



# South Ayrshire Council

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

September 2016

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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General.

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

This report has been prepared for the use of South 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 nine charitable trusts administered by the council.

## Financial management and sustainability

- The council's financial management arrangements are sound although continuing attention needs to be paid to budget setting and monitoring.
- General service budget surplus totalled £7.153 million.
- Housing revenue account budget surplus was £1.806 million.
- The council has improved delivery of the capital programmes.
- The council needs to prepare a medium term financial plan.
- The council's financial position is sustainable currently and in the foreseeable future although rising demand, increasing costs of services and reductions to central funding will continue to place a strain on the council's capacity to deliver services at the current levels.

## Governance and transparency

- The council has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making and scrutiny.
- Appropriate systems of internal control are in place.
- The council operates in an open and transparent manner.
- The council needs to reconsider its internal audit arrangements.

### Best Value

- The Accounts Commission welcomed the “considerable further progress” made by the council, and highlighted that “a strong culture of improvement is in place”.
- The council has been assessed as being in the top performing band in the Scottish Government’s annual procurement assessment.

### Outlook

- The council will continue to operate in a funding environment which is subject to sustained pressure to deliver more, while facing increasing cost pressures and static or decreasing real terms funding.
- One of the challenges for the council is the short term financial planning cycle of the Scottish Government and the resulting difficulty in preparing long term funding strategies to address its priorities.

# Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of South Ayrshire Council. The report is divided into sections which reflect our public sector audit model.
2. The management of the 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 South 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 its 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 improvement where appropriate.
6. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the council understands its risks and has arrangements in place to manage these risks. The council and management team should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

# Audit of the 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 unaware of any events or conditions that may cast significant doubt on the council's and its group's ability to continue as a going concern.</li></ul>
<b>Other information</b>	<ul style="list-style-type: none"><li>• We review and, where necessary, 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 South Ayrshire Council and issued an unqualified independent auditor's report for each of the relevant trusts. The council's charitable trusts were subject to a scheme of amalgamation on 1 April 2016. Eight trusts have now been wound up and their assets transferred to a single registered charitable trust.</li></ul>
<b>Group accounts</b>	<ul style="list-style-type: none"><li>• South Ayrshire Council has accounted for the financial results of two subsidiaries and three associates 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 £29.536 million.</li></ul>
<b>Whole of government accounts</b>	<ul style="list-style-type: none"><li>• The council submitted a consolidation pack for audit by the deadline date. This has been audited and the certified return submitted to the NAO.</li></ul>

## Submission of financial statements for audit

9. We received the unaudited annual accounts on 27 June 2016. The presentation of the annual accounts was significantly redesigned for 2015/16. The use of colour, graphics and new fonts makes the publication more user friendly and is, in our view, a significant enhancement over previous years.
10. The working papers provided in support of the unaudited annual accounts were, in keeping with previous years, of a high standard and council staff provided good support to the audit team which contributed to the completion of the audit to deadline.
11. In 2015/16, for the first time, local government group accounts are required to include the financial results of Integration Joint Boards (IJBs). The South Ayrshire IJB was established and became operational on 1 April 2015. The results for the South Ayrshire IJB have been consolidated into the group accounts as a joint venture.

## 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 and Governance Panel in April 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 or any work additional to

our planned audit activity. The 2015/16 agreed fee, set out in the Annual Audit Plan is 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 activity. 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 annual accounts 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 perceptions and 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 South Ayrshire Council we set our planning materiality for 2015/16 at £3.862 million (1% of gross expenditure). We report all misstatements greater than £0.100 million. Performance materiality was calculated at £1.931 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 we revised our materiality level to £4.441 million and performance materiality to £2.220 million.
20. Following completion of audit testing we reviewed our materiality levels and concluded that our amended calculation (paragraph 19) remained appropriate.

## Evaluation of misstatements

21. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements.
22. A number of presentational and monetary adjustments 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. The effect of these adjustments was to decrease net assets by £1.287 million.

## ISA 260 report of significant findings

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

**Table 1: Significant findings from the audit****ISA 260 report of significant findings****Valuation of non-current assets - revaluation programme**

The council operates a programme for the revaluation of property, plant and equipment which ensures all such assets are revalued at least every five years. In 2015/16 the council revalued assets classified as “other land and buildings” (OLB) and a number of “schools PPP assets”. Given that OLB and schools PPP assets account for 46% of the council’s asset base, these revaluations resulted in significant movements in both the Balance Sheet and the Comprehensive Income and Expenditure Statement, particularly within the Education service. We obtained assurance over the accuracy of the revaluations through reviewing the council’s valuation arrangements, sample testing a number of valuations and review of the accounting entries. We are satisfied that the revaluations have been done and are accounted for in accordance recognised accounting practice.

