considers the system is no longer fit for purpose as it does not support necessary improvements to management information.
- 88. A new system is scheduled to be in place by April 2017. Transition arrangements are in place and testing is underway. A contract was awarded to Capita Secure Information Solutions Ltd in June 2016. The new system aims to deliver benefits including: more integration within the financial system; more user friendly and less resource intensive; and improved reporting and forecasting.

## Governance and transparency



- 89. 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.
- 90. 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

91. 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

92. 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

93. 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.
94. We reported our findings to the Audit Committee in May 2016. 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. Our findings included a number of recommendations to enhance the control system in operation...

## Internal audit

95. 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.
96. 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. There was no systems work carried out by internal audit in 2015/16 on which we placed formal reliance to support our audit opinion on the financial statements. However, we took cognisance of aspects of work by Internal Audit on payroll and treasury management. In respect of our wider governance and performance audit work we reviewed the findings and considered internal audit work on: revenue budget monitoring; statutory performance indicators; workforce planning; national fraud initiative; and IT disaster recovery and business continuity.



## ICT audit

97. 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. We carried out an overview of the council's ICT arrangements and also continued to monitor the council's arrangements in the following key areas:
98. **Information management and data protection** – The Council's Information Governance Team (IGT) continued to make good progress in delivering a wide range of activities which ensures ongoing compliance with legislation. This includes the submission of a Records Management Plan to comply with the Public Records (Scotland) Act 2011, and the establishment of Freedom of Information co-ordinators across all services, with support provided by the IGT. Further progress has also been made in the governance and operational aspects of Data Protection.
99. The updated 'Information management strategy 2016' was approved by cabinet in January 2016. As well as improving efficiency in the way they work it will help manage the council's information risk, ensure compliance with relevant legislation, and help service areas and delivery partners to support the journey from 'Good to Great'.
100. **Health and Social Care Partnership** – The introduction of the Health and Social Care partnership has increased the requirement for data sharing to support joint working as well as introducing the need for joint access to the systems of the member councils and health boards.
101. The IJB joined the Ayrshire Data Sharing Partnership and became part of the Ayrshire & Arran Protocol for Sharing Information. It also became a party to the Information Sharing Protocol between North Ayrshire Council and NHS Ayrshire and Arran.
102. Work is ongoing in conjunction with NHS Ayrshire and Arran on the development of an ICT strategy and action plan for the partnership. Work is also underway to provide options to deliver a suitable solution to integrate the networks.
103. **Public Sector Network (PSN) compliance** - the council continues to meet PSN certification requirements. IT services are pro-active in ensuring continued compliance with PSN. There is a coordinated and timely approach toward the annual certification submission.

## Arrangements for the prevention and detection of fraud

104. The council's arrangements in relation to the prevention and detection of fraud and irregularities are satisfactory.
105. The Corporate Fraud team was established within Internal Audit in February 2015, following the transfer of responsibility for housing benefit fraud investigation to the Department for Work and Pensions (DWP). The team provides the Council with the capacity to investigate fraud both within and against the organisation. They also co-ordinate the council's National Fraud Initiative work.
106. The council has recently agreed to provide corporate anti-fraud services to East Ayrshire Council.

## National Fraud Initiative in Scotland

- 107.** The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. 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.
- 108.** The council has satisfactory arrangements for assessing and investigating matches identified by the 2014/15 NFI, and recording/reporting results. Dedicated resources were made available. This included the NFI key contact (Corporate Fraud Team Leader), designated key contacts within each service area and a contact within IT to support the process.
- 109.** Investigation work was concluded in early 2016. There were no direct outcomes for the council. This is consistent with previous NFI exercises, when almost all outcomes have related to Housing Benefit frauds. These were passed to the DWP for investigation as the Council no longer has responsibility for Housing Benefit fraud. New NFI matches were released in March 2016 and the Corporate Fraud team is currently investigating these to highlight issues requiring further work.

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

- 110.** 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

- 111.** 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.
- 112.** In our response to the objector we noted that the council completed its review of title deeds in 2015 to ascertain that ownership and title of properties has been correctly recorded and accounted for.
- 113.** 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.
- 114.** Whilst we feel this is an approach in line with the LASAAC expectations, we recognise that ultimately only the courts can decide on the outcome of a legal challenge on the title and use of land and property.

## Transparency

- 115.** 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.
- 116.** 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.
- 117.** The council holds public consultations on its community plan and other significant strategic decisions. This allows Locality Partnerships, local communities and other 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 councils own performance monitoring arrangements.
- 118.** 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.

