

South Ayrshire Council

Annual report on the 2010/11 audit



Prepared for Members of South Ayrshire Council and the Controller of Audit
October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

Background

Scotland's public bodies are facing major spending cuts and must focus on their long term financial sustainability to ensure effective public services in the future, with clear priorities, budgets and workforce plans. Councils have responded to reductions in funding in 2011-12 and are making significant savings. However there is a risk that cost pressures will be greater than expected due to unforeseen events.

Pay restraint and reducing workforces are the most common approaches being taken by public bodies to reduce costs over the next few years. Most councils have already reduced staff numbers through recruitment freezes and voluntary redundancy schemes. The key issues for members include the leadership and governance of public service reform, financial sustainability and workforce planning to deliver effective public services.

2010/11

Financial statements

We have given an unqualified opinion on the financial statements of South Ayrshire Council for 2010/11.

Financial position

We are pleased to report that the general fund increased by £2 million for 2010/11. When added to the £13.3 million surplus brought forward, results in a general fund surplus of £15.3 million at 31 March 2011. This is made up of earmarked commitments of £7.7 million leaving an unallocated balance of £7.6 million. The current position is much improved on the £0.5 million deficit reported at 31 March 2007.

The housing revenue account balance decreased by £5 million during 2010/11. This compared favourably with the planned £8.6 million reduction and results in a surplus balance of £13.9 million at 31 March 2011. Funds totalling £13.1 million have been set aside for specific purposes leaving an uncommitted balance of £0.8 million. The uncommitted balance requires to be considered with the housing business plan as an investment of between £45 million and £50 million is required in the housing stock in order to achieve the Scottish Housing Quality Standard by the 2015 deadline.

We are pleased to report that the monitoring of capital projects has continued to improve during 2010/11.

The council does not yet have formal medium or longer term financial plans. A draft 5 year capital plan has been prepared. One year revenue and capital budgets continue to be set. Work is also required to integrate financial plans with directorate and service plan to ensure resources are directed to council priority areas.

Governance and accountability

Scrutiny arrangements have continued to improve over the last five years and plans are in place to further improve scrutiny arrangements.

During 2010/11 internal audit identified areas of potential irregularity. The council took a proactive approach and two investigations were carried out.

The first investigation regarded possible breaches of policies and procedures and resulted in five employees being dismissed although two were later reinstated following appeals. The second investigation regarding contract irregularities resulted in the suspension of one senior employee. At the time of writing, disciplinary hearings are on-going.

Best Value, use of resources and performance

The Covalent performance management system was implemented during 2010/11 and was used for the preparation of 2010/11 annual performance reports. We are pleased to note that a performance management culture is starting to develop but this may take some time to be fully embedded across all departments.

The council has carried out self evaluation in a minority of services such as education but historically, self evaluation has not been good across the council. In May 2010, the council agreed to adopt the "How Good is Our Council" model as the corporate self evaluation tool. A first high level corporate assessment has recently been carried out and is almost complete. The process of self evaluation still requires to be further developed and rolled out to all departments.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for local government that were announced recently by the Scottish Government indicate that significant budget reductions will be required in these years. There will be a need for the elected members in South Ayrshire Council to continue to make difficult budget decisions and continue to review and maintain sufficient general fund reserves. The council needs to continue to develop longer term financial plans focusing on an outcome based approach to service delivery.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of South Ayrshire Council. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements), conclusions and any significant issues arising. The report is divided into sections that reflect the extent of our public sector audit model.
2. A number of reports have been issued in the course of the year in which we identify risks for management action (Appendix A). We do not repeat all of the findings in this report, but instead focus on the financial statements and any significant findings from our wider review of South Ayrshire Council.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management actions and have a mechanism in place to assess progress.
4. This report is addressed to the members and the controller of audit and forms a key part of discussions with the corporate and community planning standing scrutiny panel as soon as possible after the formal completion of the audit of the financial statements. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the council. The information in this report may be used for the annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and presented to the Local Government and Communities Committee of the Scottish Parliament.
6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, statement on the systems of internal financial control and the remuneration report. Where required, auditors also review and report on the whole of government accounts return. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of South Ayrshire Council for 2010/11 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2011 and of the income and expenditure for the year then ended.

Legality

11. Through our planned audit work we consider the legality of the council's financial transactions. In addition the executive director, corporate services has confirmed that, to the best of her knowledge and belief, the financial transactions of the council were in accordance with relevant legislation and regulations. Internal investigations within the waste management service and the property and neighbourhood department are discussed later in this report at paragraphs 99-102.

Statement on the systems of internal financial control

12. We are satisfied with the disclosures made in the statement on the systems of internal financial control and the adequacy of the process put in place by the council to obtain the necessary assurances. The statement reflects the fact that internal investigations identified deficiencies in the application of contract standing orders and instances of poor internal control. We are satisfied that the council has processes in place to address these weaknesses.
13. In accordance with good practice, the council prepares an annual governance assurance statement based on the "Good Governance Standard for Public Services". This statement is disclosed within the annual accounts and specifies "corporate owners" responsible for each of

the six governance principles. These owners have prepared year end assessments of their respective areas and identified areas for further development and improvement in 2011-12.

Refer Action Plan No 1

Remuneration report

14. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant council officers and elected members.

Accounting issues

15. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice (the Code). We are satisfied that the council prepared the 2010/11 financial statements in accordance with the 2010 Code.

Accounts submission

16. The council's unaudited financial statements were submitted to the controller of audit by the deadline of 30 June. Working papers to support of the financial statements were made available by finance officers. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2011. This is the first year the council has been required to prepare accounts using International Financial Reporting Standards (IFRS). We are pleased to report that the extensive technical knowledge and expertise of key finance officers ensured a smooth transition to IFRS and also assisted the audit process. The financial statements have been circulated to members and are now available on the council's website.

Presentational and monetary adjustments to the unaudited financial statements

17. A number of adjustments have been made to the 2010/11 unaudited financial statements in accordance with normal audit practice. These adjustments reduced the general fund balance of the council by £2,000. A number of presentational amendments have also been processed to improve the disclosures within the financial statements.

Prior year adjustments

18. As previously stated, the 2010/11 financial statements have been prepared in accordance with the 2010 Code which is based on IFRS instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (GAAP). This transition required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The main areas that required restatement include the treatment of capital grants, the inclusion of an accrual for employee benefits such as annual leave, reclassification of investment properties and the classification of leases. These changes resulted in the net asset position of the council as at

31 March 2010 changing from £199.7 million to £219.6 million. However the accounting nature of these adjustments means that there has been no change to the usable reserves of the council.

Pension costs

19. South Ayrshire Council is a member of Strathclyde Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation at 31 March 2011 provided by the scheme's actuaries reduced the council's share of the deficit from £139.9 million last year to £43.3 million this year. The large decrease is primarily due to a change in one of the financial assumptions, with future pensions' increases now linked to the consumer prices index (CPI) rather than the retail prices index (RPI).

Whole of government accounts

20. The whole of government accounts are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidated pack to the Scottish Government prior to the deadline of 29 July and the audited return was completed by the audit deadline of 30 September.

Group financial statements

21. The diversity of service delivery vehicles means that consolidated group financial statements are required to give a true and fair view of the activities of the council. To enable the preparation of group financial statements councils are required to consider their interests in all entities, including subsidiary companies, joint ventures and statutory bodies, such as police, fire and valuation boards. South Ayrshire Council consolidates the common good as a subsidiary. It also consolidates the results of six associates into the group financial statements. The overall effect of inclusion of these group entities is to reduce total reserves by £178.8 million.