**Valuation of non-current assets - transposition error in recording revaluation of asset**

Audit testing identified an error where the revaluation of an asset was incorrectly applied to the wrong asset in the asset register. This resulted in the valuation of one asset incorrectly being increased from £1 to £1.373 million instead being applied to an asset which was already included in the asset register at £1.396m. The values of both assets were therefore overstated in the unaudited financial statements and there was a corresponding impact on the revaluation reserve. We undertook additional sample testing to gain assurance that there were no further errors of asset valuations. We are satisfied that this was a one-off error and that the council has taken the necessary steps to rectify the error in the audited financial statements.

**Housing Revenue Account – refund of property maintenance surpluses**

In 2015/16 the General Fund transferred £0.251 million to the Housing Revenue Account (HRA) in respect of the property maintenance accumulated surplus from 2013/14 and 2014/15. A further £0.596 million was transferred back to the HRA for the 2015/16 surplus. We reviewed the basis of the allocations. We are satisfied that the allocations are appropriate, the correct accounting treatment has been applied

## ISA 260 report of significant findings

and that the council is taking appropriate steps to ensure that charging mechanisms are soundly based, thus reducing the risk of unplanned surpluses being generated.

### **Presentation of social care expenditure in the Comprehensive Income and Expenditure Statement**

The South Ayrshire Integrated Joint Board went live on 1 April 2015 when it assumed responsibility for the delivery of health and social care services for the people of South Ayrshire. 2015/16 is therefore the first year of accounting under the new arrangements. We reviewed the accounting treatment and found that it was as required by the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) guidance. The effect of the LASAAC guidance is to include social work expenditure twice in the Comprehensive Income and Expenditure Account. The contribution to the Integration Joint Board and the same amount for the cost of commissioning services are included as expenditure, offset by recognising a similar amount of income as the value of the service received.

### **Employee related claims**

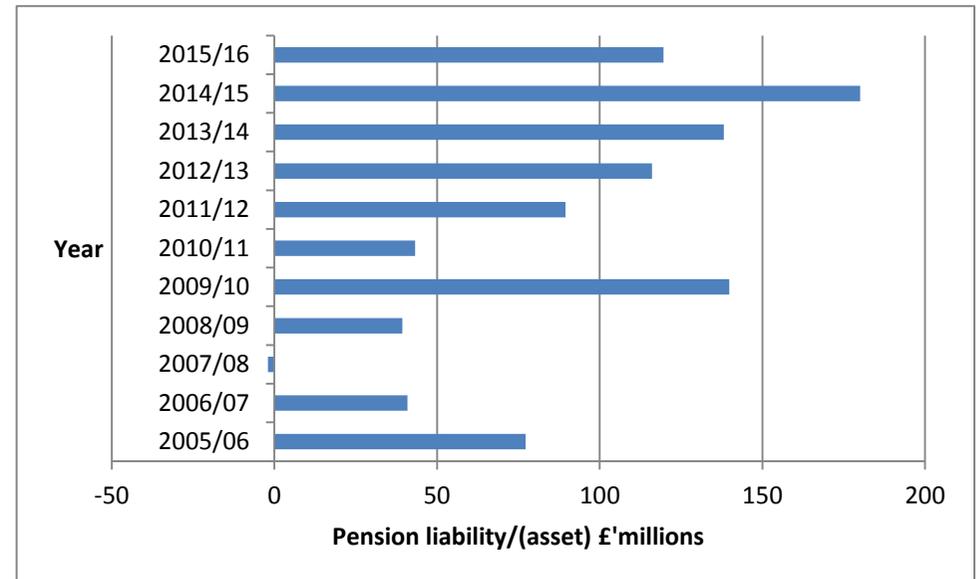
In previous years, we commented that the council had made a provision to meet the costs arising from equal pay compensation claims. We sought assurances that management would review the level of provision in 2015/16 to ensure it reflected the most recent legal developments on such claims. We reviewed the employee related claims provision in 2015/16 and found that the council has undertaken a thorough review which resulted in £1.403 million being returned to reserves. We are satisfied that the 2015/16 provision is based on a comprehensive suite of data. The council should however continue to review the position year on year.

## Pension liability

25. Members have previously expressed an interest in the pension liability in the council's financial statements. This section is included for information to members as we consider that the large movement requires explanation and comment.
26. As at 31 March 2016 the council's pension liability stood at £119.667 million compared to £180.080 million as at 31 March 2015. This is also reflected in the balance sheet for the group.
27. The pension liability represents the difference between expected future payments to pensioners and the underlying value of pension fund assets available to meet this cost. Exhibit 1 sets out the historic movement of the council's pension liability.
28. South Ayrshire Council is a member of Strathclyde Pension Fund, one of the largest in the UK. The valuation of pension fund assets and liabilities is assessed by professional actuaries each year and is dependent on a number of external variables, including projected rates of return on assets, interest rates and mortality estimates. As required by international accounting standards the council recognised its share of the net liabilities of the pension fund on the balance sheet.
29. Hymans Robertson LLP, the pension fund actuary, has indicated that the variable which had the greatest impact on the calculation of the 31 March 2016 liability was the increase in the discount rate applied to investments. The discount rate is the rate which is used to estimate future returns on pension fund investments. Thus the

expectation of greater future returns on pension fund investments has reduced the overall liability.