- 119.** 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

- 120.** The council's website provides information on how to submit a Freedom of Information (FOI) request.
- 121.** During 2015/16 the council received 1277 requests and responded to 1142 (89.4%) of these within the statutory timescale. A total of 58 (4.5%) refusal notices were also issued, resulting in 14 requests for review. Of these, there were six where the council's approach was upheld, two where the council's approach was partially upheld and six which were revised. There were also six appeals against review decisions of which two were upheld for the council, two were revised/for applicant and two are still awaiting a decision.
- 122.** Overall, we concluded that the council is meeting its responsibilities in terms of Freedom of Information requests. We are not aware of any concerns that require to be brought to the attention of members.

## Integration of health and social care

- 123.** 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.
- 124.** The North Ayrshire Integration Joint Board (NAIJB) was one of the first established in Scotland, and has shown a very high level of

commitment to the integration agenda. The three Ayrshire IJBs' lead partner service model is an innovative approach.

125. The Strategic Plan 2015-2018 sets out the actions that the partnership will take and provides a basis for measuring how well they are doing and how these are linked to the Board's priorities and the national outcomes. The action plan is monitored each quarter and a refreshed strategic plan was approved in August 2016 following consultation with staff, providers and service users. The Partnership's Change Programme focusses on four main areas to improve the services for users and will require the creation of new targets and indicators to ensure performance is measured in these key areas.
126. The Board spent £234 million on delivering health and social care services in 2015/16. Regular budgetary control reports were provided to the Board and to the partner bodies during the year.
127. There was an overspend of £2.109 million against budget in 2015/16. North Ayrshire Council agreed to fully fund the overspend on a non recurring basis. A recovery plan, including improvements to budget forecasting and monitoring processes was approved by the IJB and subsequently reported to the Council and NHS Ayrshire & Arran.
128. Progress on performance is reported quarterly to the NAIJB performance and audit committee. An annual performance report was published in August 2016. This outlines how the Board has progressed towards its strategic priorities during its first year of operation. Whilst the Board's commitment to providing better

preventative and community based care is encouraging, it is too early to judge its impact.

## Housing and council tax benefits performance audit

129. We carried out an assessment of the council's housing benefits performance as part of Audit Scotland's housing benefit risk assessment programme.
130. During our previous review in April 2015 we noted that that an unprecedented staff turnover saw nine (33%) of housing benefit processors leave the council between April and November 2014 which resulted in a backlog of work. Clearing the backlog resulted in a further dip in performance.
131. The most recent update on performance in April 2016 noted that the council's speed of processing performance in respect of new claims improved during 2015/16. However the speed of processing performance in respect of changes of circumstances has been more erratic during 2015/16 and overall remained at an average of 16 days for the whole year which is well below the Scottish average of 10 days for 2015/16. We noted that the council has recently recruited six new benefit processors which the benefit service hopes will help improve future performance.

## Local scrutiny plan

132. The 2016/17 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners for the council was submitted to the

Audit Committee in May 2016. No scrutiny risks were identified which require additional scrutiny or audit work in 2015/16.

## Outlook

133. 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. As new models of service delivery are implemented this will require an ongoing focus on governance and assurance to ensure that the council's priorities are being achieved.
134. Audit Scotland has introduced a new online resource that is dedicated to sharing our work on health and social care services. It is based on our most recent reports in this area, and is intended to support organisations and individuals involved in health and social care to meet the challenges ahead in the sector:

<http://www.audit-scotland.gov.uk/our-work/transforming-health-and-social-care-in-scotland>

## Best Value



135. 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

136. The Transformation Programme aims to provide a fundamental shift in how the council addresses the reduction in financial resources, an ageing population, increasing demand and other customer expectations.

- 137. The council recognises that the more straightforward, less risky savings have already been made. The challenge now is to deliver savings or service improvements that are more complex, longer term and may require structural change.
- 138. The council has made progress in developing the framework and structure to manage and monitor change and transformation activity. The Executive Leadership Team (ELT), which comprises the Chief Executive and Executive Directors, manage and monitor transformational change activity across the Council and ensure that resources and investment are allocated appropriately.
- 139. The Transformation 2 (T2) programme, which was approved by Cabinet in November 2015 includes a number of service review options that were identified during the budget setting process.
- 140. Progress on change and transformation activity requires to be reported to cabinet on a six monthly basis. The latest report to Cabinet, in June 2016, sets out the high level themes that each directorate is responsible for delivering and indicates the size and scale of the transformation work. This indicated that all themes and workstreams identified in the T2 programme are being progressed in accordance with the review programme and timescale.
- 141. Funding for projects aimed at delivering outcomes is drawn from the change & service redesign fund, which is an earmarked element of the general fund. £1.622 million was incurred from this fund in 2015/16 to support the delivery of change across various projects. This fund had a balance of £5.505 million at 31 March 2016 of which £1.231 million is uncommitted