Trust funds

22. South Ayrshire Council has 11 charitable trusts. Charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006, meaning a full set of financial statements is required for each trust fund. However the Office of the Scottish Charities Regulator (OSCR) has deferred full implementation, allowing the council to rely on its existing disclosures for trust funds in the council's financial statements, supplemented with additional working papers.
23. OSCR's feedback on last year's submissions from each local authority allocates councils to one of four categories, fully compliant (0 councils), above average (2 councils), average (20 councils) and below average (8 councils). South Ayrshire Council's submission fell into the "average" category.

Common good funds

24. In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued guidance covering the common good fund. The council complies with this guidance as it prepares a separate common good disclosure in the council's financial statements and the assets are separately identified in the council asset register. The council carried out a detailed review of common good land and buildings during 2009/10. This included a review of title deeds and resulted in £25,000 worth of assets being transferred from the council's fixed assets register to the common good.
25. The council agreed objectives, principles and governance arrangements for the common good funds in December 2010. At the same time an asset management strategy for the Ayr Common Good was agreed. A strategy has been developed for the Prestwick Common Good assets, and position statements are in place for the other common good funds.

Outlook

Carbon trading

26. In April 2010 a complex system of charging for carbon emissions was introduced by the European Union. The council is now required to purchase and account for carbon credits to cover all of its non transport related energy usage. Incentives and penalties are built into the system to encourage a reduction in carbon emissions. The council has introduced a number of schemes to reduce its carbon footprint. These include the introduction of variable street lighting on main urban routes, carbon saving meters, "green" champions, eco schools and an electric road sweeper.
27. We understand that the council's carbon footprint was 18,012 tonnes in 2010/11. Whilst 2010/11 was a practice year and charges were not incurred, it is now expected that the council will have to purchase around £0.2 million worth of carbon allowances per annum from 2012/13.

Audit appointment for 2011/12

28. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and elected members for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) Audit Scotland will again be the appointed auditor for South Ayrshire Council but a different audit team will be in place. We look forward to continuing the good working relationships that exist.

Financial position

29. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
30. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
31. These are key areas in the current economic climate. This section summarises the financial position and outlook for the council.

Financial results

32. In 2010/11, South Ayrshire Council's net cost of services was £207.7 million with a resulting accounting surplus on the provision of services of £46.8 million. The budget for 2010/11 was based on Band D council tax of £1,153. The 2010/11 budget included a £2 million contribution to the general fund including £0.75 million for contingency, £0.75 million to assist with implementing changes to take the council forward and £0.5 million contribution to general reserves. The budget also included a contribution of £1.2 million to the general fund from the capital fund to help towards the cost of the schools' PPP unitary charge payments in 2010/11.

Budgetary control

33. As stated above, the net service expenditure across the council was £207.7 million. The council reported an overall underspend of £2 million against the budget after transferring £4.1 million to the repairs and renewals fund.
34. The children and community directorate reported a net underspend of £3.7 million, primarily due to a £1.8 million underspend in employee costs and a £1.4 million underspend in payments to various agencies.
35. Development and environment reported a £2.7 million underspend mainly due to a £0.9 million underspend in third party payments including £0.6 million as a result of a continued reduction of waste within waste management services. A £0.3 million underspend occurred in payments to rural project applicants due to delays in applicants meeting settlement criteria. The directorate reported £0.7 million underspent on supplies and services mainly due to delays in the joint Ayrshire waste strategy project. Tight control of overheads and administration costs resulted in a £0.4 million underspend in support service costs.

36. Corporate services reported a £1 million underspend partially due to a £0.4 million underspend in employee costs and increased income relating to housing and council tax benefit overpayment recovery and housing and council tax benefit subsidy.
37. Miscellaneous services reported a favourable budget variance of £0.7 million mainly due to underspends in the Ayr Renaissance and the Town Centre Heritage initiatives.

Financial position

38. The general fund balance increased by £2 million in 2010/11. When added to the £13.3 million surplus brought forward results in a surplus balance of £15.3 million at 31 March 2011. This is made up of earmarked commitments of £7.8 million leaving an unallocated balance of £7.5 million.
39. We were very critical when the council reported a deficit in the general fund of £0.5 million at 31 March 2007. The council recognised that this level of reserves was not acceptable and agreed to achieve at least £2 million of uncommitted general fund reserves by 31 March 2010. The council achieved £7.5 million of uncommitted general fund reserves at 31 March 2010 and has further committed to achieving uncommitted reserves of £8 million by 31 March 2013.
40. Exhibit 1 shows the balances in the council's funds at 31 March 2011 compared to the previous year. Funds include:
 - A capital fund which was set to help fund the school PPP project. The council has no commitments against the balance in this fund and plans to review its use and purpose
 - A repair and renewal fund to finance expenditure to facilitate asset improvements and efficiencies
 - An insurance fund to cover insurance premiums and payments for uninsured losses.

Refer Action Plan No 2

41. The council's funds at 31 March 2011 totalled £34.0 million, a decrease of £0.1 million on the previous year.

Exhibit 1: Reserves

Description	31 March 2010	31 March 2011
	£ million	£ million
General Fund	13.33	15.30
Housing Revenue Account	18.97	13.96
Repair and Renewal Fund	0.14	4.28
Capital Fund	1.24	0.03
Insurance Fund	0.43	0.43
Total	34.11	34.00

Source: South Ayrshire Council 2010/11 financial statements

42. A suite of financial indicators has been developed in consultation with the CIPFA directors of finance working group. The indicators assist in evaluating the council's financial sustainability and the affordability of financial plans. They also demonstrate the effectiveness of the financial management arrangements. In future years the executive director-corporate services will consider reporting these indicators as part of the financial statements.
43. For 2010/11 Audit Scotland is compiling the financial indicators however they are not yet available as they are based on the audited financial statements for all council. The indicators will be issued to the council in due course as they may be published in the Local Government Overview report for 2010/11.

Housing revenue account

44. The housing revenue account (HRA) reported a deficit of £5 million for financial year 2010/11. This compares favourably with the budgeted deficit of £8.6 million. The under spend is mainly due to reduced planned maintenance costs resulting from delays in the commencement of contracts, lower employee costs due to vacancies and delays in projects.
45. When the £5 million in year deficit is added to the HRA balance brought forward from 2009/10, it results in an accumulated surplus of £13.9 million. The council has agreed that £0.6 million be set aside for weather emergencies, £10.9 million for specific capital and revenue projects, £1.5 million for unforeseen events and £0.1 million to help fund new build council housing. This results in a £0.8 million uncommitted HRA balance.
46. The uncommitted £0.8 million balance requires to be considered alongside the HRA business plan. The council reviewed the HRA business plan with the assistance of consultants towards the end of 2010. The review covered a number of areas including progress made towards meeting the Scottish Housing Quality Standard (SHQS), options for generating income, reworking of financial assumptions in the HRA business plan model and the rent charging policy. The HRA business plan review was completed prior to setting the 2011/12 rent levels in January 2011. The review raised a number of issues around financial legacies and a need