**Exhibit 1: South Ayrshire Council movement in pension liability**



Source: South Ayrshire Council annual accounts 2005/06 - 2015/16

30. In year payments made to the pension fund by the council comprise employer and employee contributions. At the last triennial valuation (31st March 2014) the Strathclyde Pension Fund was 94.3% funded and had assets of £15.8 billion. The pension fund has a 12 year funding strategy in place to address the deficit.

## Future accounting and auditing developments

### Highways network assets

31. The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 requires the adoption of a new measurement methodology for the valuation of the highways network assets. We comment on the council's preparedness in the next section of this report.

### Rotation of auditors

32. The Accounts Commission is responsible for the appointment of external auditors to Scottish local government bodies. External auditors are appointed, for a five year term, either from Audit Scotland's Audit Services Group or private firms of accountants. The financial year 2015/16 is the last year of the current audit appointment and we would like to thank members, executive officers group and staff for their assistance during the last five years.
33. A competitive procurement process was completed in March 2016. Deloitte LLP has been appointed auditor of South Ayrshire Council and its associated entities for the five year period commencing 2016/17. We will extend the necessary assistance and cooperation to the incoming auditor to minimise disruption to the council.

### Code of Audit Practice

34. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2016. It replaces the Code

issued in May 2011. It outlines the objectives and principles to be followed by auditors. It is part of the overall framework for the conduct of public audit in Scotland and is concerned with helping auditors make a difference, figure 1.

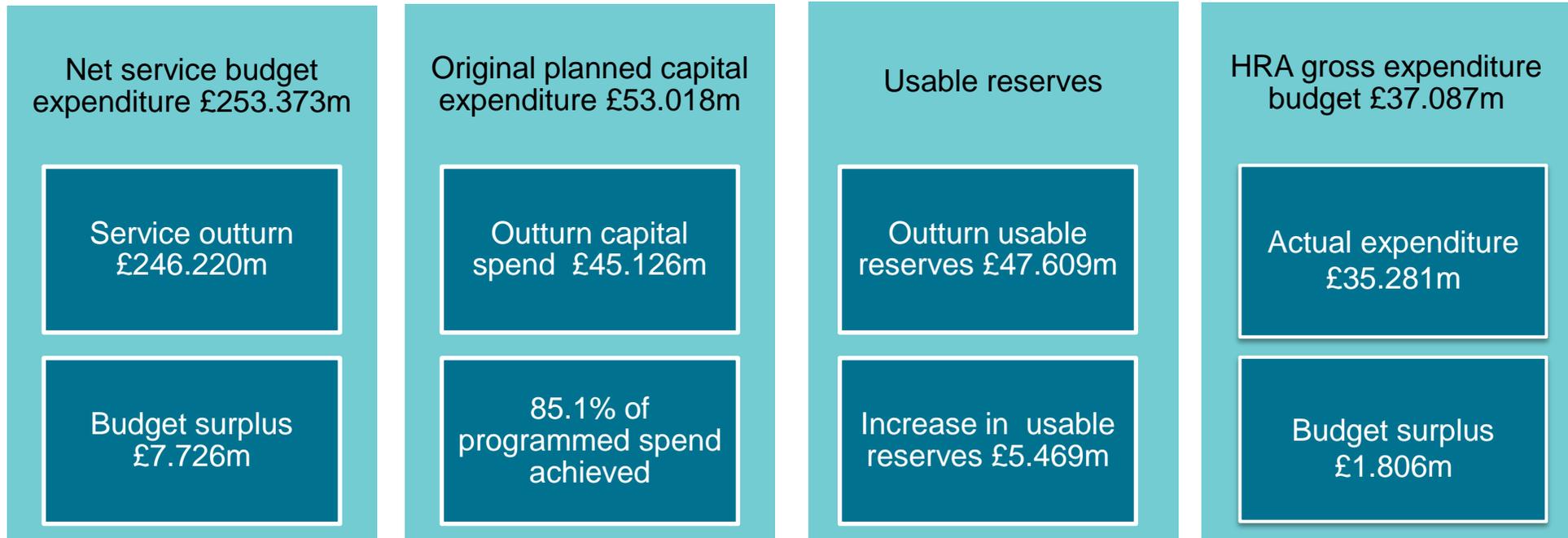
Figure 1: Making a difference



Source: Audit Scotland's Code of Audit Practice

35. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. Presently only annual audit reports are published on Audit Scotland's website. In future, for all audited bodies, Audit Scotland will publish all annual audit plans and other significant audit outputs. As South Ayrshire Council makes all external audit reports public as a matter of course this will have no impact on the council.

