



# East Ayrshire Council

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

September 2016

## Key contacts

Fiona Mitchell Knight, Assistant Director  
[fmitchell-knight@audit-scotland.gov.uk](mailto:fmitchell-knight@audit-scotland.gov.uk)

Paul Craig, Senior Audit Manager  
[pcraig@audit-scotland.gov.uk](mailto:pcraig@audit-scotland.gov.uk)

Neil Cartlidge, Senior Auditor  
[ncartlidge@audit-scotland.gov.uk](mailto:ncartlidge@audit-scotland.gov.uk)

Audit Scotland, 4th Floor, South Suite, The Athenaeum Building  
8 Nelson Mandela Place, Glasgow G2 1BT  
Telephone: 0131 625 1500  
Website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

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 East Ayrshire Council for the period 2011/12 to 2015/16.

This report has been prepared for the use of East 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 seven charitable trusts administered by the council.

## Financial management and sustainability

- Financial management is effective with a budget setting process in place to deliver services in line with the council's priorities.
- The general fund reported a budget underspend of £2.855 million and an overall underspend of £6.003 million for the year. All of this has been retained in the unearmarked element of the general fund. The earmarked element of the general fund increased from £23.418 million in 2014/15 to £23.728 million in 2015/16.
- The general fund reported a surplus of £7.186 million and the Housing revenue Account (HRA) reported a surplus of £0.678 million. Usable reserves have increased by £8.115 million to £66.277 million.
- The unearmarked element of the general fund increased from £10.235 million in 2014/15 to £17.111 million in 2015/16. This is 5.3% of net revenue expenditure and will be used to help smooth out predicted funding reductions over the next few years.
- The council is currently developing its new transformation strategy (TS2) for the five year period from 2017. Provisional estimates show that sustainable savings of £16 million will be required for the first two years of the strategy.

## Governance and transparency

- The council has effective governance arrangements in place.
- Systems of internal control, including internal audit, operated effectively during the year.
- Local residents have access to information on how the council delivers services and performs against its priorities.
- Arrangements for the prevention and detection of fraud are satisfactory, and will be strengthened by approving a joint service with the North Ayrshire Council corporate fraud team.



### Best Value

- The new Community Plan covering the period from 2015 to 2030 provides the council's priorities.
- A well developed framework is in place for monitoring and reporting performance against these priorities.
- The council concluded its fourth Strategic Self-Assessment in 2016. A high level improvement plan has been approved and is being monitored by the Executive Management Team.
- New 'service improvement plans' for 2016-18 are in place, aligned to the three year cycle of community plan reviews.
- A three year programme of best value service reviews from 2015-2018 is underway.



### Outlook

- East Ayrshire Council must continue to challenge how it delivers services into the future to respond to its pressures. The new transformation strategy 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 East Ayrshire Council. The report is divided into sections which reflect our public sector audit model.
2. The management of East 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 East 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 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 East 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 East 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

<b>Audit opinion</b>	<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>
<b>Going concern</b>	<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>
<b>Other information</b>	<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>
<b>Charitable trusts</b>	<ul style="list-style-type: none"><li>• We have completed our audit of the 2015/16 financial statements of the charitable trusts administered by East Ayrshire Council and issued an unqualified independent auditor's report for each of the relevant trusts.</li></ul>
<b>Group accounts</b>	<ul style="list-style-type: none"><li>• The council has accounted for the financial results of three associates and one joint venture 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 £19.555 million.</li></ul>
<b>Whole of government accounts</b>	<ul style="list-style-type: none"><li>• The council submitted a consolidation pack for audit in accordance with the required timescales. This will be audited and the certified return submitted to the National Audit Office by the deadline of 30 September.</li></ul>

## Submission of financial statements for audit

10. We received the unaudited financial statements on 30 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided high quality support to the audit team which assisted the delivery of the audit to deadline.
11. The financial results of East Ayrshire Integration Joint Board (IJB) have been reflected in the council's group accounts in 2015/16, with the board being operational since April 2015. The council has prepared the financial statements of the board 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 nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 24 March 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 East Ayrshire Council we set our planning materiality for 2015/16 at £4.310 million (1% of gross expenditure). Performance materiality was calculated at £3.223 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 £5.112 million. Performance materiality was amended to £3.834 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 £0.050 million to members.

## Evaluation of misstatements

20. A number of presentational and one monetary adjustment of £0.115 million to the group accounts were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. None of these had any impact on the deficit disclosed in the comprehensive income and expenditure statement or the general fund balance.

## Significant findings from the audit

21. 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.
22. 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 Provision

As reported in previous years, the ultimate cost to the council of the claims made under the Equal Pay Act 1970 remains uncertain and it is likely that resolution of the issue will take some time. As the tribunal process unfolds, the extent of the council's eventual liability will become clearer. The council's Equal Pay provision at 31 March 2016 is considered to adequately reflect the potential liability. Actual settlements are subject to the outcome of several national test legal cases. The council have disclosed a contingent liability for any additional future claims that may potentially arise pending the outcome of the test legal cases.

**Resolution:** The potential equal pay liability will continue to be reviewed on an annual basis.

### 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 decrease in the pension liability of £69.126 million, from £234.616 million at 31 March 2015 to £165.490 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:** Assurance is obtained from the triennial valuations of the pension fund carried out by Strathclyde Pension Fund, which assures that the pension fund remains adequately funded. The financial statements have been prepared on the basis of these assumptions.

## Significant findings from the audit in accordance with ISA260

### **Open Cast Mining Operators:**

The council remain satisfied, based on legal advice taken, that there is no legal duty on the council to restore abandoned opencast sites in East Ayrshire following the liquidation of two former coal mining companies. Nevertheless the council has taken steps to progress restoration working with current owners and using bond monies recovered together with council funding and promised contributions from the Scottish Government. The council continues to fulfil its statutory role under the Environmental Protection Act 1990 in respect of any nuisance or contamination issues which might arise on any site, whilst noting that primary responsibility for such matters rests with the owners and occupiers. We are satisfied that no liability is required in the financial statements.

During the year the council received bond monies as a result of settlements made in relation to these sites. We are satisfied with the accounting treatment of the bond monies received.

**Resolution:** Members will continue to receive regular information on restoration activity and the impact that this has on the annual accounts as appropriate.

## Future accounting and auditing developments

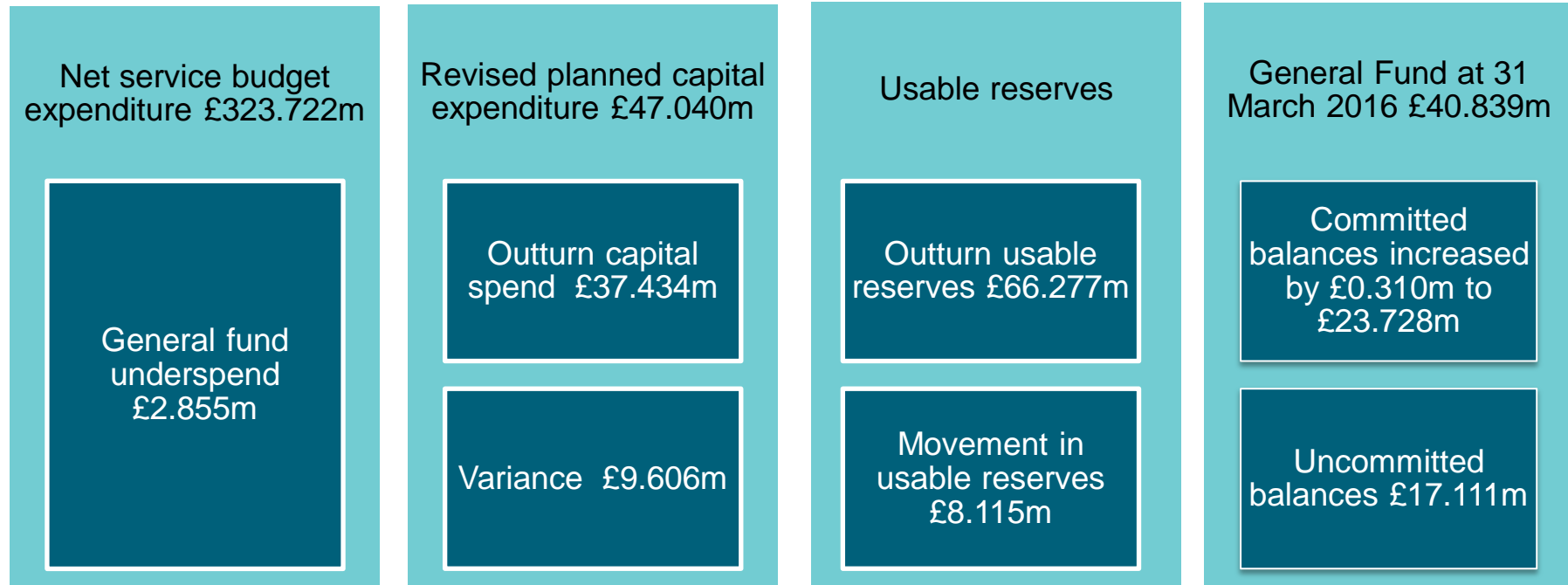
### Highways network assets

23. 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.
24. The Ayrshire Roads Alliance has enabled East and South Ayrshire asset management and engineering staff to work collaboratively with each other. Officers consider there is a high level of information available in readiness for the change in accounting practice.