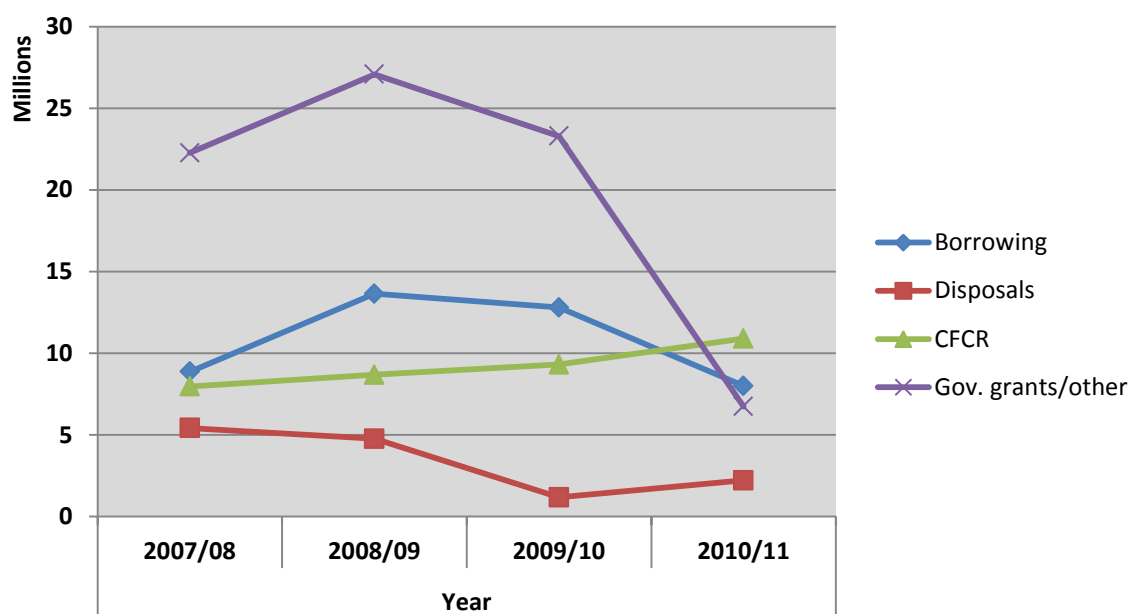
for validation of the anticipated costs of components within the housing stock. Steps are currently being taken regarding these legacy issues and an interim arrangement for setting rent was put in place for the 2011/12 rent levels.

47. The council is committed to achieving the SHQS by the 2015 deadline. The council is reporting only 58.7% of the council's housing stock met the standard at 31 March 2011. (53.3% at 31 March 2010). The council has estimated that it may cost between £45 million and £50 million to ensure the housing stock meets the SHQS by 2015. Achieving SHQS will be a significant challenge for the council.

Refer Action Plan No 3

Capital investment and performance

48. The 2010/11 financial statements detail capital expenditure of £27.2 million, split between the housing programme and the general services programme. The housing programme includes areas such as new house building, external upgrading, energy efficiency and meeting the SHQS. The general services programme includes improving schools, ICT infrastructure and roads.
49. In the earlier part of our audit appointment we criticised the council for allowing slippage on projects resulting in annual capital programmes and their associated benefits not being delivered. We are pleased to report that the monitoring of capital projects has improved significantly. The original general services budget for 2010/11 agreed in February 2010 was £17.3 million. During the year it became clear that due to a number of reasons, ten projects were not going to be completed during 2010/11 and £0.8 million of funding was transferred to 2011/12 to reflect the newly profiled expenditure on these projects. The 2010/11 capital budget was adjusted accordingly. On a number of these projects 2010/11 expenditure exceeded the revised 2010/11 budget but was still within the overall project budgets.
50. The general services capital expenditure for 2010/11 was £15.8 million against a revised budget of £15.3 million. Income for 2010/11 exceeded expenditure by £0.2 million (1.3% of budget) and this income requires to be carried forward to 2011/12 in order to complete the relevant 2010/11 capital programme projects.
51. The housing capital outturn for 2010/11 was £12.4 million (92%) against a budget of £13.5 million, resulting in an under spend of £1.1 million. The council has agreed that the slippage will be incorporated into the 2011/12 housing capital programme. The underspend relates mainly to £0.5 million for the refurbishment and upgrading of maisonettes, £0.2 million for reroofing houses in Girvan and Maybole and £0.2 million for the upgrade of 126 properties in Ayr. The severe winter weather contributed to delays with some projects.
52. Exhibit 2 shows the sources of finance for capital expenditure in 2010/11. The council achieved capital receipts of £2.2 million (£1.2 million in 2009/10). £1.1 million was from the sale of Templeton House nursing home with another £1.1 million from council house sales.

Exhibit 2: Sources of finance for capital expenditure 2007/08 - 2010/11

Source: South Ayrshire Council 2010/11 financial statements

Treasury management

53. As at 31 March 2011, South Ayrshire Council held cash and temporary investments totalling £24.1 million (£25.2 million at 31 March 2010). The council's borrowing at 31 March 2011 was £172.6 million.
54. The current economic climate means that interest rates on investments are low. The council's 2010/11 treasury management strategy was to fund capital expenditure from cash balances and temporary investments. The council is continuing to delay long term borrowing in order to minimise the cost of debt at a time when investment interest rates are at historically low rates.
55. The council had two investments of £3.0 million and £2.0 million with Landsbanki when the Icelandic banks collapsed in October 2008. All money invested in Icelandic banks is subject to administration and receivership processes administered under Icelandic law. COSLA and the Local Government Association have been acting on behalf of all affected local authorities in Icelandic court proceedings. This has resulted in a recent announcement from the Icelandic courts stating that councils are classed as having "preferential creditor" status and therefore likely to receive a higher return; currently estimated at around 94.85% of the original deposit plus interest. This ruling is however being challenged through the Icelandic courts.
56. The council previously took advantage of the Scottish government legislation to defer the impact of the loss on the general fund in years 2008 to 2010. The council took a prudent approach and considered it appropriate not to defer the impact of the loss any longer. The council has therefore recognised an impairment of £1.2 million in the 2010/11 accounts based on the assumption that a 94.85% recovery is achieved.

Refer Action Plan No 4

Financial planning to support priority setting and cost reductions

57. The council has been proactive in preparing annual financial plans and identifying savings to reflect the reduced local government settlements. However, concerns remain regarding the current economic climate and indications that government support for councils will be reduced for the years 2012-2014. This will result in the council facing strong challenges and difficult decisions.
58. The council has reported £4.9 million of efficiency savings in the annual COSLA efficiency statement. Cumulative efficiency targets of 2%, 4% and 6% were agreed for the period 2008/9 to 2010/11. The council has reported cumulative savings of £14.8 million or 6.4% on the 2007/8 budget.
59. In response to the challenging funding position, the council undertook a “Big Budget Challenge” consultation process during 2010/11. It sought the views of stakeholders on the future revenue budget options. This exercise allowed the council to understand the views of local residents on how the council should be prioritising its spending.
60. Over our five year audit appointment, we have repeatedly reported that the council does not yet have medium or longer term financial plans. One year revenue budgets have continued to be set. The council is waiting for details of future government funding before setting the 2012/13 budget.
61. As is the case with revenue budgets, the council has not yet agreed formal longer term capital budgets but instead has been setting one year programmes. The development of the asset management strategy is being used to help inform longer term capital programmes.
62. Audit Scotland's recent report *Scotland's public finances - responding to the challenges*, noted that the Scottish Government plans to publish detailed spending plans for years 2012/13 to 2014/15 in September 2011. High level figures for local government have been published with detailed local authority specific figures expected by December 2011. This should provide a framework that the council will be able to use for making medium-term decisions about future spending plans.

Refer Action Plan No 2

Asset management

63. The council developed an interim property asset management plan in June 2009. This plan has since been updated and further developed with the latest May 2011 revision being agreed in September 2011. Asset management plans for common good assets and moveable assets such as works of art have also been agreed. Draft asset management plans are in place for ICT assets and vehicles. Milestones have been agreed to ensure a corporate asset plan, covering all types of assets is in place by March 2012.
64. Condition surveys have been used to inform the level of investment required in assets. The capital investment for council property for the period 2011-2016 is £107.8 million with planned

maintenance of £15.5 million required for the same period. This will be a significant challenge for the council in the current economic climate.