# Financial management and sustainability



## Financial management

36. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.
37. 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 – General Services

38. Overall the council reported an underspend against budget of £7.153 million and income in excess of budget of £0.573 million resulting in a budget surplus of £7.726 million.

39. The South Ayrshire Integration Joint Board (IJB), from 1 April 2015, oversees the provision of social care services within the council's area. The council allocates an annual resource budget to the IJB to finance social care services. IJB did not use the full budget allocation (£70.652 million) for 2015/16. The council's underspend for the year includes £0.583 million in respect of the IJB underspend. The council have ring fenced £0.416 million of this amount for use by the IJB in future years.
40. Underspends were recorded across most services, the most significant of which, at £2.549 million (2% of budget), was in Education Services. A number of variances contributed to the total underspend the largest of which were payroll savings (£1.738 million) and energy costs (£0.559 million).
41. On the face of it the results for 2015/16 continue the trend of recent years' budget surpluses, exhibit 2. We carried out a detailed analysis of the cost breakdown. The most significant underspend across the council was payroll costs of some £2.5 million. The decrease in energy costs also contributed a significant amount to the underspend. Debt management charges were £0.564 million under budget.
42. The residual underspend is made up of a large number of variances from budget none of which are of great significance of themselves.

### Exhibit 2: Budget surpluses

<i>Financial Year</i>	<i>£ million</i>
2012/13	8.392
2013/14	7.642
2014/15	8.978
2015/16	7.726

*Source: South Ayrshire Council annual audit reports*

43. The outturn of the general services budget for the year is clearly indicative of strong financial control over budgets. However, given the continuing tendency to undershoot budgets the council needs to be alert to the possibility of services being compromised, especially as savings on staff costs generate a substantial proportion of the budget underspend. We have noted in previous years that there were a number of persistent pockets of underspending or overspending against budget lines. This is much less evident for 2015/16.

### Financial outcomes – Housing Revenue Account (HRA)

44. 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.
45. The original HRA budget was set in December 2014 based on a fixed rent increase of 2% for the year. Overall the council reported

an underspend against budget of £1.583 million and income in excess of budget of £0.223 million resulting in a budget surplus of £1.806 million.

46. Following a number of years of persistent underspending across all budget lines a member/officer group carried out a review of the HRA budget and reported to the council in December 2015. The council agreed to an annual review as part of the Housing and Facilities Service and Improvement Plan (SIP). This annual review is part of the How Good is Our Council self-evaluation process and continuous improvement programme.
47. Although the outturn of the HRA is again a substantial underspend there are signs that budget and actual spend are converging. This is particularly evident in the employee cost and property cost lines. This is indicative of improving management of resources and service delivery. An example of this is that spend on property maintenance is now very close to budget. We have directed strong criticism of performance in this area in previous reports. Achieving planned maintenance spend in turn has improved the turnaround of void houses being available to re-let.
48. We recognise that the new process is in the early stages and that more work is needed on some expenditure lines. One area where there remains room for greater progress is that of capital spend. Where the housing capital programme is not being delivered on schedule this has a knock on effect on all elements of financing costs, including principle, interest and capital from current revenue. The underspend on financing costs for the year was £0.933 million.

Later in this report we comment favourably on the council's significantly improved performance in the delivery of its capital programme. We expect that this will impact on capital financing spend over the next few years.

## Financial management arrangements

49. 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.
50. 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.
51. 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.

52. 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.
53. Following the preparation of annual accounts the Head of Finance and ICT led the annual review of underspends to determine whether they were recurring or 'one-off' and consequently whether they could be removed from future budgets. Whilst the analysis undertaken identified a number of recurring savings, it was reported that the majority had already been anticipated as part of previously approved savings and were not available to be removed as part of the outturn review exercise. There were however a small number of recurring savings totalling £0.790 million which were identified as being additional savings available to the council.
54. The purpose of budget monitoring reports is to provide information to members to allow them to hold services to account for the resources allocated to them. We have previously commented favourably on the format and content of the reports. It remains the case that budget monitoring reports are of a high standard and contain a wealth of information important to members in their scrutiny role.
55. Notwithstanding the foregoing, budget monitoring reports do not contain service performance information. The council acknowledge

that this is an area of weakness and is considering how best to integrate service performance reporting and budget monitoring.

## Conclusion on financial management

56. We have concluded that the council's financial management arrangements are sound. However, there remain some areas where further improvements could be made to enhance existing arrangements.

## Financial sustainability

57. 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.
58. 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.
59. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

## Reserves

60. The overall level of usable reserves held by the council increased by £5.469 million to £47.609 million, exhibit 3. The general fund

reserve balance has increased by £6.726 million and now stands at £31.877 million (of which £22.444 million is earmarked for specific use).

- 61. 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.