## Procurement

- 142. 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.
- 143. 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%.
- 144. The council has identified actions they need to take to comply with the Procurement Reform Scotland Act 2014 and the Public Procurement (Scotland) Regulations 2015. These are aimed at larger contracts and they result in additional duties for the council in relation to both regulated and Official Journal of the European Union (OJEU) procurement exercise.
- 145. The council has agreed an action plan to demonstrate progress towards complying with the new requirements. This includes: the need to publish a new procurement strategy which demonstrates consultation with stakeholders by 31 December 2016; publish an annual report on regulated contracts by April 2017; and to consider how procurement can demonstrate innovation.

## Shared services

- 146. The council has been working with four other councils (the Clyde Valley Partnership) to progress a residual waste treatment



solution. Viridor Waste Management has been awarded a contract estimated at £700 million for 25 years and is due to start in December 2019. Viridor Waste Management will design, construct, finance and operate the facilities to treat waste which would otherwise go to landfill.

- 147. The environment will benefit since over 90% of the partner councils' waste is forecast to be diverted from landfill; and a Refuse Derived Fuel will be produced which can be used to generate renewable energy. This will help the council meet its recycling targets comply with the Scottish Government Zero Waste Plan and Waste (Scotland) Regulations 2012.
- 148. The council continue to work with East and South Ayrshire councils to deliver the Ayrshire Civil Contingencies Team. The team ensures that the council is able to respond speedily and effectively in a major emergency.
- 149. The three Ayrshire IJBs' lead partner service model demonstrates an Ayrshire wide approach to providing health and social care services. For example, North Ayrshire Health & Social Care Partnership leads the delivery of Mental Health Services for all of Ayrshire.

## Following the public pound

- 150. Local authorities have a statutory responsibility to comply with the Accounts Commission/COSLA Code of Guidance and funding external bodies and following the public pound.

- 151. All committed external funding requires to be approved by cabinet. Monitoring arrangements are in place to ensure that funding is used appropriately and complies with any conditions related to the funding. Periodic checks are carried out by internal audit to confirm adequate arrangements are in place. A compliance team oversees the distribution and monitoring of EU Social Funds.
- 152. North Ayrshire Leisure Trust is the council's largest arms length external organisation. We are satisfied the council has proper arrangements in place to monitor the performance of this organisation.
- 153. The Council has a Code of Practice for Funding of External Organisations. This has not been refreshed for several years and is not widely referred to by officers. The council should refresh this Code on a more regular basis to ensure that strong governance remains in place.

## Performance management

- 154. The council refreshed its 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 plans (2015-2018). 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.

- 155.** There are clear links between the council's strategic priorities contained in the Council Plan 2015/20 and the Single Outcome Agreement (SOA), directorate plans and performance reports. The SOA has an associated action plan. In addition each Directorate has a three year directorate plan and action plans. Progress against each of these plans is reported bi-annually to Cabinet and the Scrutiny and Petitions Committee. Council Plan progress is reported on a six monthly basis to the Executive Leadership Team and Cabinet through Directorate Plans. The detailed reporting of Directorate Plans is supported by the use of Covalent, the electronic performance management system.
- 156.** The council reported in June 2016 that 81% of the measures contained in the council plan had been achieved or were slightly adrift of target.
- 157.** 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. This was refreshed in 2016 to senior officers with responsibility for performance to reflect a more strategic focus.
- 158.** A PMF workplan was in place for 2015/16 and their progress was reported to Cabinet. An updated workplan for 2016/17 has been approved by Cabinet. This reflects the outputs from workshops with the Improvement Service and the change in focus of the PMF.
- 159.** 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, Directorate Plans, audits and inspections, and achievements. Each indicator on North Ayrshire Performs portal 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.
- 160.** 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.
- 161.** 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.
- 162.** The Executive Leadership Team considered a report on R4E based on the feedback from Quality Scotland. Three phases of work were taken forward relating to performance management. These were: ensuring that the council has the correct indicators to track delivery of the Council Plan; agreeing recommendations on how best to manage and structure performance management staff; and developing a central intelligence infrastructure as the key foundation



towards the creation of the Intelligent Council. These areas of work are continuing to be progressed by the PMF during 2016.