65. Asset management and planning has continued to be integrated across the council through the inter-departmental “Capital/Asset Group”. This group consists mainly of heads of service and has been tasked with the delivery of the corporate asset management plan by March 2012 and the development of a five year capital plan on an annual basis.
66. The council has plans in place to rationalise property, review the current use of accommodation and expand customer contact centres all of which should deliver efficiency savings. It is important that the council continues to develop asset management plans and use asset management to support the development of efficiency programmes.

Refer Action Plan No 5

Procurement

67. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement. 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. So far two rounds of PCA assessment have been completed. In December 2010 the council scored 29% which is classed as 'conformance' and demonstrates a significant improvement on the 2009 score of 19%. The main improvement areas were in “procurement strategy and objectives”, “procurement leadership and governance”, “key purchasing processes and systems” and in “people”. The council is taking a pragmatic approach to procurement in the current economic climate of restricted resources. It has adopted a systematic approach to its procurement practices and has targeted key priority areas. A revised procurement improvement plan was agreed in May 2011.
68. We carried out a high level review of purchasing and procurement in April 2011 which identified that the procurement strategy required to be revised and agreed in final form. It was also recommended that the council continues to identify, monitor and deliver procurement efficiency savings. The council should also continue to use collaborative procurement opportunities as a means to achieving efficiency savings.
69. During 2010, the council identified weaknesses within procurement practices. As part of the annual review of the standing orders relating to contracts, the scheme of delegation and the financial regulations, revisions were made to ensure governance arrangements minimise any risks to the council particularly when entering collaborative procurement contracts. The corporate and community planning standing scrutiny panel undertook a review of procurement in 2010/11 which also resulted in revised practices being adopted for contracts below the formal tender threshold.

Refer Action Plan No 6

Outlook

2011/12 budget

70. The council, like all public sector organisations, faces a very challenging financial climate. Budget savings required in 2011/12 are far in excess of those needed in previous years and this requires strategic planning and the implementation of sustainable measures to balance the budget, including rigorous monitoring.
71. When setting the 2011/12 budget the council approved a balanced budget incorporating efficiency savings of £9 million plus a £1 million payroll efficiency target allocated across service departments.
72. Efficiency measures included within the budget were detailed for each service department and included specific service programmes and corporate savings activities.
73. The 2011/12 budget monitoring report to 30 June 2011 predicts an annual underspend of £1.4 million, with underspends of £1.4 million and £0.1 million being forecast in children and community and in miscellaneous services respectively. An overspend of £0.1 million is being predicted in development and environment.

Financial forecasts beyond 2011/12

74. Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for local government that were announced by the Scottish Government indicate that significant budget reductions will be required in these years. The council has been increasingly proactive in recognising the challenges ahead. Efficiency savings have been identified and agreed in advance of setting of the following year's budget. A total of £4.2 million of efficiency savings were agreed in June 2011. These will form part of the savings to be included in the 2012/13 revenue budget.
75. As previously mentioned the council does not have medium or longer term capital plans. Work is also required in integrating financial plans with service and directorate plans to ensure resources are targeted at council priority areas.

Refer Action Plan No 2

Governance and accountability

76. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
77. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including standing scrutiny panels or similar groups) in monitoring these arrangements.
78. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
- corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
79. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

80. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. During our five year audit appointment scrutiny arrangements have improved significantly from a very low starting point. The leadership panel and standing scrutiny panels allow existing policies and new proposals to be subject to consideration and discussion by elected members in a timely manner.
81. The responsibilities of the scrutiny/governance panel includes the promotion and maintenance of high standards of conduct, review and reporting of the council's "Delivering good Governance Framework" and dealing with any abuse of call-ins. The panel is currently reviewing scrutiny arrangements with a view to further improving current arrangements. Panel members have been observing meetings in other councils to identify areas of good practice and areas for improvements.
82. The corporate and community planning standing scrutiny panel undertakes the role of the audit committee. The panel also has a wider remit in terms of promoting, monitoring and developing continuous improvement. The chair is effective in his role and ensures all panel

members have adequate opportunity to discuss their views. The panel is well attended and panel members regularly challenge officers and auditors on the reports presented to them.

Internal control

83. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
84. No material weaknesses in the accounting and internal control systems were identified during the audit 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.
85. The results of our review of key controls were reported to the corporate and community planning standing scrutiny panel in June 2011. The identified weaknesses were taken into account in our approach to the audit of the financial statements, resulting in additional audit testing of payroll and income and expenditure transactions. Areas where key control improvements could be made have been discussed with officers and have either already been implemented or will be implemented in due course.

Managing people

86. Good workforce planning is necessary to ensure that the right people and skills are available to deliver effective public services in the future. The council has been in the process of developing a workforce strategy throughout our five year audit appointment. The strategy originally approved in March 2008 was revised again in 2010/11.
87. The latest staff survey was carried out in April 2010. It was noted that there was an increase in the number of employees who felt they were kept informed of council decisions and plans, had the information and resources to do their job well and who received clear direction and feedback from their line manager. It was also noted that there was a decrease in employees who understood the standards expected of them and were encouraged to use their initiative to find better ways of doing things to improve services. A slight reduction was recorded in employees who believed they had the training and support to perform their job well. An action plan to address the weaknesses identified was agreed in August 2010 and implementation of the action plan is well underway at corporate, directorate and service levels.

ICT data handling and security

88. The council has been in the process of implementing the Oracle e-financials system since 2003. We have commented on the many difficulties encountered through our reports over the last five years. Various deadline completion dates have slipped across the years. The council still relies on the previous Cfacs ledger as a feeder into the Oracle ledger. The Cfacs system is not supported by a maintenance contract.

89. Progress has been made during the last year with the Oracle i-procurement module. It is now fully rolled out across corporate services and, by the end of 2011, in most of the development and environment directorate. It has still to be rolled out in most of the largest directorate, children and community, but pilots in two areas are currently ongoing.
90. The feeders still being processed through Cfacs are the purchase ledger, payroll and the Servator housing repairs system. Full implementation of the Oracle i-procurement module will remove reliance on Cfacs for purchase ledger entries.
91. The council has been planning to implement the Oracle payroll and human resource (HR) modules for some time. Progress has been slow. Implementation of this module will help eliminate control weaknesses reported in our financial systems reports. Tender documentation is being prepared for services to allow the implementation of the HR and payroll module. The ongoing development of the Oracle HR module continues across a number of fronts. We have been advised that the HR module has seen improvements in the quality of the data populated as well as the development of organisational and hierarchy structures. Increased dedicated resource has been allocated to support continued developments, including maintenance and security procedures. The council's next priority in the project plan is the implementation of absence recording and reporting.
92. The implementation of the HR and payroll module and i-procurement module will remove the need for the Cfacs system. The council expects to rely on Cfacs until the end of 2012.

Refer Action Plan No 7

93. The council makes good use of information and communications technology (ICT) to support and deliver services. During the year the council successfully implemented a Voice over IP (VoIP) telephony system. The VoIP system integrates instant messaging, audio, video and web conferencing, and *Presence*. This is a tool which allows the user to check when others are busy or available for contact in addition to a conventional telephone. In July, the council became the first local authority in Scotland to launch a free downloadable library ebooks service. Work is nearing completion at the purpose built data centre, which together with the improvements in network connectivity will improve the operational set-up and business continuity provision within the council.
94. The ICT disaster recovery plans were exercised in December 2010, when a mains power supply failure disrupted the department's (and the council's) ability to deliver services. As a result steps were taken to reduce the impact from any possible future mains powers failures.
95. The council recently conducted a Your Business @ Risk Survey, which evaluated staff awareness and behavioural activity. From the profile of results we concluded that a reasonable level of information security awareness exists within the council. There are a number of areas that will have to be addressed in the coming year to help improve the overall staff awareness of information security.
96. Good online provision of information can be beneficial to both the council and residents. For the resident, access to the council's online services including online payments is available day and night. The council's website does provide many online services to the public and makes

good use of social media. We note that according to the most recent annual Society of Information Technology Management (SOCITM) survey of local authorities, South Ayrshire Council's website was classified as one of the top local authorities in Scotland. In several of the evaluated areas the website was classified as an example of good practice.