**Exhibit 3: Usable reserves**

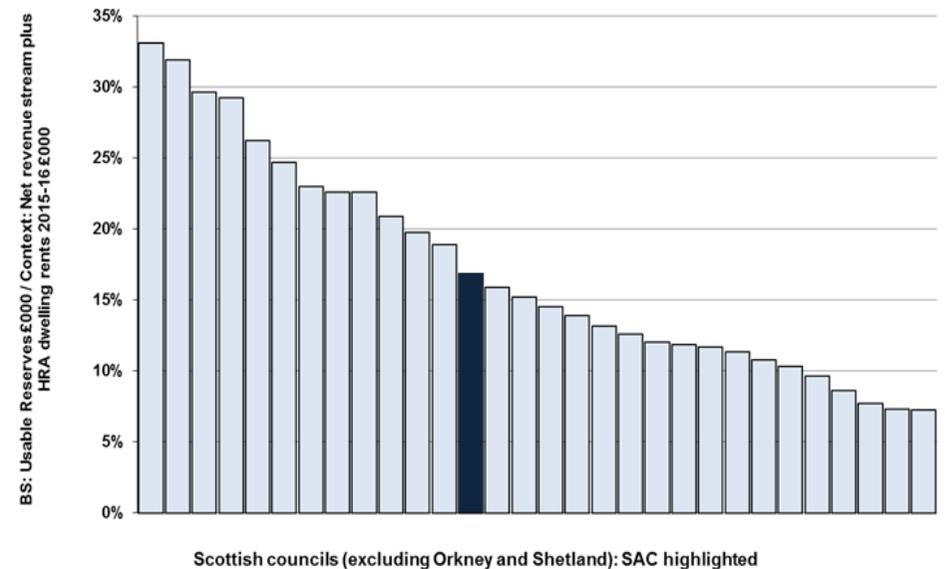
Reserve	31 March 2015 £ million	31 March 2016 £ million
General fund	25.151	31.877
Housing revenue account reserve	10.461	9.912
Repair and renewal fund	5.354	3.609
Capital grants unapplied	0.749	1.786
Insurance fund	0.425	0.425
<b>Total usable reserves</b>	<b>42.140</b>	<b>47.609</b>

Source: South Ayrshire Council 2015/16 financial statements

- 62. The CIPFA Local Authority Accounting Panel (LAAP) bulletin 99 provides guidance to chief financial officers on the establishment and maintenance of reserves. It does not, however, prescribe a maximum or minimum level of reserves but places the responsibility

on the chief financial officer to advise the authority on the levels of reserves and the processes necessary for their creation and use.

**Exhibit 4: Scottish councils’ usable reserves as a percentage of net revenues**



Source: Scottish councils’ unaudited accounts 2014/15

- 63. Exhibit 4 shows the comparative picture, across Scotland, of reserves as a proportion of net revenue. South Ayrshire Council is close to the mid point of usable reserve holdings.

## Financial planning

64. The Scottish Government announced a one-year financial settlement for local government in December 2015. The revenue allocation to South Ayrshire Council was £6.833 million less than that for 2015/16. The scale of the reduction was greater than that anticipated by the council and resulted in further savings being required from its previously approved indicative budget for the year.
65. The council approved its 2016/17 budget in March 2016 along with an indicative budget for 2017/18. Expenditure was set for the year at £253.003 million, which included £65.868 million of funding delegated to South Ayrshire Integration Joint Board in respect of social care. The 2016/17 budget included efficiencies of some £9.399 million. The budget gap for 2017/18 was reported as £5.4 million based on an assumed reduction of 1.5% in the Scottish Government allocation rising to £7.4 million with a 2.5% cut.
66. The Accounts Commission's 2016 local government overview report highlighted the importance of financial planning given the significant pressures that councils are facing in 2016/17 and beyond. Councils should have effective financial strategies in place that cover five or more years. These should be accompanied by financial plans covering three to five years. Based on data collected from auditors in September 2015, 15 councils have long-term financial strategies and 29 councils have medium-term financial plans.
67. Historically the council's financial strategy has been delivered in a series of short term financial plans and policies, typically having a span of one to three years. In December 2014 the council agreed a

five year financial strategy with the aspiration to extend to ten years. The five year financial strategy has not been rolled forward this year. While it is acknowledged that the council faces considerable difficulties in predicting future financial settlements the Accounts Commission recommend that when future Scottish Government funding is not known, councils should plan for a range of possible scenarios so they are prepared for different levels of funding.

68. The council have requested that the Head of Finance and ICT present a refreshed five year strategy following confirmation of the 2017/18 local government settlement.

## Transform South Ayrshire

69. Transform South Ayrshire is a development and consolidation of a number of projects and initiatives which have been underway in the council following the Best Value report in 2014. As the council's change programme it has been given an operational and governance structure to provide the core vehicle for effective governance and programme delivery of a number of projects.
70. The Chief Executive has committed to work collaboratively on a Digital Transformation Partnership through the Society of Local Authority Chief Executives (SOLACE). This Partnership will seek to ensure that appropriate workstreams are aligned to the Scottish Government's programme, 'Scotland's Digital Future – A Strategy for Scotland', and that the digital ambitions for public service delivery are achieved within South Ayrshire.