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

## Overview of performance targets in 2015/16

164. The council will produce an annual performance report in October 2016. This aims to provide a balanced scorecard of the council's progress in achieving their objectives and improving the overall level of performance. The information in this report will draw upon the outcomes and actions which have already been reported to members through the council plan and directorate plan update reports.
165. The annual report for 2015/16 will contain progress against 139 performance indicators. The range of PIs takes into account the Accounts Commission's Corporate Management and Service Performance reporting requirements and the Local Government Benchmarking Framework (LGBF).
166. The Cabinet also receives annual progress reports on the Council Plan. The minutes of the CPP Board highlighting SOA performance are noted at meetings of North Ayrshire Council.

## Statutory performance indicators (SPIs)

167. 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.

168. For 2015/16 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.
169. Last year we reported weaknesses in the council's arrangements for collecting data and that this had resulted in a number of indicators requiring to be recalculated.
170. We have reviewed the council's arrangements for collecting recording and publishing data in 2015/16 and concluded that they were satisfactory. Some of our key assurances include:
- The council uses Covalent to capture performance information throughout the year.
  - A review of work carried out by internal audit, including their sample testing of indicators.
  - Procedural instructions are available on how to compile many of the indicators.
  - We checked a small sample of indicators.

## Local performance audit work

171. 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.
172. The council's approach to workforce planning is informed through the 'Reshaping the Workforce' workstream which is concerned with delivering on committed budget efficiency savings, while ensuring that workforce changes support service needs in a planned and proactive way. Progress on the workstream is monitored through regular reports to the Executive Leadership Team and the proposed annual review to the Staffing and Recruitment Committee.
173. In November 2013 Audit Scotland published *Scotland's public sector workforce*. The aim of the report was to assess if public bodies are managing their workforces effectively.
174. Audit Scotland asked external auditors across the public sector to undertake follow-up audit work on the 2013 report. To avoid duplication, we placed reliance on Internal Audit, who had undertaken a review of workforce planning as part of their 2015/16 audit plan. Where possible, we took cognisance of their findings when competing our work.
175. Internal Audit concluded that:
- The corporate approach to workforce planning could be more clearly defined through the creation of a single corporate workforce planning document.

- Alternatively, the role of the directorate plans with regards to workforce planning could be enhanced by developing greater consistency in terms of approach and content.
  - Elected Members are not currently given oversight of the savings and costs associated with workforce programmes.
  - Decision makers have a significant amount of detailed, quality information on the workforce on a regular and adhoc basis
176. Overall, the council's workforce planning arrangements should be enhanced by outlining a more clearly defined, consistent approach. Officers agreed to implement a new and standardised approach to workforce planning content in the 2017/18 Directorate Plans.
177. In accordance with Audit Scotland guidance, an oversight of savings and costs in relation to workforce programmes will be submitted to the staffing and recruitment committee a minimum of once a year. This commenced in May 2016 with the 2015/16 report being submitted to this committee.

## National performance audit reports

178. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the council. These are outlined in [appendix III](#). North Ayrshire Council has processes in place to ensure that all national reports and their impact on the council are considered by Members.

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## Equalities

- 179.** 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.
- 180.** The council's Equality Outcomes and Corporate Equality Group is responsible for directing, supporting and reviewing the arrangements for promoting equality. The Council has a dedicated section on its website relating to 'equality policy and performance'. The council published its report on equality outcomes within the deadline required by the Act and this can be viewed on the website.

## Outlook

- 181.** As choices on how to address funding gaps become increasingly difficult, councils will have to focus on challenging how they do things. The council has a good performance framework in place to help it do this.
- 182.** The council's regular review of performance, including the work to implement the actions agreed as a result of R4E feedback, together with the Transformation 2 (T2) programme will be critical to helping the council make the right choices on how it gets the best use out of its existing resources and achieve its strategic aims.