### Practice

25. 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
26. 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

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

29. Savings measures incorporated into the 2015/16 budget meant that the council budgeted to underspend by £3.148 million in 2015/16. The general fund underspend against budget was £2.855 million resulting in an overall underspend of £6.003 million reported in the council's management accounts.

30. The £2.855 million underspend against budget was due to a number of reasons, including reduced expenditure within centrally held budgets and transfers from previous provisions no longer required. The annual line by line budget review, which was designed to increase the in-year balance in view of the difficult financial position ahead, also contributed to the underspend. This achieved net savings of £1.980 million which were transferred from departmental budgets to be held centrally.
31. The management accounts underspend of £6.003 million includes the use of £4.738 million of previous years balances utilised by services during 2015/16. Of the 2015/16 underspend in service expenditure, the council approved the earmarking of £5.921 million (or 1.8% of the net expenditure budget) for committed expenditure in future years. This amount is included in the current year's management accounts, but not in the annual accounts. This resulted in the general fund surplus of £7.186 million for 2015/16.
32. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year.
33. The HRA reported a surplus of £0.678 million for the year. This arose due to reduced employee, transport and debt charge costs together with a reduction in the bad debt provision for rent arrears. This sum is to be earmarked for use in future years' service provision.

## Financial management arrangements

34. 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.
35. 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.
36. 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.
37. The annual budget setting process forms part of the annual review of the transformation strategy. The review covers the general services capital programme, general services revenue

and the HRA. It serves to provide members with an overall update on the progress of the transformation strategy.

38. The annual review provides members with an update on savings and efficiency targets, and whether the council is on track to achieve the desired level of savings for the overall budget gap for the five years from 2012/13 to 2016/17.
39. Each year a 'line by line' review is also undertaken which identifies areas for possible savings within departmental budgets, and where spending can be re-phased due to changing priorities.
40. Financial monitoring reports (both revenue and capital) are submitted to the Cabinet and the Governance & Scrutiny Committee as part of the East Ayrshire Performs Report. Variances to budget are explained and the reports are accompanied by detailed financial commentary. Further information is available to members through the 'member's portal' and allows for effective scrutiny of budgets and spending.
41. As auditors we attend a number of council and committee meetings each year. Members provide a good level of challenge and question budget holders on significant variances and service performance issues.

## Conclusion on financial management

42. We have concluded that the council's financial management arrangements are sound. Year on year underspends have contributed to increasing levels of reserves, and 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, and cushion the impact of cutting services in the short term following a lower than expected funding settlement in 2016/17.

## Financial sustainability

43. 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.
44. 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.
45. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

## Reserves

46. Whilst the council is reporting underspends against its budgets, the accounts show an overall £30.524 million deficit in providing services prior to statutory accounting adjustments of £38.639

million in accordance with the Code of Practice on local government accounting.

47. Exhibit 1 shows the impact of this on the level of usable reserves held by the council. They increased by £8.115 million compared to the previous year and totalled £66.277 million at 31 March 2016.

#### Exhibit 1: Usable reserves

Description	31 March 2014 £ million	31 March 2015 £ million	31 March 2016 £ million
General fund	28.026	33.653	40.839
Housing revenue account	6.342	9.113	9.791
Renewal and Repairs fund	6.735	6.510	5.626
Capital fund	8.435	8.886	10.021
<b>Total usable reserves</b>	<b>49.538</b>	<b>58.162</b>	<b>66.277</b>

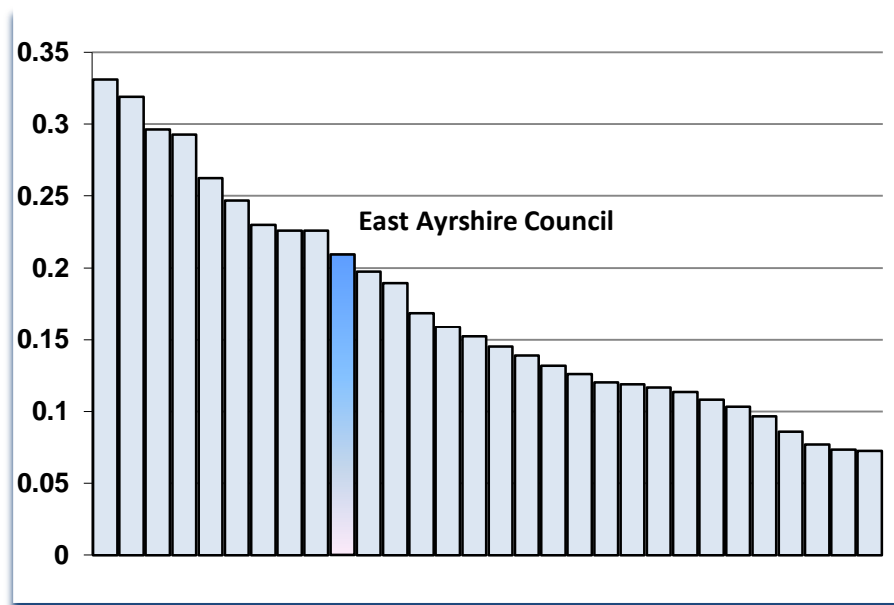
Source: East Ayrshire Council 2015/16 financial statements

48. The increase in usable reserves is mainly due to the accounting surplus generated by both the general fund and the HRA.

49. The General Fund balance includes £17.111 million of unallocated general fund reserves, which represents 5.3% of net revenue expenditure. Planned commitments from the general fund amounted to £23.728 million. The earmarked/ committed balance has remained at around this value for a number of years as highlighted in exhibit 3, and is currently around 7.3% of the net expenditure budget. The use of the earmarked balance includes financing for environmental initiatives, affordable housing and family support services.
50. 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.
51. In March 2016, a refreshed reserves strategy was approved which removed the upper limit for holding unallocated general fund reserves. This sets a minimum balance of 2% with no maximum level set. It will therefore be a matter for the Council to approve the forecast level of balances on an annual basis as part of the budget setting process. The council strategy aims to smooth anticipated spending pressures in the short term, as noted at paragraph 42.
52. The Housing Revenue Account balance was £9.791 million at 31 March 2016. Of this, £6.659 million is committed for use on specific expenditure. This includes purchase of housing stock, repairs, affordable housing investment, and use over the next three years in the housing investment programme.

53. Exhibit 2 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). East Ayrshire's position: 20.9% (2014/15: 18.8%) is higher than the median level for Scotland of 15% (2014/15: 14.4%).