## Capital programme 2015/16

71. How well the council delivers capital projects has a direct impact on the lives of its citizens and plays a significant role in the economic wellbeing of the area.
72. The council approved its general services capital programme of £32.644 million for 2015/16 in December 2014. A series of revisions were approved to the programme during the year which reduced the final programme to £29.043 million. Actual spend on the general services capital programme was £28.493 million.
73. The council approved its housing capital programme of £20.374 million for 2015/16 in December 2014. A series of revisions were approved to the programme during the year which reduced the final programme to £17.879 million. Actual spend on the housing capital programme was £16.629 million.
74. The general services programme was concentrated on the new build, refurbishment and repair of schools, delivery of various leisure projects and roads and transport infrastructure. The housing programme focused mainly on new build (58 completions and a further 44 in progress), house purchase (10), the upgrade of internal components and improvements to external fabric.
75. Historically the council had a poor record in delivering its capital programmes and this has resulted in relatively low levels of capital spend with knock on effects to revenue budgets. In August 2014 the council approved the restructuring of the Property and Risk Service. The new structure includes an increased complement of

professional architects and quantity surveyors. In addition the Capital Asset Management Group, consisting of senior officers, was re-established to oversee the development and delivery of the council's capital programmes.

### Exhibit 5: Five year capital expenditure profile

Year	Housing capital programme £ million	General services capital programme £ million
2011/12	11.818	10.235
2012/13	10.284	8.228
2013/14	12.549	15.839
2014/15	15.197	16.477
2015/16	16.629	28.493

*Source: South Ayrshire Council capital programme monitoring reports*

76. The figures for 2015/16 represent a step change in the delivery of the capital programme. Although the outturn still falls short of the original approved programmes, and to a degree this is in the nature of capital projects, the council is delivering a higher proportion of more ambitious programmes. Exhibit 5 sets out the five year capital expenditure profile.
77. Early monitoring reports in respect of the current year (2016/17) programmes, strongly suggest that the improvements in delivery are being sustained.

## Asset management

78. Asset management is a broad term that encompasses the various actions the council undertakes to ensure that its assets are efficiently planned, designed, delivered, managed and reviewed in a cost effective and sustainable manner and that these assets remain relevant to changing community needs and expectations.
79. The council approved a revised Asset Management Plan in January 2015. The plan is an important tool to support the council's strategic objectives. The plan will also provide a framework within which rational decisions on the retention, redeployment, refurbishment or disposal of assets can be made thus contributing to future efficiency savings.
80. An important factor in driving forward an integrated asset management strategy will be the consistent delivery of capital investment programmes. Real progress has been made in the delivery of capital programmes in recent years and this aids the council in the strategic planning of its asset base.

## Workforce management

81. Workforce planning seeks to ensure that an organisation has the appropriate number of staff, skills and competencies in accordance with the future direction and needs of both the organisation and its clients. It is also about recognising that it is not always possible to be precise about future needs and building capacity for flexibility, resilience and business continuity. During 2015/16 the local audit

team undertook follow-up work on Audit Scotland's November 2013 report, [Scotland's public sector workforce](#).

82. The council approved a workforce strategy in October 2015 which aims to provide "a framework to ensure we improve the way we work as a Council and that our workforce is appropriately shaped, skilled, motivated and engaged". The council's Framework for Managing Workforce Change, approved in June 2015, sets out the council's matching, redundancy, redeployment and TUPE policies.
83. The impact of budget changes on the workforce over the coming financial year is detailed within annual service budget proposals; this provides elected members with some oversight. The council has also advised that the service review process includes consideration of future workforce requirements, although there is limited evidence of this within Service and Improvement Plans.
84. There is, however, no council-wide workforce plan setting out the size and constitution of workforce required to deliver future services and objectives. The council should adopt a more strategic approach to complement the current operational focus on workforce planning.

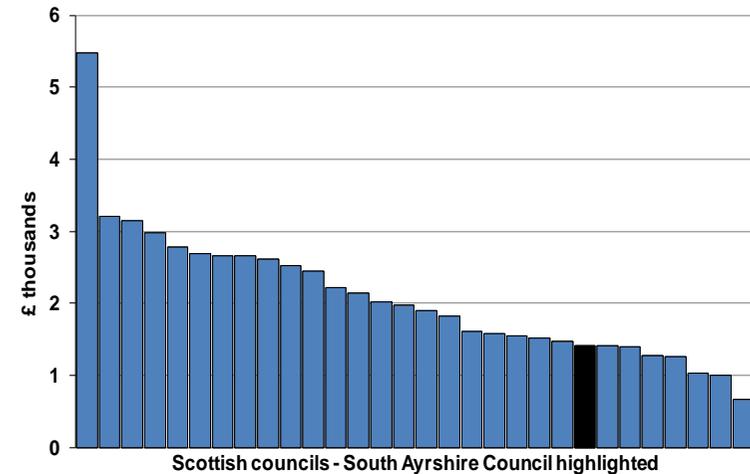
### Recommendation 1

## Treasury management

85. Treasury management is the management of the council's cash flows, banking, investments and money market transactions. Effective treasury management is a key function underlying the day to day operations of the council. The council's capital expenditure plans are a key driver of treasury borrowing activity.