# Appendix I: Significant audit risks

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

Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>Group accounts consolidation of Integration Joint Board</b></p> <p>The North Ayrshire Integration Joint Board (IJB) became operational in April 2015 and will be included in the council’s group accounts for the first time in 2015/16.</p> <p><b>Risk:</b> There is a risk that:</p> <ul style="list-style-type: none"> <li>• transactions relating to the IJB are not correctly classified by the council</li> <li>• balances between the council and NHS Ayrshire and Arran are not agreed</li> <li>• the council is unable to provide accurate financial information within the timescales required by the IJB.</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly monitoring of financial information.</li> <li>• Bi-monthly reporting to the IJB.</li> <li>• Strong working relationships between the council and NHS Ayrshire and Arran.</li> <li>• Due diligence completed on the budget setting process.</li> <li>• Agreement on how to account for overspends and underspends is outlined in the Integration Scheme.</li> </ul>	<ul style="list-style-type: none"> <li>• Balances were correctly recorded within the financial ledger of the council and health board.</li> <li>• Sample testing of income and expenditure showed transactions had been accurately recorded.</li> <li>• Confirmation of balances were received from each party of the IJB.</li> </ul> <p><i>Our conclusion is that transactions and balances of the IJB were correctly classified within the council ledger. Balances between the council and health board were agreed, and the council was able to provide full financial details to audit within the required timescales.</i></p>
<p><b>Management override of controls</b></p>	<ul style="list-style-type: none"> <li>• A sound system of budgetary control,</li> </ul>	<ul style="list-style-type: none"> <li>• No unusual or inappropriate transactions</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<p>ISA 240 highlights that management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>including regular budget monitoring.</p> <ul style="list-style-type: none"> <li>Regular updates of Standing Orders and Financial Regulations, which require approval by the council.</li> <li>Appropriate segregation of duties.</li> </ul>	<p>were identified as part of detailed testing of journal entries.</p> <ul style="list-style-type: none"> <li>A review of accounting estimates did not show any instance of bias.</li> <li>No significant transactions outside the normal course of council business were identified.</li> <li>Focussed testing of regularity and cut-off assertions showed controls were operating effectively.</li> </ul> <p><i>Our conclusion is that there is no management override of controls at the council.</i></p>
<p><b>Income</b></p> <p>North Ayrshire Council receives a significant amount of income in addition to Scottish Government.</p> <p><b>Risk:</b> The extent and complexity of income means there is an inherent risk that income could be materially misstated in accordance with ISA240.</p>	<ul style="list-style-type: none"> <li>Sound controls arrangements have been reported in previous years of the audit.</li> <li>Internal audit reviews of various income sources.</li> <li>Appropriate segregation of duties.</li> </ul>	<ul style="list-style-type: none"> <li>We carried a high level review of controls within the accounts receivable system in line with our cyclical approach.</li> <li>We performed substantive testing on a sample of transactions from each material category of income.</li> </ul> <p><i>Our conclusion is that income streams are free from material misstatement</i></p>