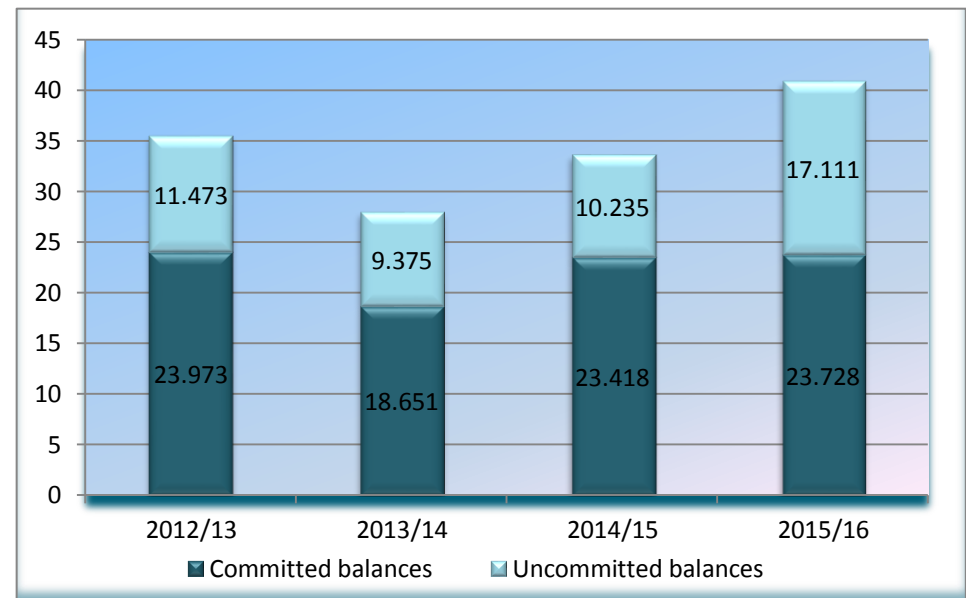
**Exhibit 2: Total useable reserves as a proportion of net revenue stream plus HRA rents**



Source: Scottish councils' unaudited accounts 2015/16 (excluding Orkney and Shetland Island councils)

54. 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**



Source: East Ayrshire Council 2015/16 financial statements

### Financial planning and transformational programme

55. The council's Transformation Strategy forms the basis for all key strategic decisions and how they impact the council's financial



position. The strategy identifies the work streams and savings required in order to meet the budget gaps identified when setting current year, and indicative future year budgets. The strategy is designed to achieve sustainable savings of £34.004 million over the five year period to 2016/17. When the 2015/16 budget was set, it was confirmed that savings slightly in excess of this had been identified for the period to 31 March 2017.

56. Local government revenue funding for 2016/17 was confirmed by the Scottish Government on 15 February 2016 and is 3.4% less than for 2015/16 across Scotland. This resulted in the council receiving £10.050 million less than it had previously anticipated within its budgeting assumptions. This, together with other budget adjustments resulted in the council requiring identification of further savings of £9.693 million, to achieve a balanced budget in 2016/17.
57. Due to the limited time available to identify and implement additional savings actions, an interim strategy was approved when setting the 2016/17 budget. This aimed to reduce recurring expenditure by a range of additional measures designed to have a limited impact on service standards and policies, together with a draw on its uncommitted balances, as outlined in paragraphs 42 and 51 above.
58. Measures were identified to reduce service and centrally held budgets by £4.735 million in 2016/17. These are In addition to the savings identified in the five year Transformation Strategy work streams. The remainder of the anticipated budget gap for the year (£4.958 million) is being met from uncommitted balances. The council recognises that this is not a sustainable position in the longer term.
59. There are no firm details regarding the level of grant funding beyond 2016/17. The council projects a funding gap of around £16 million over 2017/18 and 2018/19. This is based on a set of assumptions based on experience and previous analysis. It assumes that that grant funding to the council will reduce by 1.6% in cash terms each year.
60. The council is currently developing a new Transformation Strategy 'TS2' during the remainder of 2016/17 to identify how services provided by the council will remain sustainable beyond 2017. This will also map the savings required for the following five year period.
61. While the council has been proactive in its approach to identify savings opportunities, the realisation of these savings will become progressively more challenging year on year. This will be particularly true in terms of further efficiencies from service delivery methods, and it will become more likely that savings will require to be found by reducing payroll costs.
62. It is critical that the new Transformation Strategy currently under development determines how council services will remain sustainable over the next five years and beyond. Funding, population change and service demand will need to be accurately projected in order that appropriate action can take place to achieve the necessary savings. Close consultation with

stakeholders will form an important part of the planning process if the council is to successfully manage and change how services are delivered.

**Action Plan No 1**

**Capital programme 2015/16**

63. 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 decreased by £11.504 million.

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

Capital Programme 2015/16	Approved budget £million	Revised budget £million	Expenditure in year £million	Variance £million %
General	42.261	28.739	18.953	(9.786) 34.05%
Housing	16.063	18.301	18.481	180 0.98%
<b>Total</b>	<b>58.324</b>	<b>47.040</b>	<b>37.434</b>	<b>(9.606)</b> <b>20.04%</b>

Source: East Ayrshire Council Financial Management

- 64. The council has a ‘rolling’ capital programme which allows for changes to allocations and time periods in which work is planned. Programmes may be impacted by changing priorities of the council, consultation with communities, and the availability of contractors and equipment to carry out intended work.
- 65. Our previous year’s audit work in connection with the management of major capital contracts concluded that project management, for projects in progress, is well managed.
- 66. In November 2015, Cabinet agreed that £29.871 million of the general services capital programme scheduled for 2015/16 should be re-phased into future years. This was due to a number of previously approved capital schemes not progressing in line with the original budget profiling for a variety of valid reasons reported in East Ayrshire Performs. This included the following projects and associated capital spend;
  - Bellfield and Kirkstyle primary merger (£9.0 million re-phased into 2016/17)
  - Lugar Recycling Depot (£3.4 million re-phased into 2016/17)
  - Galston Local Office (£2.4 million re-phased into 2016/17)
  - St Sophia’s Primary (£2.3 million re-phased into 2016/17)
- 67. This was partly offset by projects worth approximately £6.8 million which were added to the capital programme. These consisted of elements of projects re-phased from later years into 2015/16 together with externally funded projects where funding

became available during the year. In addition, the council planned to utilise £9.488 million brought forward from the 2014/15 capital programme.

68. Projects where slippage occurred during the year included;
- Hurlford Primary School Refurbishment (£1.152 million)
  - Cumnock Town Centre Redevelopment (£0.857 million)
69. In respect of Hurlford Primary, the project started on site later than intended. This was due to the need for additional design time, after the original project to refurbish dining facilities was broadened to incorporate improvements to a wider range of issues at the site. These include external stone and roof work, which will now be taking place in 2016/17.
70. The Cumnock Town Centre Redevelopment project includes the construction of new retail units, the demolition of the outdated shopping centre and the creation of new retail space in collaboration with a private sector partner. The demolition at the site will now be taking place later in 2016, in order that work can tie in with plans of the development partner.
71. Despite the re-profiling of capital projects during the year, there were a large number of projects included in the revised capital programme where there was little or no expenditure incurred in 2016/17.
72. The phasing of the capital programme is closely linked to the council's treasury management strategy and, hence, the councils

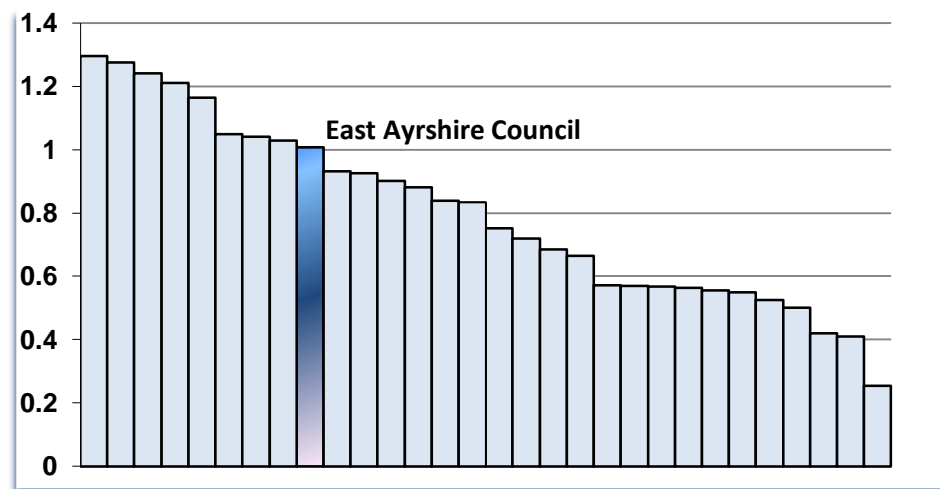
forecast borrowing requirements over predetermined timescales. We are satisfied that the changes to the council's phasing of capital expenditure has been reflected in its forecast borrowing requirements.