86. At 31 March 2016 long term external borrowing stood at £156.594 million, a decrease of £14.643 million on the 31 March 2015 external borrowing level of £171.237 million.
87. Based on the capital expenditure programme the treasury management strategy for 2015/16 identified a need for a net increase in borrowing of some £22.064 million. This was planned to be met by £15 million of external borrowing and £7.064 million from internal cash reserves. During 2015/16 the council took the decision not to borrow externally. The re-profiling of the capital programme, the availability of significant internal reserves and the prognosis for interest rates were the drivers in the council's mid-year revision of its borrowing strategy and the consequent reduction in long term external borrowing.
88. The council has estimated that it will have a borrowing requirement of £43.214 million to fund its planned capital investment programme for 2016/17. Budget provision has been made to fund this position and it is estimated that some £31 million of this funding will be sourced from new external borrowing with the balance being drawn from reserves.
89. Exhibit 6 shows long term external borrowing, as at 31 March 2016, per head of population. South Ayrshire Council, highlighted in black, is at the lower end of the scale. The council's position is the result of a number of years of replacing external funding with internally generated funds. The council has significant headroom to expand its external borrowing when the need arises.

### Exhibit 6: Scottish councils' long term borrowing per head of population



Source: Scottish councils' unaudited accounts 2015/16

## Conclusion on financial sustainability

90. We have concluded that the council has an adequate level of reserves, is containing its expenditure within annual budgets and has credible short term financial plans in place. Overall we conclude that the financial position is sustainable, currently and in the foreseeable future, although rising demand, increasing costs and reduced central funding will continue to place a strain on the council's capacity to deliver services at the current levels.

## Highways network assets

91. Highways network assets (HNAs) consist of carriageways, footways, cycle tracks, structures (for example, bridges and earthworks), street lighting, street furniture, traffic management systems and land. The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 requires the adoption of a new measurement methodology for the valuation of the highways network assets.
92. The revaluation will impact the council's balance sheet in 2016/17 with comparative information being required for 2015/16. Ayrshire Roads Alliance has been compiling and refining the local inventory of HNAs and working with the council's asset management staff to provide a set of valuations for 2016/17.
93. At present the 2015/16 position is still being established however using the information available for 2014/15, the council's HNAs increased in value from £44 million to £1.496 billion. The value of property, plant and equipment in the council's 2016/17 balance sheet is likely to exceed £2.1 billion (currently £639 million).
94. Overall, we have concluded that the council is adequately prepared to comply with the accounting treatment set out in the 2016/17 Code in respect of highways network assets.

## South Ayrshire Integration Joint Board

95. The ageing population and increasing numbers of people with long term conditions and complex needs have already placed significant

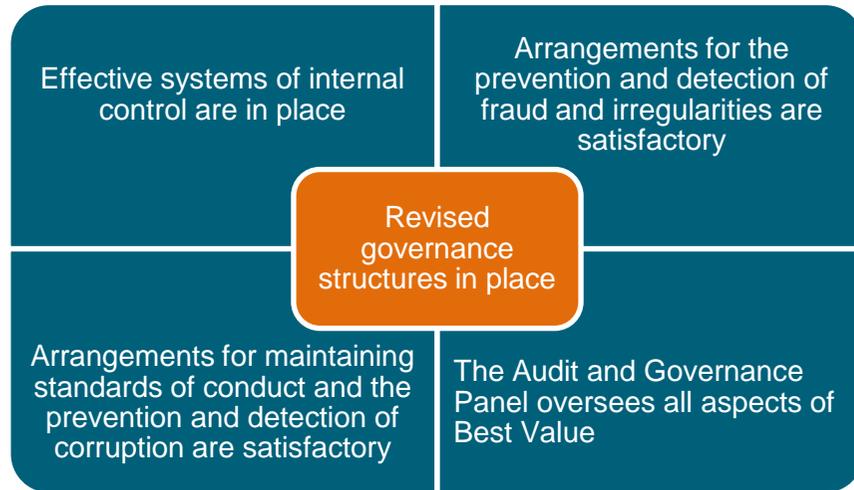
pressure on health and social care budgets. Achievement of budget is reliant on efficiency savings to bridge the gap between available funding from current sources and the cost of services.