Prevention and detection of fraud and irregularities

97. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
98. South Ayrshire Council has appropriate corporate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy; a whistleblowing policy; codes of conduct for elected members and staff; and defined remits for panels.
99. During 2010/11 the council's internal audit function identified areas of potential irregularity. The council took a proactive approach on this discovery resulting in two further investigations being carried out initially by internal audit and also by external consultants. These investigations were regarding breaches of policies and procedures.
100. The first investigation resulted in five employees (an area supervisor, an area coordinator, a service manager and two foremen) from the council's waste management department being dismissed. All five employees appealed the decision. The appeals panel upheld allegations of malpractice in all five cases. The panel agreed that the three senior employees were to remain dismissed but the two foremen be reinstated to their posts but with final written warnings and a period of suspension without pay. The council has used internal and external support and expertise to ensure continuity of service during the investigation and subsequently to review and revise working practices within the service.
101. The second Investigation was carried out within the property and neighbourhood services department. Contract irregularities had been identified by internal audit. As a result the property and asset manager was suspended to allow a full investigation to be undertaken. The head of corporate resources is working with the head of property and neighbourhood services to review processes and procedures within property and asset management with a view to revising working practices.
102. At the time of writing, disciplinary hearings are ongoing.

National Fraud Initiative in Scotland

103. The National Fraud Initiative was rolled out in Scotland as part of 2004/05 audits, principally the audits of councils and police and fire boards. The Scottish Public Pensions Agency, the Student Awards Agency for Scotland and Audit Scotland also provided data for the exercise. The exercise was expanded for the 2006/07 NFI by the inclusion of health bodies and a wider range of datasets.

104. Since then, there has been an exercise covering 2008/09, which has reported, and another covering data from 2010/11, which is currently under way. Data were provided by participating authorities in late 2010 and the resultant matches are being examined with the expectation of a national report in 2012.
105. Cumulative outcomes for Scotland have exceeded £58 million and, for the UK, £660 million.
106. The council's NFI data showed a total of 2,302 matches, of which 696 were classed as matches recommended for investigation. The council has processed only 190 matches with 43 in progress. From the matches processed to date, one error and no frauds have been discovered. There has been no financial outcome as yet.
107. Further reports will be made in due course as the exercise progresses.

Housing benefit inspections

108. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Our specialist team assessed the council in August 2009 and a detailed report was issued including an agreed improvement actions. The progress on these actions will be followed up in due course.

Standards of conduct and arrangements for the prevention/detection of bribery and corruption

109. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the council has codes of conduct in place for elected members and officers. As previously mentioned, the council's standing orders and financial regulations have been reviewed within the last year. The council plans to arrange training for both elected members and officers on the 2010 Bribery Act which came into force in April 2011. The Act brings a major shift from the previous law and places obligations on organisations to ensure that they deploy robust anti-corruption procedures.

Refer Action Plan No 8

Roles and relationships

110. In previous years we have commented that relations between members and officers could be improved and clarified. We are pleased to report that the council has taken steps and much more professional and mature relationships have developed. Portfolio holders meet the chief executive and executive directors fortnightly to discuss emerging issues. Agenda items for these meetings are put forward by both officers and members.
111. The Scrutiny and Governance Management Panel considered the Audit Scotland report entitled "*Roles and Relationships: are you getting it right?*" in March 2011. Workshops for

elected members were held and productive and wide ranging discussions took place. The outcomes fed into the annual review of the Delivering Good Governance Framework.

112. The introduction of new members in the 2007 elections was a challenge for both the elected members and the council. Elected member training and development programmes were developed. All members receive a training needs analysis which leads to individual training and development plans. Training and development has continued throughout the last year with seminars, self study, courses and briefings. Development days planned for the next 3 months include training on procurement rules, the development of a revised community plan and other emerging issues. The programme for these days has been agreed between the leader of the council and the corporate management team (CMT).
113. The council is aware that following the May 2012 elections, elected member training and development plans will require to be refreshed.
114. Over the past three years the CMT and twelve heads of service have grown into their roles. The heads of service have been active in corporate roles such as the transformational change activity taking place within the council. During the last six months, two heads of service have retired from the council. One post has been filled in an “acting up” capacity and the duties of the other role have been distributed to other officers. There are plans in place to review the number of heads of service over the next 12 months.
115. Following our comments regarding leadership, the council has been improving its leadership capacity as a high priority. The key focus is on driving ownership of change throughout the organisation. A multi-faceted approach is being taken including the leadership development programme for senior officers and elected members, leadership engagement events for leaders across the council including head teachers and agreement of a set of principles around the remit and values of the CMT. It is important that developments continue as strong leadership will be required over the next few years to deliver improved services with reduced resources.

Best value, use of resources and performance

116. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure best value.
117. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing best value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that audited bodies have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
118. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
119. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
120. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
121. This section includes a commentary on the best value/performance management arrangements within the council. We also note performance measures used by the council and comment on any relevant national reports.

Management arrangements

Best Value

122. South Ayrshire Council received its first best value report in April 2009. The report highlighted the Accounts Commission's concerns regarding the council's limited progress in delivering best value and regarding the council's financial position. The Accounts Commission requested that a further best value review was carried out at March 2010. The follow up review was carried out and a progress report was published in June 2010. The Accounts Commission were pleased with the progress made by the council during 2009/10. It was acknowledged that many elements of best value were in place and a culture of continuous improvement was

starting to develop. The Accounts Commission noted however that many developments were still at an early stage and much still needed to be done.

123. The council responded to the first best value report with an improvement plan structured around the improvement activities included in the report. Following the follow up review, the improvement plan was revised in October 2010. Improvement activity is now considered under six themes. Each theme has a senior officer as its “corporate owner”. The 6 themes are as follows:
- Leadership
 - Governance
 - Strategy
 - Transformation
 - Performance management
 - Engagement
124. Progress made against each of these themes is regularly reported to the full council with the latest report being presented to the council on 30 June 2011. Throughout this report we discuss the progress made within each of these themes.
125. The timing of South Ayrshire Council’s next best value audit (BV2) will be determined by a risk assessment performed by the local area network (LAN) through the shared risk assessment (SRA) process discussed below.

Vision and strategic direction

126. The South Ayrshire Council Vision entitled “Securing the Future for South Ayrshire” was agreed by all political groups in 2008. The council vision is similar to the community plan but there are differences in priorities between the two documents. We reported in 2009/10 that the council made good progress in agreeing a corporate plan and related directorate plans in the autumn of 2009. We noted however that the objectives in the plans were not prioritised.
127. The council responded to our concerns and arranged elected member workshops which resulted in high level corporate priorities being agreed in October 2010. The council has also committed to annual reviews of directorate plans. The latest revision in April 2011 took account of not only the new corporate priorities but also changes due to the 2011/12 budget, progress made to date and newly emerging challenges. Six-monthly progress reports on the directorate plans are presented to elected members for scrutiny and consideration.
128. As previously mentioned, the council is aware that further improvement and refinement is required including the need to develop a clear link between directorate and service plans and financial plans.