73. The Council has an ambitious capital programme over the coming years which include some significant projects. These include Knockroon Learning Campus (£63.5 million), Whattriggs Primary School (£12.4 million) and a five year programme of secondary and primary school refurbishments (£20.0 million).

### Treasury Management

74. At 31 March 2016 long term borrowing (excluding PPP) was £319.311 million, a decrease of £8.577 million on the 2015 borrowing level of £327.888 million. During the same period, short term borrowing increased from £14.634 million to £16.698 million. The overall decrease is due to no long term borrowing being incurred during 2015/16. Gross borrowing of the council at 31 March 2016 is within the authorised limit and operational boundary set by the treasury management strategy.
75. Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 5 shows long term borrowing as at 31 March 2016 as proportion of net revenue stream. This was 101% for the council compared to an average of 87% for Scottish councils.

**Exhibit 5: Scottish councils' long term borrowing as a percentage of net revenue streams plus HRA rents**



Source: Scottish councils' unaudited accounts 2015/16 (excluding Orkney and Shetland Island councils)

- 76. Interest payable and similar charges increased by £1.083 million from £19.612 million in 2014/15 to £20.695 million in 2015/16. This was due to the full year impact of borrowing taken out during 2014/15. The council's average rate of borrowing increased from 4.77% in 2014/15 to 4.81% in 2015/16.
- 77. The council has an ambitious capital programme for the period to 2019/20. The treasury management – borrowing and investment strategy statement for 2016/17 identifies a significant increase in the underlying borrowing requirement between 2016/17 and

2019/20 arising from the planned levels of capital investment as summarised in exhibits 6 and 7.

**Exhibit 6: General Fund Capital Financing**

General Fund Capital	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Capital Expenditure	69.866	77.326	52.598	23.029
<b>Source of Funds</b>				
Capital Grants	(8.887)	(10.670)	(10.670)	(10.670)
<b>Expenditure to be financed by Borrowing</b>	<b>60.979</b>	<b>66.656</b>	<b>41.928</b>	<b>12.359</b>

Source: East Ayrshire Council 2015/16 Treasury management Strategy

- 78. The General Services capital programme has an indicative borrowing requirement of £181.922 million between 2016/17 and 2019/20. The Housing Investment programme, as shown below, identifies required borrowing of £17.257 million.

**Exhibit 7: Housing Investment Programme Capital Financing**

<b>HRA Capital</b>	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Capital Expenditure	24.628	15.653	17.532	17.269
<b>Source of Funds</b>				
Capital Grants	(0.900)	-	-	-
Capital Receipts	(3.683)	(0.413)	(1.062)	(1.121)
CFCR	(12.391)	(11.641)	(11.641)	(11.641)
Reserves/Other)	(0.792)	(1.200)	(0.915)	(0.425)
<b>Expenditure to be financed by borrowing</b>	<b>6.862</b>	<b>2.399</b>	<b>3.914</b>	<b>4.082</b>

*Source: East Ayrshire Council 2015/16 Treasury Management Strategy*

79. The council intends to adopt a strategy of internal borrowing by reducing temporary investment balances and using them to fund capital expenditure in the short term. Given the projected gap identified between the level of Capital Financing Requirement and the current level of external borrowing, the council considers it unlikely that a strategy of internal borrowing will be sustainable in the longer term.

80. 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 £46.744 million over the four years to 2019/20. In 2015/16 £11.546 million housing revenue funding was used to finance capital programme work. This too may not be sustainable over the longer term.
81. The increase in borrowing, together with related increased financing costs and running costs is a risk to the council. This is heightened at a time when future funding is expected to reduce in real terms. 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.

**Pension liability**

82. The net assets on the council's balance sheet have increased from £401.275 million in 2014/15 to £457.737 million in 2015/16, an increase of £56.462 million. One of the principle reasons for this increase is the £69.126 million decrease in the pension liability from £234.616 million to £165.490 million. This is also reflected in the balance sheet for the group.
83. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. At the last triennial valuation, Strathclyde Pension Fund was 94.3% funded and had

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assets of £13.9 billion. The next valuation will take place in 2017 with new contribution rates in place from 1 April 2018. It is expected that new contribution rates will increase convergence between the pension liability and the underlying assets.

## Conclusion on financial sustainability

- 84. The council has an adequate level of reserves, consistently contains its expenditure within annual budgets, and has met its previously determined efficiency targets.
- 85. Rising demand for and costs of services will place a strain on the council's capacity to deliver services at the current levels. The council must ensure that its new Transformation Strategy is developed in time to form the basis for the 2017/18 budget. This will help to ensure that its financial objectives over the next five year period continue to be sustainable in light of increasing demands and costs for services.
- 86. The council has been proactive in redesigning its service delivery such as: the Ayrshire Roads Alliance which aims to achieve £8.634 million of savings over the first 10 years of the Alliance; and the innovative lead partner service model approach to delivering care services for East Ayrshire Health & Social Care Partnership.

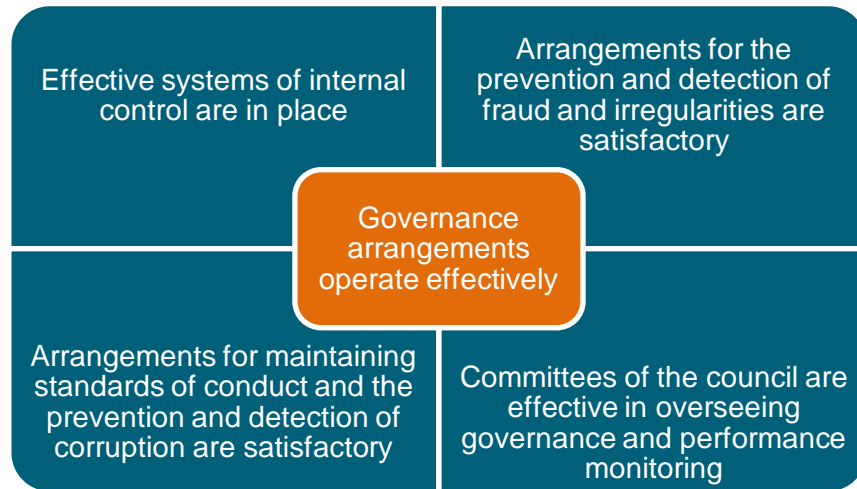
## Outlook

- 87. In common with other Scottish councils, East Ayrshire Council faces increasingly difficult financial challenges in the foreseeable

future. The council anticipates a budget gap of £16 million over the next two years to 2018/19 based on a series of assumptions which are kept under review. The financial challenges are heightened by a lower than anticipated Local Government Finance Settlement from the Scottish Government in 2016/17 and an ambitious capital investment programme for the four years to 2019/20.

- 88. Significant service reform is likely to be required to deliver the savings needed.

# 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. We concluded that the council’s practices are 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 East 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 Framework”. The local code is subject to annual review by the Governance and Scrutiny Committee. This, together with the annual governance statement for 2015/16 and the corporate governance improvement action plan, are published on the council’s website.

## 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 Governance and Scrutiny Committee in June 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. We placed formal reliance on aspects of the work of internal audit for the general ledger system. In respect of our wider governance and performance audit work we also reviewed the findings and considered other

areas of internal audit work. This included: Ayrshire Roads Alliance - parking income and national framework contract for roads and minor works; Health and Social Care Integration - assurance work; Current tenant arrears - robustness of system for the introduction of universal credit; Procurement - capability assessment; and Performance indicators.

## Opencast mining in East Ayrshire

97. The council has continued to keep members informed of restoration work progress, and the on-going finalisation of the Local Development Plan (LDP) and Minerals Local Development Plan (MLDP).
98. The council continues to have the view, based on legal advice, that it has no legal liability to restore any of the legacy open cast mine sites impacted by the liquidation of the two opencast coal operators in 2013. The council also considers, again based on legal advice, that it does not have a legal obligation to address safety issues beyond those contained in the Environmental Protection Act 1990 as the Environmental Health authority in respect of statutory nuisances (e.g. risk to public safety).
99. The council has gradually received bond settlements over the last 18 months. The majority of bonds have now been settled, however, a few had clauses in them meaning that they may not be collected or will require to be settled at a significantly lower level. The council are continuing to pursue these. The council



has developed plans and agreed contracts for restoration work at legacy sites using the bond monies received.