<p><b>Equal pay provision</b></p>	<ul style="list-style-type: none"> <li>A provision of £2.867 million was in place</li> </ul>	<ul style="list-style-type: none"> <li>The equal pay provision was agreed to</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<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><b>Risk:</b> The ultimate cost to the council is significantly different from that provided in the financial statements.</p>	<p>for all known claims against the council at 31 March 2015. A further £1.012 million was earmarked for any future potential claims. This is based on evidence available at the time.</p> <ul style="list-style-type: none"> <li>The council will review its exposure to equal pay claims on an annual basis and determine the level of the provision to be included in the financial statements. The council's legal service is consulted in arriving at the provision.</li> </ul>	<p>supporting working papers</p> <ul style="list-style-type: none"> <li>Management reviewed the equal pay provision and are satisfied that a prudent and complete provision for all known claims is accurately reflected in the accounts.</li> </ul> <p><i>Satisfactory working papers in support of the year end equal pay provision were provided.</i></p>
<p><b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b></p>		
<p><b>Financial pressures</b></p> <p>Councils are facing significant financial pressures with reductions in funding and the need to reconfigure services, increasing unavoidable costs, increasing demand for services and the uncertainty around the newly created IJBs. Good financial information to support strategic cost reduction measures will be critical to achieving this.</p> <p><b>Risk:</b> The council is not able to identify</p>	<ul style="list-style-type: none"> <li>The council continues to review its budget on a rolling 3 years basis and the estimated funding gap was considered during the 2016/17 budget setting process.</li> <li>"Transformation 2" seeks to address demographic and financial pressures through transformational change.</li> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>The 2016/17 budget was set in the context of reduced Scottish Government funding. The council continues to review its budget on an annual basis to ensure budget gaps are being managed and that services are maintained.</li> <li>Monitoring reports presented to committee and the IJB continue to inform members of budget variances and areas of service pressure. These contain sufficient information to allow scrutiny by members. There were no material variances from</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<p>sustainable savings measures or meet cost pressures as they arise.</p>	<p>and to identify more efficient ways of achieving this.</p> <ul style="list-style-type: none"> <li>Budget monitoring reports for both capital and revenue are prepared and submitted to Cabinet every two months. This includes a high level budget paper looking at the Council as a whole, together with more detailed reports for each service.</li> </ul>	<p>outturn figures forecast within reports, to the actual outturn reported in the annual accounts.</p> <ul style="list-style-type: none"> <li>The council's rolling 3 year financial plans is supported by its 10 year financial strategy and is based on future assumptions which we consider to be reasonable.</li> <li>The council's reserves will help cushion the impact of required savings in early years. The council recognise that this is not sustainable.</li> </ul> <p><i>The council is in the process of identifying and meeting the sustainable savings measures it requires in order to meet future cost pressures.</i></p>
<p><b>Integration Joint Board Budget</b></p> <p>There has been a recurring overspend in health and social care services in recent years.</p> <p><b>Risk:</b> Given the needs led nature of health and social care services, there is a risk of overspends if scrutiny of partnership budgets is not effective.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>Financial performance of the IJB reported to Cabinet alongside the council's revenue budget monitoring statements.</li> </ul>	<ul style="list-style-type: none"> <li>Regular budgetary control reports have been provided to the IJB and to the partner bodies, with appropriate action being taken during the year where potential overspends or service pressures have been identified.</li> <li>The IJB incurred an overspend of £2.109 million against budget in 2015/16 which was fully funded by the council on a non recurring basis. A recovery plan, including improvements to budget forecasting and monitoring processes was approved by the</li> </ul>