Refer Action Plan No 9

Partnership working

129. The South Ayrshire Community Planning Partnership was established in 2005 and now consists of fourteen partner organisations. The 2006-2010 community plan "A Better Future Together" requires to be revised. The CMT have been considering the process for reviewing the plan. A review of the role, structure and content of the community plan is being undertaken. The council has plans in place to consult partners and the public before the end of 2011. Following the consultation, the council intends to delay the final decisions regarding the plan until after the May 2012 elections. This timeline will ensure the new administration has influence over the revision of the community plan.

Refer Action Plan No 9

130. The aspirations in the community plan are linked to national outcomes and the single outcome agreement (SOA) to enable a joined up approach to delivering key outcomes. The council agreed its current 2009-2012 SOA with partners in June 2009. The council is waiting for an announcement from the Scottish Government regarding the future format of SOAs. Once the government's position is clear, the council plans to review the 2009-2012 SOA with partners and in light of the revised Community Plan. The annual performance report on the SOA was presented to elected members in September 2011.

131. We reported previously that the SOA was not fully developed due to incomplete baseline data. Targets included in the SOA were not specific but were often simply to "maintain" or "increase" performance. There were also problems in the collection of the data with the result that results were not available for all SOA indicators. For some indicators it is not clear, eg numbers of detections for possession of offensive weapons or numbers of domestic abuse cases reported to police, whether increased numbers are positive or negative outcomes. There remain a number of indicators without specific targets which makes it difficult to establish if planned outcomes are being achieved.

132. The council has continued to work with partners to ensure all relevant, accurate data is available to allow progress to be reported. The 2010/11 annual SOA report identifies six indicators where data is not available. Information for two of these indicators is due by the end of September 2011 and for the others, data is not available due to the South Ayrshire 1000 Survey Panel not being revived as originally planned and also due to the latest Scottish Household Survey data not yet being available at local authority level. When it became clear in 2009/10 that data for a number of indicators would not be available, alternative indicators were considered and are now included in the 2010/11 SOA annual report along with baselines and updates for both 2009/10 and 2010/11.

Refer Action Plan No 10

133. The council has continued to develop partnership working over the last year. Initiatives include working with the local NHS board with regards to early discharge from hospitals and the development of the Covalent performance management system. Community safety initiatives have been taken forward with Strathclyde Police, briefings have been delivered on fire deaths with Strathclyde Fire and Rescue officers and multi agency alcohol and drug initiatives have

been delivered. An adaptive leadership training programme was developed and delivered for community planning partners, including community representatives.

134. The council has made progress with shared services. There is now however an increasing emphasis by elected members and officers around the shared service agenda. The council is aware of the need to develop shared service initiatives in the current economic climate in order to deliver the required significant savings.
135. The council along with the other two Ayrshire councils has set up a shared services board to develop shared service initiatives. The executive director, development and environment sits on the board. The board reports to the shared services executive, comprising leaders and chief executives of all three Ayrshire councils, together with the chair and chief executive of NHS Ayrshire and Arran. The board is currently considering the potential for improved effectiveness and efficiency through alternative models of sharing road services across the Ayrshire councils beyond the joint working that is currently in place. Proposals to develop a shared out-of-hours social work service are advanced, and include all three councils, together with NHS Ayrshire and Arran.
136. The three Ayrshire councils have been working together over the past three years to put in place a shared service model to deliver regulatory services. A joint board model was considered but we are disappointed to report that the three councils have not yet been able to resolve the complex legal issues to allow the joint service to progress. The revised deadline of April 2011 for the adoption of the regulatory shared service model has been further revised to June 2012, dependent on legal advice and on council decisions. It is important that all partners work to identify and resolve the many potential issues around shared service models to ensure optimal outcomes are achieved for local residents.

Refer Action Plan No 11

Performance management arrangements

137. An effective council has a performance management culture embedded throughout the organisation. Throughout our five year audit appointment we have reported that the council's performance management arrangements were underdeveloped. The council responded by agreeing a performance management framework in May 2010 which set out the main components to help the council to identify and deliver its priorities.
138. A decision to purchase the Covalent performance management system was made with plans to have the system fully operational by April 2011. The council met this deadline and used Covalent for the 2010/11 annual performance reports. Performance reports continue to be refined in consultation with users of the system and elected members at performance management workshops. We are pleased to note that a performance management culture is starting to develop although this may take some time to be fully embedded across all departments.
139. Public performance reporting (PPR) has been another area which has come under criticism and was included as an area requiring to be reviewed in the council's 2010 performance

management framework. The current PPR arrangements have been in place since 2004 and are based on a three level strategy comprising an annual calendar, a periodic tabloid size newsletter and more detailed corporate, directorate and service based reports such as the children and community annual report along with statutory performance indicators. Feedback on the calendar is that it is well received and liked. However the newsletter has been criticised as not portraying a “balanced” picture of council performance but only showing the good news. There have been issues over the frequency of the newsletter and feedback suggests it is generally not well read.

140. The council decided in February 2011 to carry out a consultation exercise across a wide range of stakeholders to assess the effectiveness of current PPR arrangements and examine possible alternative arrangements. The result of the consultation was due to be reported in September 2011 but the consultation has been delayed and is not now likely to be reported until November 2011.

Refer Action Plan No 12

Self-evaluation arrangements

141. While self evaluation has been carried out in a minority of services such as education, historically self evaluation has not been good across the council. The council recognised this and in May 2010 agreed to adopt the “How Good is Our Council” model as the corporate self evaluation tool. The CMT considered the best approach to roll-out the model in a managed and structured way. Various workshops and training sessions were carried out with the CMT. It was recognised that in a number of services a self evaluation culture will take some time to embed. A high level corporate assessment has been carried out by the CMT over the summer of 2011 and is almost complete and ready to be reported within the next month.

Refer Action Plan No 13

Community engagement

142. The council has continued to progress community engagement over the past year. The Maybole Pathfinder project evolved from discussions between community representatives and the council and has secured funding from the LEADER European programme to develop a new model for developing and managing community assets including Maybole town hall, Maybole swimming pool and various sports pitches.
143. Specific local initiatives have also been underway for example in the Wallacetown and Newton areas of Ayr where the council supported local tenants and residents associations with a bid to the People’s Millions Lottery which resulted in the receipt of £50,000 for a new play area. Related work helped local people develop social enterprise approaches to address local issues. Following the success in these areas, a multi agency group has been set up to deliver similar approaches in other areas.
144. The council has agreed to pilot a community engagement forum for a twelve month period in one rural and one urban area. The aim is to provide an opportunity for representatives from local organisations to meet the council and its partners in a way that encourages participation

and an exchange of views. These events are going to be linked to the annual community planning conference. The first community events have taken place.

A wide range of consultation activity has been evident over the past year. The "Big Budget Challenge" in the autumn of 2010 allowed the council to engage with local people regarding budget decisions. Tenants' and residents' forum meetings have also been used for consultation regarding housing issues and proposed housing related strategies.

Customer service

145. An updated customer service strategy was agreed in March 2011. It outlines face to face, telephone and online as being the three main channels for customer interaction. The council is striving to improve the customer experience, increase efficiency and provide convenient access for customers. To date, 46 core council services have been identified that can be made more accessible through the three main channels. The council plans to expand its introduction of customer service centre one stop shops and also adopt a holistic approach to customer service. Plans are in place to expand the one stop shops into the main centres of population. The 2011/12 capital programme agreed in February 2011 included a £1 million budget to create four additional one stop shops.
146. The project streams for improving customer services focus around the customer contact centre, customer service centres, ICT, customer comments and complaints and customer services training programme.
147. Internal recruitment for customer services assistants to support the implementation of the customer service centres is underway with a programme of intense training supporting their transition.
148. Proposals are currently being considered in relation to the council-wide system for comments and complaints handling. LAGAN will be the ICT system facilitating these new procedures which will be implemented in line with best practice guidelines from Scottish Public Services Ombudsman.
149. The council telephone contact centre is now handling an increased number of calls (approximately 2,000 per week). The waiting times and numbers of abandoned calls have reduced over the last year. The council is developing an online enquiry form for areas such as roads, housing and waste management which will allow customers to track their queries online.