- 100. At 31 March 2016 the creditors balance in the annual accounts includes £11.819 million that is earmarked for further restoration of coal sites. This represents restoration bond monies recovered to date still unspent on legacy sites.
- 101. The council have prioritised the on-going use of this money. Sites have been identified where restoration is most required, and where the best value for money will be obtained from future expenditure.
- 102. The council is continuing steps to recover the remaining bond monies, although it is clear that recovery of further balances may prove difficult.
- 103. There is one ownerless site (Skares) where the presence of a large water filled void and its close proximity to the community has resulted in the council intervening, especially as the site has no owner or occupier to take remedial action themselves. While there is no binding legal obligation, the council has approved a contract for restoration/ remedial work for this site which includes funding of £4 million from the council's capital programme.
- 104. The council remains satisfied that it continues to respond in the most appropriate manner to issues relating to opencast coal mining. Updates on progress regarding coal mining operations and restoration are provided regularly to the Planning Committee and periodically to the Cabinet.

## Arrangements for the prevention and detection of fraud

- 105. The council's arrangements in relation to the prevention and detection of fraud and irregularities are satisfactory.

## National Fraud Initiative in Scotland

- 106. 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.
- 107. In 2014/15 we reported that the council had not engaged in the NFI process to the same level as previously. This was largely due to key officers prioritising alternative areas of work to address wider performance issues while recognising the limited impact of NFI locally.
- 108. The council continues to focus efforts in other areas, such as the performance of its benefits section. This is recognised by Audit Scotland who has recently published an update of the benefits performance at the council, referred to at paragraphs 128-131, and we acknowledge the improvements that have been made by the council in this area over the last couple of years.

109. The council should still, nevertheless, continue to recognise the importance of the NFI process. Since Audit Scotland last reported on the NFI in Scotland in June 2014, outcomes valued at £16.8 million were achieved across Scotland. This represents a significant return to the public finances of Scotland at a time when public finances continue to be under pressure. The council reported outcomes of £0.012 million during this period.
110. In August 2016, the council approved the establishment of a Corporate Anti-Fraud Service, in partnership with and delivered by North Ayrshire Council. This is intended to offer additional opportunities around economies of scale, resilience and professional oversight.
111. This arrangement will mean that an additional two members of staff are employed by North Ayrshire Council conducting a combination of joint assignments across the East and North Ayrshire area, and focussed work on key areas that required to be explored in more detail.
112. With the scope of the audit work yet to be formally agreed, it is intended this will initially focus on fraud relating to council tax, business rates, Scottish Welfare Fund, discretionary housing payments, blue badges and housing tenancies. The fraud team will also be the first point of contact for the NFI, co-ordinating the activities of both councils.

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

113. The arrangements for the prevention and detection of corruption in East Ayrshire Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

## Transparency

114. 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.
115. East 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 their council.
116. The council has previously consulted widely on its 2015 - 30 community plan. The priorities of the community plan will feed into the council's new Transformation Strategy, currently being developed. It is vital that the priorities identified through consultation lead to the right priorities being included in the new strategy, shaping how services can be redesigned and delivered in new ways. This will enable the council to both meet

stakeholder expectations for services offered, while achieving the efficiencies required over the next five years to bridge expected funding gaps.

- 117. Members of the public can 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 SPIs 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 Report.

## Freedom of Information requests

- 120. The council responded to 1,064 freedom of information (FOI) requests during 2015/16, a decrease of 34 from 2014/15. Of these, 86.5% were responded to within the statutory timescales of 20 days. This is in line with the 86.7% achieved in 2014/15.
- 121. The council began developing a new database in 2015/16, intended to help focus on improving response rates across all services. Although this has taken longer than expected to

complete, progress has been made and it is expected to be in place from October 2016 once training has been provided and testing completed.

## Integration of health and social care

- 122. 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.
- 123. The East Ayrshire Integration Joint Board (EAIJB) 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.
- 124. The partnership approved a strategic plan which outlines the partnership's aims, visions and priorities for 2015-2018. The first annual review of the plan re-affirmed the priorities and programmes outlined in the strategy, which is now also supported by service improvement plans in 2016/17. A Strategic Planning Group was established by the partnership. This has been expanded to widen participation of partners and stakeholders who are instrumental in developing the strategic plan.
- 125. The Board spent £203 million on delivering health and social care services in 2015/16 and has effective financial management arrangements in place. Regular budgetary control reports were provided to the Board and to the partner bodies during the year,

with appropriate action being taken when potential overspends or service pressures were identified.

- 126. There was an underspend of £0.458 million in 2015/16 against budget. This consisted of £0.442 million for services provided by East Ayrshire Council; and £0.016 million for services provided by NHS Ayrshire and Arran.
- 127. An annual performance report was approved by the Audit & Performance Committee on 13 September and will be published shortly. 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

- 128. Audit Scotland recently completed its fourth risk assessment on the Council's benefit service. Following our previous risk assessment in 2014 we reported that the council's speed of processing had begun to improve after a sixteen month period of decline. This decline was a result of extensive change, which included amongst other factors, welfare reform and the migration to a new IT system against a backdrop of long-standing staff vacancies.
- 129. The council has sustained these improvements. Four additional permanent posts have been funded by the council and the

service is currently recruiting vacant posts. The resourcing of a Universal Credit (UC) team to support the roll out across East Ayrshire from February 2016 has helped minimise any disruption to core benefits processing.

- 130. New claims performance has been above the Scottish average since 2014/15 and the service has also reintroduced pro-active intervention activity. This helped to identify and correct 2,752 cases during 2015/16 where the amount of benefit was incorrect.
- 131. During the previous risk assessment in June 2014, 15 risks to continuous improvement were identified. The current risk assessment found that 14 risks have been addressed in full, and more work is to be done in the area of targeting accuracy checking on higher risk cases.

## 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 East Ayrshire Council on 24 March 2016. No scrutiny risks were identified requiring 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. Good governance will be

particularly important where council resources and service delivery are devolved to third party organisations.

134. Partnership, joint working and arm's length organisations have become increasingly popular vehicles for planning and delivering council services and there is a sustained national focus on their use. Where council services are being delivered by third party organisations it will be crucial that the council ensures robust assurance and governance arrangements are in place to deliver best value while at the same time ensuring an appropriate level of accountability for public money. Community planning and ongoing health and social care integration will require to continue to focus on governance and assurance to ensure that the council's priorities are being achieved.

135. 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



136. 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

137. The arrangements for ensuring best value are co-ordinated by the Policy, Planning and Performance Division. Within this framework, all services carry out regular self evaluation reviews using self assessment tools appropriate to each service. The division co-ordinates and participates in the identification and

conduct of best value service reviews across all council departments. The service reviews are an integral part of the redesign of council services in recent years.

138. Service Plans have been replaced with new 'service improvement plans' covering the period 2016-18. This is a move by the council to implement 3 year cycle of service plans, in line with community plan reviews, which have a greater focus on the longer term, and a specific focus on development. Through this process, services routinely consider how their workforce and service provision best fits and meets stakeholder requirements.
139. The Service Improvement plans are also aligned with the new workforce structure, which in turn aligns with the management structure of the council, which was reviewed and re-aligned in March 2015.
140. The councils Transformation Strategy covers the assets, workforce, finance and processes needed to deliver efficient, effective services to residents. Progress against the Transformation Strategy priorities and objectives is regularly reviewed using the councils Electronic Performance Management System (EPMS).
141. A new Transformation Strategy is being developed in conjunction with the service improvements plans. This must continue to ensure that efficiency savings are met while services meet the needs of users within their available resources.
142. In order to secure continuous improvement, the council has put in place a three year programme of best value service reviews from 2015-2018 designed to take account of the new council management structure introduced in April 2015. These, alongside the council-wide Strategic Self-assessment of Performance, and a programme of European Foundation for Quality Management (EFQM) assessments, are all intended to ensure that the Council continues to meet its statutory duties in relation to Best Value, and that it is systematically identifying and responding to emerging risks and challenges.
143. Best value service reviews scheduled in 2015/16 were as follows:
- Policy, Planning and Performance Division and Communications.
  - Facilities and Property Management.
  - Transport Services Unit.
  - Adaptations.
  - Primary Care and Out of Hours Service.
  - Children's Health, Care and Justice.
144. Upon conclusion, the findings of the best value service reviews are reported to Cabinet, together with either agreed recommendations or an action plan for improvements. It is intended that these are incorporated into future service improvement plans.