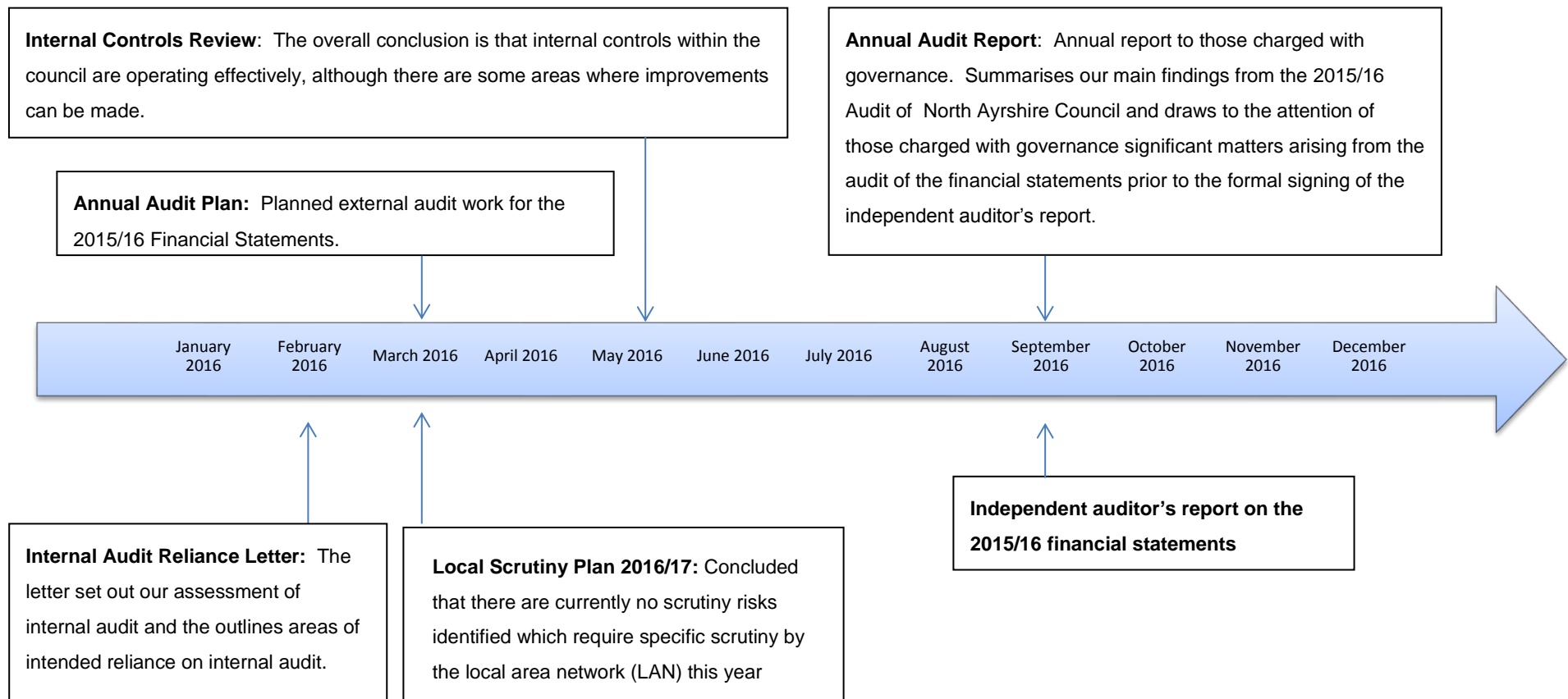


Audit Risk	Assurance procedure	Results and conclusions
		<p>IJB and subsequently reported to the partner bodies.</p> <p><i>Planned improvements to budget forecasting and monitoring will be monitored in 2016/17.</i></p>
<p><b>Performance indicators</b></p> <p>There are insufficient procedural instructions 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><b>Risk:</b> Performance data reported may be based on information that is not robust.</p>	<ul style="list-style-type: none"> <li>The council agreed to carry out further work to ensure there are robust procedures and clear audit trails for all performance indicators.</li> <li>Review of performance indicators included in internal audit work plan for 2015/16.</li> </ul>	<ul style="list-style-type: none"> <li>Audit testing of a sample of performance indicators,</li> <li>Established that there were robust procedures in place for the collection of the data.</li> </ul> <p><i>Satisfactory procedures in place to collect and report performance information</i></p>
<p><b>Data sharing with NHS Ayrshire &amp; Arran</b></p> <p>The sharing of information between the council, NHS Ayrshire and Arran, and the IJB is essential to planning and delivering integrated care.</p> <p><b>Risk:</b> If data is not shared effectively it could impact the quality of services. There is also the risk that inappropriate access to council information or data may not be handled</p>	<ul style="list-style-type: none"> <li>The IJB joined the Ayrshire Data Sharing Partnership and is party to the Information Sharing Protocol between North Ayrshire Council and NHS Ayrshire and Arran.</li> <li>A contract has been awarded to a consultant on behalf of the three Ayrshire councils and NHS Ayrshire and Arran to review each organisation's infrastructure and supply the options to deliver a suitable solution to integrate the</li> </ul>	<ul style="list-style-type: none"> <li>Audit testing of system access controls confirmed that NHS employees who have access to council systems have gone through the necessary approval processes.</li> <li>The project to deliver an integrated network solution is adequately monitored.</li> </ul> <p><i>Data is securely shared between partners</i></p>