Refer Action Plan No 14

Service reviews

150. In previous years we have reported that the council did not have a robust service review process. Service reviews were found to have had little impact upon service performance. The council has responded by rationalising the number of service reviews and linking service reviews with budget development activities. The 2010/11 budget included efficiency savings of £1.0 million from service reviews. An officer working group chaired by the executive director-corporate services has been formed. This group has developed a new service review toolkit. The council currently has service reviews in place, for example, in facilities management. It is midway through a programme of modernisation which the council predicts will deliver approximately £850k of savings, together with a better service for users, but recognises the need to further develop the programme of service reviews.

Refer Action Plan No 15

Overview of performance in 2010/11

Statutory performance indicators

151. In 2010/11, a total of 25 statutory performance indicators (SPIs) were required. We have reported in previous years that data collection, retention, and data interpretation needed to improve to ensure performance information was reliable and accurate. It is disappointing to note that the council's internal audit function found two out of a sample of four to be inaccurate. In addition, it was discovered that the data required to complete part of the homecare indicator had not been collected during 2010/11 resulting in this indicator being classed as "failure to report".

Refer Action Plan No 12

National performance reports

152. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 3.

Exhibit 3: A selection of National performance reports 2010/11

- | | |
|---|--|
| <ul style="list-style-type: none">• The cost of public sector pensions in Scotland• How councils work: an improvement series for councillors and officers - Arms-length external organisations• Scotland's public finances: responding to the challenges• Maintaining Scotland's roads: a follow-up report | <ul style="list-style-type: none">• Physical recreation services in local government• An overview of local government in Scotland 2010• Community Health Partnerships• Improving energy efficiency: a follow-up report• Transport for health and social care |
|---|--|

Source: www.audit-scotland.gov.uk

Progress against audit risks identified in the shared risk assessment

153. The shared risk assessment (SRA) includes areas of on going risks and uncertainties, where associated audit and scrutiny activity was identified. In the assurance and improvement plan (AIP) update 2011 - 14 we said that we would monitor key strategic and service developments during the annual audit process and comment within this report. The following paragraphs note the position against the areas of risk and uncertainty identified which have not been covered elsewhere in this report.

Prosperous

154. The AIP update noted that the council is moving in the right direction with a number of good initiatives underway. During 2010/11 some progress was noted with regards to economic development for example, the move of British Airways to Prestwick. Other recent initiatives include the "Let Ayr Shine" civic pride campaign to encourage people to take responsibility and pride in Ayr. Ayr Renaissance is a limited liability partnership set up by the council and is rejuvenating Ayr town centre. The current economic climate is still cause for concern with no indications yet of any significant improvement.

Healthy and caring

155. Performance indicators for coronary heart disease, asthma, and the dosage of anti-depressants prescribed in South Ayrshire were noted as being of some concern. A number of interventions were put in place such as new community mental health resources, a new community hospital in Girvan, four additional community nursing teams and the "reshaping care" agenda was rolled out. Improvements have been noted in performance indicators reported for 2010/11.

Assuring public money is being used properly

156. The council has various mechanisms in place to help ensure that public funds are not misused. Scrutiny of activity is undertaken by both elected members and officers. The council's improvement agenda has moved forward with progress across the various themes contained in the improvement plan covered in other parts of this report.

Outlook

157. There are plans in place for a follow up best value audit including a discrete piece of work on performance management during 2012-13. A review of best value arrangements is planned for the following year, 2013-14. Audit Scotland also plans to review fire and rescue services during 2011-12. The AIP update 2011-14 also includes activity by other scrutiny bodies including:

- HMIE-full child protection inspection (2011-12)
- Social Care & Social Work Improvement Scotland (SCSWIS)-initial scrutiny level assessment (ISLA)-2012-13.

Appendix A: Audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Corporate & Community Planning Standing Scrutiny Panel
Annual Audit Plan – South Ayrshire Council	January 2011	24 February 2011
Internal audit reliance letter	November 2010	27 January 2011
Shared Risk Assessment / Assurance and Improvement Plan	May 2011	30 June 2011 (Full Council)
Review of purchasing and procurement	April 2011	26 May 2011
Review of main financial systems	May 2011	23 June 2011
Data management follow up	September 2011	To be presented
Report to those charged with governance on the 2010/11 audit	September 2011	22 September 2011
Audit opinion on the 2010/11 financial statements	September 2011	30 September 2011
Audit opinion on Whole of Government Accounts	September 2011	30 September 2011

Appendix B: Action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	13	<p>Governance</p> <p>Governance issues have been identified for improvement through the "Good Governance Standard for Public services" framework.</p> <p><i>Risk: Planned governance developments are not progressed which could lead to poor governance arrangements.</i></p>	<p>Further implementation of delivering good governance framework and review of scrutiny arrangements completed and new arrangements in place post May Elections.</p>	head of policy, performance and communication	June 2012
2	38-40 57-62 74-75	<p>Financial position</p> <p><i>General fund</i> -The council should continue to review general fund reserves to ensure they are maintained as sufficient levels. Work should continue to ensure the £8 million general fund uncommitted balance target is achieved by 31 March 2013.</p> <p><i>Capital fund</i> -The purpose of the capital fund requires to be reviewed.</p> <p>Funding reductions</p> <p>The council faces very challenging funding reductions over the next</p>	<p>The council is committed to maintaining general fund reserves at sufficient levels.</p> <p>A review of the purpose and adequacy of all funds will be undertaken as part of the 2012/13 budget exercise.</p> <p>The council recognises the challenging position over the next few years and will be developing</p>	executive director - corporate services	Sustained activity

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>few years.</p> <p>Financial plans</p> <p>The council has not yet developed medium or longer term revenue or capital financial plans.</p> <p>Risks: <i>The balance in the capital fund is not put to effective use.</i></p> <p><i>The council is unable to react to funding reductions and their implications for services.</i></p> <p><i>The council is unable to meet unexpected events.</i></p>	<p>medium/long term revenue and capital plans in line with the financial strategy on receipt of 3 year settlement figures.</p>		
3	44-47	<p>Housing</p> <p><i>Housing revenue account</i></p> <p>The remaining legacy issues identified during the review of the housing business plan require to be resolved.</p> <p>SHQS</p> <p>The council estimates that £45-50 million investment is required in the housing stock in order to meet the SHQS by the 2015 deadline.</p> <p>Risk: <i>The council does not make best use of resources to improve the housing stock and set appropriate rent levels.</i></p> <p><i>Resources are not available to ensure the SHQS is achieved.</i></p>	<p>These identified risks will be actioned through the implementation of the business plan following members' approval.</p>	<p>head of community care and housing</p>	<p>31 March 2012</p>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	55-56	<p>Icelandic bank investments</p> <p>The council should continue to monitor activities regarding recovery of funds invested and take appropriate action.</p> <p><i>Risk: The maximum return is not achieved.</i></p>	The council will continue to monitor the extent of any potential loss as new information emerges and take the appropriate action.	executive director - corporate services	Ongoing
5	63-66	<p>Asset management</p> <p>Work should continue to ensure a corporate asset management plan is in place by the March 2012 deadline. Asset management plans must continue to inform the development of efficiency programmes.</p> <p><i>Risk: Assets are not being used effectively.</i></p>	The asset management team will continue to work to ensure a corporate asset management plan is in place by the March 2012 deadline. The head of service will meet monthly with the asset management team and progress will be monitored by the capital asset management group.	head of property and neighbourhood services	March 2012
6	67-69	<p>Procurement</p> <p>A procurement improvement plan is in place following the 2010 PCA.</p> <p>The procurement strategy is not yet agreed in final form.</p> <p>The council requires to continue to identify and take forward collaborative procurement opportunities in order to help deliver efficiency</p>	The procurement improvement plan was endorsed by elected members at the corporate and community planning standing scrutiny panel meeting of May 2011, and forms the basis of the council's updated procurement strategy as approved by the leadership panel on 25 October	head of corporate resources	Ongoing, with strategy subject to annual review