## Fourth Strategic Self - Assessment

145. The council concluded its fourth Strategic Self-Assessment in 2015/16. This provides a corporate overview of the council's performance. It assessed and scored the council's arrangements against ten Best Value criteria, and used the input of a 'critical friend' to assist the Management Team in challenging high level performance, and developing appropriate improvement actions to address any gaps identified in existing arrangements.
146. The outcomes from the review were presented to Cabinet in June 2016. This concluded that the Council *"has a strong grasp of long-term planning and has sought to engage with partners in this process. Furthermore, there has been a largely successful endeavour to link longer-term strategic objectives to immediate practical actions. What emerges is a clear overall framework that directly influences what the Council actually does. This is a substantial achievement that we are pleased to recognise."*
147. Three areas were identified where the impact of actions could be improved These are;
- **Impact** - The presentation of the Strategic Self-Assessment does not lend itself to highlighting the outcomes achieved, as a result of the action that has been taken.
  - **Partnership Working** - The Transformation Strategy 2012 – 2017 is focused on the financial sustainability of the Council and accordingly does not give the sense that partnership working might assist in tackling issues.

- **Priorities** - The Council has different sets of priorities set out within its Community Plan, Single Outcome Agreement and Transformation Strategy and whilst there are similarities, there is a need for closer alignment or at least, an explanation of the links.
148. The points raised have been accepted by the Executive Management Team, and consideration has been given to each of these issues in the development of the High Level Improvement Plan. A number of high level actions have been identified and are contained within the plan.
149. In addition, there are a number of specific issues relating to Community Plan themes, which have not been included in the high level plan, which the council will require to consider.
150. The findings of the Strategic Self-Assessment provide the council's management with a solid platform to build upon as it develops its new Transformation Strategy.

## Procurement

151. 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.
152. The council has a Corporate Procurement Strategy covering the period 2014-19. The strategy has been developed in line with the Council's Community Plan, and identifies the outcomes that the

council aim to achieve. The strategy advocates the positive role that robust procurement activity has in allowing the Council to continue to deliver effective and efficient services.

153. The structure of the Strategy and its associated action plan is currently aligned with the Scottish Government's PCA, which has now been superseded by the Procurement and Commercial Improvement Programme (PCIP). The assessment of Local Authority bodies now takes place every 2 years, with the council next being assessed against the regime in September 2016. The outcomes of this assessment will form the basis for the revision of the council's strategy and action plan.

## Shared services

154. The Ayrshire Roads Alliance (ARA) was established in April 2014 as a shared service partnership between East Ayrshire Council and South Ayrshire Council. The aim is to achieve £8.634 million of savings over the first 10 years of the Alliance, through an agreed Benefits Realisation Strategy and Plan.
155. During 2015/16, the alliance overspent against its budget by £0.322 million. To date in total, the alliance has realised budget reductions of £1.360 million by delivering services in collaboration with South Ayrshire Council.
156. The ARA Joint Board will need to ensure it closely monitors both financial expenditure and service delivery over the coming years to ensure the expected savings are delivered as intended.

## Following the public pound

157. All payments to arms length external organisations (ALEOS) and larger scale voluntary organisations require to be authorised and subsequent progress monitored by the Single Grants Committee. Since 2014, all significant projects have been funded through this committee. The significance of a project is based on the impact on the local community rather than financial terms.
158. Each funded project is required to have an annual 'health check' which is presented to the Single Grants Committee for approval. This includes an evaluation of whether any service level agreement in place for the project has been achieved. Quarterly exception reports are also provided on the 'member's portal', which show any variance to the funding that was originally agreed.
159. If the project being funded is in pursuance of a service plan objective of council, performance is reviewed as part of the Annual Public Performance Review. Any action plans resulting from this require to be included in the service plan review which is carried out each year.

## Performance management

160. East Ayrshire Council gathers comprehensive performance information in order to monitor and improve services. The East Ayrshire Community Plan 2015-30 is supported by three delivery plans which have a three year lifespan. Each delivery plan has



set outcomes and priorities that are linked to the Single Outcome Agreement.

- 161.** Individual services use service plans and performance indicators to assess whether targets are being met. These targets are both national, for example set by the Scottish Government, and local targets set by the council in relation to local communities and needs. Performance reporting for 2015/16 is based on local indicators (SPI indicators 1 and 2) and Local Government Benchmarking Framework (LGBF) indicators (SPI 3).
- 162.** All of the information generated by the LGBF is presented online and is summarised for members. The results for 2014/15 were published by the Improvement Service on 29 January 2016. The sources used to populate the performance measures include performance and statistical returns to the Scottish Government, Scottish Qualifications Authority, the Scottish Housing Regulator and SEPA, among others.
- 163.** The LGBF is subject to revision and the number of benchmarking indicators increased from 55 in 2013/14 to 56 indicators in 2014/15. Of the 56 indicators published, 49 indicators were reported for the 2014/15 reporting year. 55% of the 49 performance measures appeared in the top two quartiles in 2014/15, compared to 61% in 2013/14 and 52% in 2012/13. Improvement actions are reported for all indicators in the bottom quartile.
- 164.** Regular performance reports are provided to the Governance and Scrutiny Committee and Cabinet which cover financial

performance, efficiency measures, treasury indicators, progress of the capital programme, absence management, complaints, health and safety and risk management. These reports appropriately cover performance against strategic priorities and objectives.

- 165.** Additionally, the council's Electronic Performance Management System (EPMS) monitors performance indicators across a four-weekly, monthly, quarterly or yearly basis providing detailed information to be used by service departments.
- 166.** We are satisfied that appropriate arrangements were in place within East Ayrshire Council for 2015/16, and that this information is used to focus attention on key areas with a view to continuous performance improvement.

## 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. We have reviewed the council's arrangements for collecting recording and publishing data in 2015/16 and concluded that they are adequate. Some of our key assurances include:
- The council uses Corvu to capture performance information throughout the year.
  - A timetable is in place and has been communicated to relevant staff.
  - We checked a small sample of indicators.
  - The council's internal audit section provides independent assurance on arrangements for reporting performance information.
  - An annual performance report is planned for publication in the autumn.

## Local performance audit work

170. In November 2013 Audit Scotland published a report entitled *Scotland's public sector workforce*. The aim of the report was to assess if public bodies, including councils, are managing their workforces effectively.
171. Audit Scotland asked external auditors across the public sector to undertake follow-up audit work on the 2013 report. A standard

questionnaire based on the report's findings was issued to external auditors to complete.

172. Since April 2015 the council's management and staffing structures have been reorganised to align with council priorities and objectives under the new Community Plan. This brings together the corporate objectives under three main service headings of Economy and Skills, Safer Communities, and Wellbeing.
173. Our follow-up audit highlighted that the council has incorporated organisational development practice into its workforce planning. This includes a 'development needs analysis', derived from a wide range of sources including Best Value Service Reviews, Investors in People health checks and European Foundation for Quality Management (EFQM) review meetings.
174. Each of the council's services have service plans, which are designed to align to the overall objectives of the council. These were replaced with 'service improvement plans' from 2016, covering the period to 2018. Alongside these, workforce arrangements will be reviewed in three yearly cycles (alongside key priorities from the Transformation Strategy/Community Plan). This all forms part of the Councils 'continuous improvement' agenda.
175. The Organisational Development Strategy underpins the council wide objectives the services need to achieve, ensuring that services know the 'direction of travel' of the council to which they can then align. This includes an action plan, which is reviewed

and revised regularly with the aim of ensuring that the council continues to have a workforce that is fit for purpose going forward.

176. To ensure people development remains in line with future service redesign, the council is currently developing a new 'People Strategy' which will be linked to the new transformation strategy (TS2), and exiting organisational development strategy. The People Strategy will be designed to cover the whole of the workforce planning agenda and will also cover supporting, retaining, and developing staff. A consultation is currently underway for this.