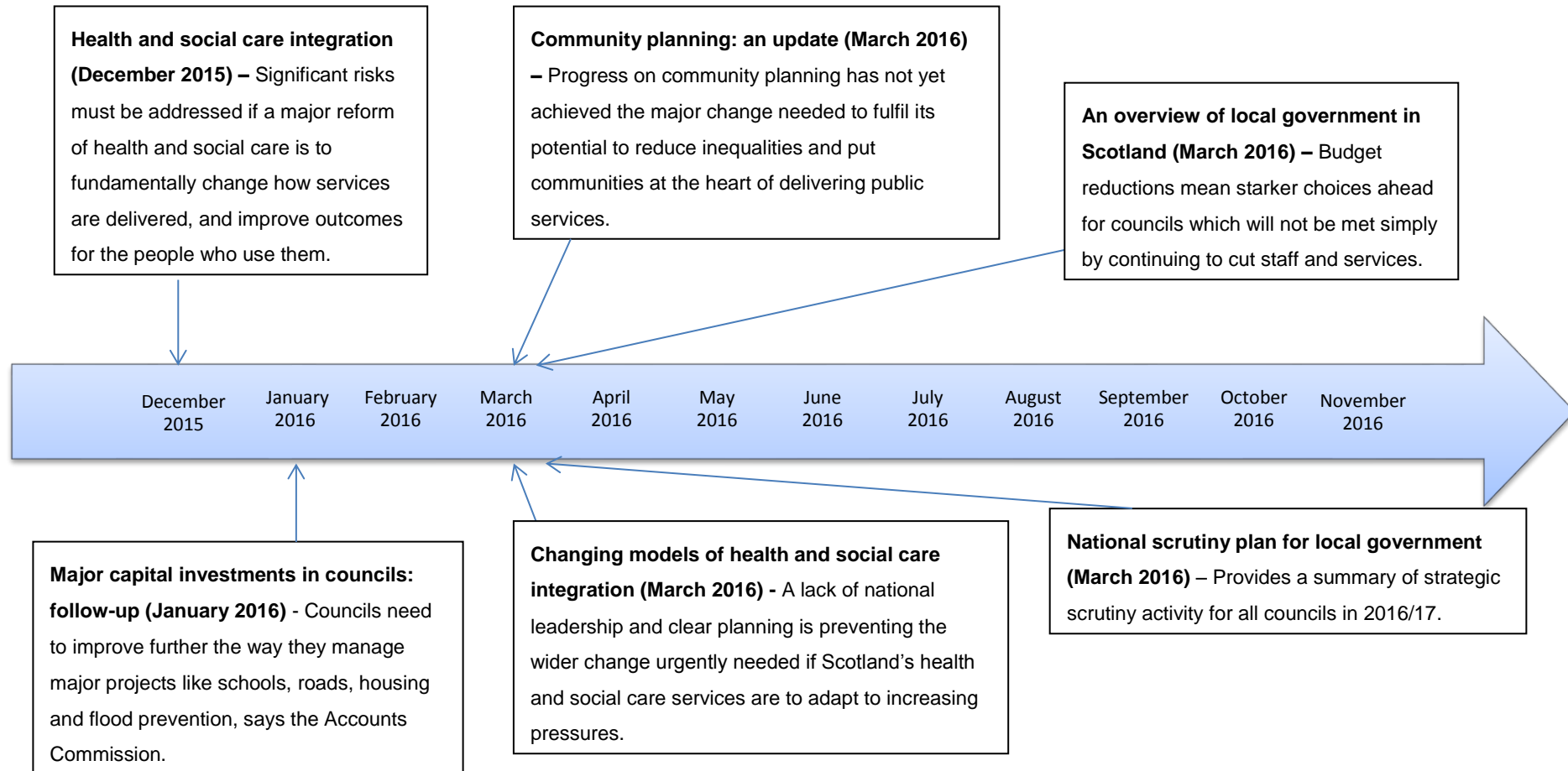


Audit Risk	Assurance procedure	Results and conclusions
<p>securely, which could result in reputational risk to the council.</p>	<p>networks. Cost, security, PSN compliance and support of the infrastructure will all be taken into consideration.</p>	
<p><b>Workforce management</b></p> <p>The constrained financial position may result in reductions in the council workforce. All reductions in workforce should be strategically based and all costs and savings arising from workforce reductions should be provided to members.</p> <p><b>Risk:</b> The delivery of council services could be adversely impacted or the workforce may not have the skills to deliver the change programmes planned.</p>	<ul style="list-style-type: none"> <li>• The council considers workforce planning requirements through its directorate plans.</li> <li>• A People Strategy was introduced in June 2015.</li> <li>• Review of aspects of workforce management by internal audit in 2016.</li> </ul>	<ul style="list-style-type: none"> <li>• We carried out a follow up work based on the recommendations in the 2013 report.</li> <li>• We reviewed the findings of internal audit follow up work in this areas</li> </ul> <p><i>The council's workforce management arrangements are adequate and are reflected in directorate plans. Arrangements could be improved by outlining a more clearly defined, consistent approach.</i></p>

# Appendix II: Summary of North Ayrshire Council local audit reports 2015/16



# Appendix III: Summary of Audit Scotland national reports 2015/16



## Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	33 MKI Ref: 68762	<p><b>Financial Outcomes – Social Work Services</b></p> <p>Social Work Services overspent by £2.109 million in 2015/16. This continues a trend of overspends by this service over recent years. The IJB has committed to achieving efficiency savings of £4.000 million in this service in 2016/17. This will be very challenging given the reduced financial settlement for the IJB in 2016/17 and the ongoing increases in demand for services.</p> <p><b>Recommendation</b></p> <p>The council should ensure that the actions contained in the North Ayrshire IJB recovery plan action plan are addressed and that steps are taken to address any projected overspends.</p>	<p>The Chief Officer / IJB Chief Financial Officer will provide regular financial reports to Council including; the most current financial projections; progress in delivering mitigations to reduce overspends; and progress in delivering agreed efficiency targets. Together this should provide assurance that services are being delivered within the agreed financial envelope.</p>	<p>Executive Director (Finance and Corporate Support).</p> <p>Throughout 2016/17</p>