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		<p>savings.</p> <p>Risk: <i>Procurement activities do not achieve best value and potential savings are not achieved.</i></p>	<p>2011.</p> <p>The procurement strategy contains key objectives with clear outcomes, and has identified collaboration with Procurement Scotland, Scotland Excel and other bodies in the public sector and beyond as essential to achievement of required efficiencies and savings. The strategy will be reviewed annually to ensure objectives are being progressed as required.</p>		
7	88-92	<p>Oracle</p> <p>The council has been in the process of implementing Oracle modules since 2003. Implementation of the various Oracle modules has been slow. I-procurement and payroll/HR modules are not expected to be fully operational until end 2012.</p> <p>Risk: <i>Planned efficiencies and improved working practices are not achieved.</i></p>	<p>The ongoing development of Oracle continues across a number of fronts.</p> <p>The roll out of the I-procurement module within development and environment will be completed during 2011.</p> <p>The HR module has seen improvements in the quality of data populated as well as the development of organisational and hierarchy structures.</p>	head of HR and organisational development and head of policy, performance and communication.	Ongoing

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			<p>Increased dedicated resource is now allocated to support continued developments including maintenance and security procedures. The next priority in the project plan is the implementation of absence recording and reporting.</p> <p>Following a recent 3-day workshop, supported by Oracle, the implementation of integrated payroll and HR modules will be progressed. A tender package will be issued by December 2011.</p>		
8	109	<p>Bribery Act</p> <p>The council has not yet delivered training on the new 2010 Bribery Act to elected members and officers.</p> <p><i>Risk: Officers and members are unaware of their legal obligations under this Act.</i></p>	Training sessions for officers and elected members being arranged with external provider.	head of legal and administration	March 2012
9	126-129	<p>Strategic planning</p> <p><i>Community plan</i></p> <p>The community plan requires to be revised.</p>	Preparatory work with partners, members and the public to produce refreshed	head of policy, performance and communication.	February 2012

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		<p>Good progress has been made with corporate, directorate and service plans. Further refinement is now required including a clear link between directorate and service plans with financial plans. directorate plans.</p> <p>Risk: <i>The key community planning objectives are not achieved.</i></p> <p><i>Resources are not directed to priority areas.</i></p>	<p>plan.</p> <p>Plan finalised post election.</p> <p>Link to resources in plans.</p>		<p>June 2012</p> <p>April 2012</p>
10	130-132	<p>Single outcome agreement (SOA)</p> <p>The SOA still does not include targets for all indicators and for some indicators with targets, these are not specific. Some indicators would benefit from being revised to help identify if planned outcomes have been achieved.</p> <p>Risk: <i>Planned outcomes are not achieved.</i></p>	<p>Redraft SOA in light of government plans for SOAs and the new community plan.</p> <p>Ensure all incorporated indicators are measurable.</p>	head of policy, performance and communication.	<p>June 2012</p> <p>June 2012</p>
11	133-136	<p>Shared services</p> <p>Limited progress has been made with shared services.</p> <p>The regulatory shared service has not been able to resolve legal differences between partners.</p> <p>Risk: <i>Optimal outcomes, service improvements</i></p>	<p>The shared services board is working towards firm proposals for the three councils to consider before end of 2011/12 on:</p> <ul style="list-style-type: none"> • Regulatory services • Roads 	executive director - development and environment	June 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>and efficiency gains are not achieved.</i>	<ul style="list-style-type: none"> Tourism Out of hours social work service 		
12	137-140 151	<p>Performance management</p> <p>Public performance reporting arrangements require to be revised.</p> <p>SPIs</p> <p>Data collection, retention and interpretation needs to improve with regards to the reporting of SPIs.</p> <p>Risk: <i>Current arrangements are ineffective and a waste of resources.</i></p> <p><i>It cannot be determined if planned outcomes have been achieved.</i></p> <p><i>Planned outcomes are not achieved.</i></p>	<p>Review of PPR arrangements concluded.</p> <p>New arrangements built into next SOA and directorate plans.</p>	head of policy, performance and communication	December 2012 Throughout 2012
13	141	<p>Self evaluation</p> <p>Self evaluation using the "how good is our council" model requires to be rolled out to all services and embedded in working practices.</p> <p>Risk: <i>Self evaluation is not effective.</i></p>	<p>Corporate assessment completed.</p> <p>"how good is our council" assessment piloted in each directorate.</p> <p>Full programme for roll out developed.</p>	head of policy, performance and communication.	December 2011 June 2012 September 2012
14	145-149	<p>Customer service</p> <p>One stop shops and expansion of the contact centre should be progressed to help deliver more efficient</p>	An updated customer services strategy was agreed in March 2011. Further more detailed work is being concluded to identify	head of HR and organisational development.	February 2012 (4 centres); May 2012 (Ayr)

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		<p>services.</p> <p>Risk: <i>Services are not delivered efficiently and effectively.</i></p>	<p>all the customer interactions and the channels which customers can use. This analysis will feed into the project plan for customer services and will inform the on-line channel development.</p> <p>The council has approved the establishment of five customer service centres. Formal launch of 4 in Feb 2012, (Prestwick and Girvan, Maybole and Troon). In May 2012 the customer service centre for Ayr will open in the former Wallace Tower.</p> <p>Internal recruitment for customer services assistants is underway with a programme of intense training supporting their transition</p> <p><i>Contact Centre:</i></p> <p>Further improvements to the telephony technology to ensure continued decrease in call waiting times.</p> <p>Interface with contact centres to ensure increased call handling.</p>		<p>Oct - Nov 2011</p> <p>Ongoing</p>

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			<p><i>Comments & Complaints:</i></p> <p>Draft proposals being considered in relation to the council-wide system complaints handing. LAGAN software will facilitate new procedures which will be implemented.</p>		March 2012
15	150	<p>Service reviews</p> <p>The service review programme requires to be further developed in conjunction with budget activities and the new service review toolkit.</p> <p><i>Risk: Service reviews are not effective and/or are carried out in inappropriate areas.</i></p>	<p>The programme of service reviews continues to evolve. These are clearly linked to the key themes facilitating efficiencies across the council, i.e.</p> <ul style="list-style-type: none"> • Property & Asset Rationalisation • Procurement • Customer Services • Workforce Modernisation • Business Service Review <p>A toolkit for managers has been developed to support the review process. It includes 6 high level self evaluation questions from "how good is our council" and operating model for</p>	executive director - corporate services and head of HR and organisational development.	Ongoing 2011/12 and 2012/13

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			<p>"delaying."</p> <p>The voluntary severance trawl is linked to the ongoing reviews, the modernisation of workforce and downsizing of the council.</p> <p>The programme is monitored and reported at directorate level, at CMT and through the joint trade union liaison group.</p> <p>Progress is also reported to council/ leadership panel as part of budget reports.</p>		