## National performance audit reports

177. 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](#). East Ayrshire Council East Ayrshire Council has processes in place to ensure that all national reports and their impact on the council are considered by Members.

## Outlook

178. 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 sound performance framework in place

to help it do this. The implementation of findings from the fourth strategic self assessment review, together with the development of the new transformation strategy 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>Financial statement issues and risks</b>		
<p><b>Significant income streams</b></p> <p>East Ayrshire Council receives a significant amount of income in addition to Scottish Government funding.</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>• Audit testing of accounts receivables system was carried out in addition to relying on the results of previous years work done in this account area.</li> <li>• Detailed testing of revenue transactions was carried out across each service area.</li> <li>• We tested a sample of significant grants received.</li> <li>• Focused testing of the non domestic rates and council tax income account was completed.</li> </ul>	<ul style="list-style-type: none"> <li>• Controls testing of Accounts Receivables found no weaknesses in council systems.</li> <li>• No significant errors were identified through detailed testing of revenue transactions across each service area.</li> <li>• Testing of significant Grants proved satisfactory.</li> <li>• No significant issues were identified through focused testing of the Council Tax Income Account.</li> </ul> <p>Our conclusion is that income streams are free from material misstatement</p>
<p><b>Management override of controls</b></p> <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</p>	<ul style="list-style-type: none"> <li>• A sample of Journal entries was tested.</li> <li>• Accounting estimates were reviewed for bias.</li> <li>• Any significant transactions deemed to be outside the normal course of business were</li> </ul>	<ul style="list-style-type: none"> <li>• No unusual or inappropriate transactions were identified as part of detailed testing of journal entries.</li> <li>• A review of accounting estimates did not show any instance of bias.</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<p>overriding controls that otherwise appear to be operating effectively.</p>	<p>evaluated.</p> <ul style="list-style-type: none"> <li>• Focussed testing of the regularity and cut-off assertions was completed during the financial statements audit.</li> </ul>	<ul style="list-style-type: none"> <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>Our conclusion is that there is no management override of controls at the council.</p>
<p><b>Equal pay provision</b></p> <p>The potential liability resulting from equal pay claims remains uncertain and is subject to the outcome of several national test legal cases.</p> <p><b>Risk:</b> There is a risk that the ultimate cost to the council is significantly different from that provided in the financial statements.</p>	<ul style="list-style-type: none"> <li>• We have continued to monitor developments throughout the year and reviewed the equal pay provision as part of the 2015/16 financial statements audit process.</li> </ul>	<ul style="list-style-type: none"> <li>• Working papers in support of the year end equal pay provision were provided.</li> </ul>
<p><b>Group Accounts – consolidation of Integration Joint Board</b></p> <p>2015/16 is the first year of full operation for the East Ayrshire Integration Joint Board (IJB), which will be included in the council’s group accounts.</p> <p><b>Risk:</b> There is a risk that:</p>	<ul style="list-style-type: none"> <li>• Verified the balances recorded in the council ledger pertaining to health and social care services.</li> <li>• Sample tested income and expenditure relating to health and social care.</li> <li>• Confirmed balances between the council and NHS Ayrshire and Arran were agreed.</li> <li>• Ensured any overspends or underspends</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>

Audit Risk	Assurance procedure	Results and conclusions
<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>	<p>were accounted for in accordance with the integration scheme.</p>	<ul style="list-style-type: none"> <li>• The treatment of year end underspends were audited with an adjustment being made to the surplus to be retained by the IJB.</li> </ul> <p>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.</p>
<p><b>Wider dimension issues and risks</b></p>		
<p><b>Opencast coal sites</b></p> <p>Bond monies are now being received as a result of settlements made in relation to individual sites.</p> <p><b>Risk:</b> Income received and the costs incurred at relevant sites are not appropriately accounted for within the financial statements.</p>	<ul style="list-style-type: none"> <li>• Work was carried out during the financial statements audit to verify the treatment of the bond monies received and any expenditure at related sites.</li> <li>• Income received not spent has been verified to ensure it is appropriately reflected in the financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>• Treatment of bond monies received and related expenditure was verified as being correctly accounted for within the council ledger.</li> <li>• Income received but not spent was appropriately reflected within the financial statements.</li> </ul> <p>Our conclusion is that income received and costs incurred were appropriately accounted for within the financial statements.</p>
<p><b>Economic environment</b></p>	<ul style="list-style-type: none"> <li>• Reviewed the process for setting the</li> </ul>	<ul style="list-style-type: none"> <li>• The 2016/17 budget was set in the</li> </ul>

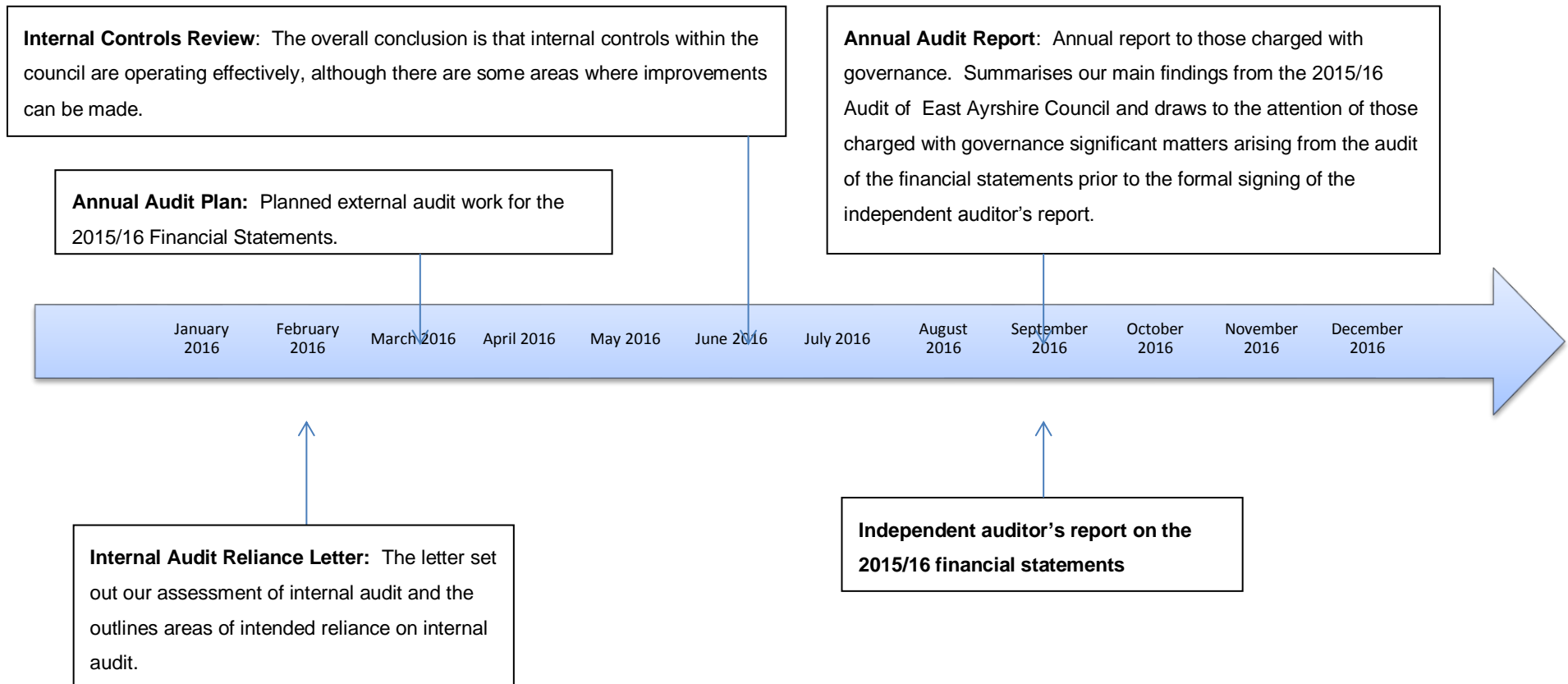
Audit Risk	Assurance procedure	Results and conclusions
<p>Councils are facing significant financial pressures with reductions in funding and the need to reconfigure services, increasing unavoidable costs, increasing demand for services and the uncertainty around the newly created IJBs. Good financial 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 sustainable savings measures or meet cost pressures as they arise.</p>	<p>2016/17 budget.</p> <ul style="list-style-type: none"> <li>• Monitored progress with the new transformation strategy, including the identification of funding gaps and how the council intends to address them.</li> <li>• Reviewed the council's budget monitoring reports to cabinet, including those for the IJB.</li> <li>• Compared the forecast outturn during the year with actual reported in the annual accounts and obtained reasons for any material variances.</li> <li>• Monitored the council's progress in the areas of transformational change, welfare reform, and workforce management.</li> </ul>	<p>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.</p> <ul style="list-style-type: none"> <li>• The council's new Transformation Strategy is currently in development. This will need to be finalised as soon as possible to ensure steps can be taken to address the proposed budget gap over the next 5 year period.</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 outturn figures forecast within reports, to the actual outturn reported in the annual accounts.</li> <li>• The review of the councils organisational development strategy and workforce plan show the council is using best practice in its approach. The council is aligning its objectives across services to ensure the desired direction of travel for the council</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
		<p>as a whole.</p> <p>Our conclusion is that the council is able to identify sustainable savings measures in order to meet future cost pressures.</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>Audit Scotland published a report on Scotland's Public Sector Workforce in November 2013. We carried out local follow up work during the year, based on the recommendations in the 2013 report.</li> </ul>	<ul style="list-style-type: none"> <li>Our follow up of Scotland's Public Sector Workforce found that the council aims to ensure a strategic link from its workforce development back to service plans, the Community Plan and Single Outcome Agreement. This sets the context for service improvement and planning the needs of services in the future. The council has an aim of ensuring that the workforce is fit for purpose going forward.</li> </ul> <p>Our conclusion is that the council is well placed to ensure that its workforce has the skills in place to deliver the required change programme over the coming years.</p>
<p><b>Integration Joint Board</b></p> <p>Regular budget monitoring and secure sharing of information is required to ensure the IJB</p>	<ul style="list-style-type: none"> <li>We reviewed the council's arrangements to ensure its share of IJB services are delivered on budget.</li> </ul>	<ul style="list-style-type: none"> <li>The IJBs budget monitoring provides sufficient detail for members to scrutinise budgets and expenditure. The reports</li> </ul>

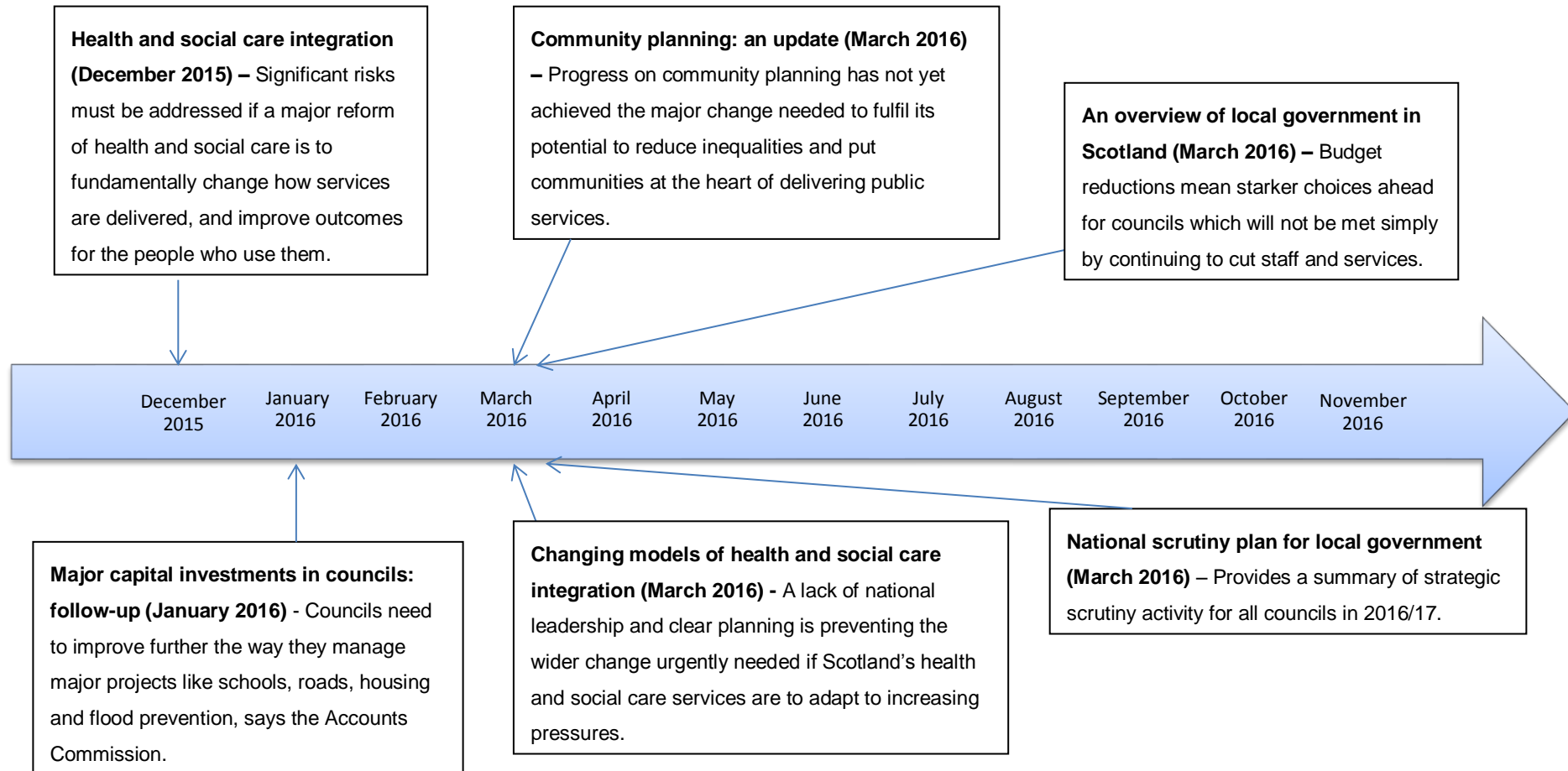


Audit Risk	Assurance procedure	Results and conclusions
<p>operates effectively. Any overspends by the IJB will directly impact the council's budget.</p> <p><b>Risk:</b> Given the needs led nature of health and social care services, there is a risk of overspends if scrutiny of partnership budgets is not effective. Any breaches in data security could result in reputational loss for the council.</p>	<ul style="list-style-type: none"> <li>• Monitored the arrangements in place for data sharing and accessing council systems.</li> <li>• Monitored progress of the project to deliver an integrated network solution.</li> </ul>	<p>allow for early identification of areas of service pressure, and for appropriate remedial action to be taken to ensure services are delivered within budget.</p> <ul style="list-style-type: none"> <li>• There are clear protocols in place for sharing the data required to provide a joined up service for consumers across East Ayrshire.</li> <li>• Progress is being made to deliver an integrated network, and the council is helping to ensure that this meets the needs of service delivery.</li> </ul> <p>Our conclusion is that the budget process at the IJB is well controlled, with appropriate management action being taken when necessary to control areas of potential overspend. Established data sharing protocols ensure that the risk of a data breach is being kept to a minimum.</p>

# Appendix II: Summary of East 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. MKI ref 70439	62	<p><b>Financial Planning and Transformation Programme</b></p> <p>The five year period covered by the existing transformation programme ends on 31 March 2017. A new transformation programme for the following five year period is in the early stages of development. A funding gap of £16 million is forecast for 2017/18 and 2018/19; and £5 million of the 2016/17 funding gap is being financed by reserves. The achievement of savings to meet these gaps will become progressively more challenging to achieve.</p> <p><b>Recommendation</b></p> <p>The council should ensure that its new transformation programme (currently under development) is in place in 2017; and that it identifies the options for achieving sustainable savings over the period of the programme.</p>	<p>Development of options for TS2 has commenced and will continue to be progressed over the coming months. This will be presented to the new Council following the elections in May 2017.</p> <p>It is anticipated that TS2 will set out a number of key workstreams and activities designed to further transform the way in which services are delivered in East Ayrshire, and ensure financial sustainability over the longer term.</p> <p>Early discussions have taken place at a CPP level to identify partnership opportunities to deliver transformational change.</p>	DCE/CFO June 2017