96. Strategic plans, whilst setting out the broad direction, will need to be clear regarding the Integration Joint Board (IJB)'s priorities and the financing and staff that will be available over the longer term to match these priorities. It is important that they provide detail on the level of resources required in each key area and how they will shift resources towards preventative and community based care.
97. A key component of sound financial management is the preparation of longer term financial strategies, plans and budgets. One of the challenges for the IJB is the short term financial planning cycle of the Scottish Government and the resulting difficulty in preparing long term funding strategies to address its priorities. The NHS planning cycle means that as of mid-September the IJB had not yet set a balanced budget for 2016/17.
98. The sustainability of the IJB's financial position is dependent on the identification of recurring savings. The IJB's Change Programme taking forward service redesign projects will be a key driver of future sustainability. The council needs to maintain its scrutiny role over outcomes and the use of resources allocated to the IJB.
99. The IJB is subject to a separate annual audit and annual audit report which will be available from the council's website from mid-September, following its consideration at the IJB board meeting on 15 September 2016.

## Outlook

100. Councils face increasingly difficult financial challenges. In December 2015, the Scottish Government provided a one-year financial settlement for local government. The length of the settlement and the level of funding was in response to the ongoing UK Government spending review. For 2016/17, the Scottish Government allocated £9.7 billion of revenue funding to councils. This was five per cent lower in real terms than in 2015/16 and equal to a reduction of 11 per cent since 2010/11.
101. The reduction in centrally allocated funding means that, in common with many other councils, South Ayrshire Council is reporting gaps between income and the cost of providing services over the next few years. With further funding reductions expected, the council faces tough decisions to balance its budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.
102. Financial planning into an uncertain fiscal future using sensitivity analysis and scenario planning will be key to the financial sustainability of the council. However, one of the challenges for the council is the short term financial planning cycle of the Scottish Government and the resulting difficulty in preparing long term funding strategies to address its priorities.

# Governance and transparency



- 103.** 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.
- 104.** Citizens should be able to hold the council to account about the services it provides. Transparency means that citizens have access

to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources. Overall we concluded that the council is open and transparent although there are some areas where practices could be improved.

## Corporate governance

- 105.** Following the Accounts Commission Best Value report in February 2014, the council revised its scrutiny structure to four new panels:
- Audit and Governance Panel
  - Service and Performance Panel
  - Partnerships Panel
  - Public Processes Panel
- 106.** The new structure was subject to review in the subsequent Best Value Follow Up audits in December 2014 and June 2016. The most recent review concluded that the revised arrangements have become well established and have led to stronger and more focused scrutiny activity.
- 107.** The council has recognised that there may be a potential issue around heavy workloads in some panels and is monitoring this to ensure that it does not hamper effective scrutiny of performance and outcomes.
- 108.** In May 2016 the council revised its Scheme of Delegation and in July 2016 Standing Orders Relating to Meetings and the Audit Committee Handbook were revised. The council is proactive in ensuring its governance arrangements are up to date.

109. During 2015/16 the Audit and Governance Panel was chaired by an external (non-member) chair. The panel was previously chaired by an independent councillor who was not a member of the administration, in line with good practice principles for audit committees. The change has been seamless and the panel continues to be well attended and offers a good standard of challenge to management.
110. Overall the council has made significant progress over the last year, improving corporate leadership, improving member relations and driving continuous improvement across the council.

## Local code of corporate governance

111. 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: a Framework”. The local code is subject to annual review by a working group of members and officers and review and approval by the Audit and Governance Panel.
112. The code is supported by a detailed document setting out arrangements and procedures in place and assessing what improvements are needed going forward. The 2015/16 assessment was approved by the Audit and Governance Panel in June 2016.
113. The code provides an assessment against 18 aspects of the Delivering Good Governance Framework. The 2015/16 assessment found no areas of major concern, eight with some concerns and ten which were assessed as being effective. Improvement activity is

embedded in the 2016-18 Service and Improvement Plans to address the areas highlighted as posing some concerns.

114. The 2015/16 assessment reflects an improvement from the 2014/15 assessment which found only seven aspects of the framework to be effective and 11 to be showing some concerns. This improvement is consistent with the findings of the Best Value Follow Up audit which were reported to members in June 2016.

## Internal control

115. 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.
116. 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.
117. Our findings, which were reported to the Audit and Governance Panel in September 2016, included a number of recommendations to enhance the existing control system.

## Internal audit

118. 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.

119. Overall we found internal audit to be operating effectively and we planned to place reliance on their work in the following areas:

- Main accounting - journals and cash/bank balances
- Cash income and banking - reconciliations
- Council tax - liability and recovery/enforcement
- Non-domestic rates - liability
- Creditor payments - residential care payments
- Debtors accounts - charging
- Payroll - general
- Aspects of performance indicators
- National Fraud Initiative inputs and outputs
- Annual Assurance Statements

120. The 2015/16 internal audit plan is now substantially complete. We confirm that our reliance on controls work and our wider responsibility work under the Code of Audit Practice was as planned.

121. From 1 April 2013 all public sector internal audit services were required to adopt Public Sector Internal Audit Standards (PSIAS).

These standards replaced the 2006 CIPFA Code of Practice for Internal Audit in Local Government.

122. In response to our 2015/16 review, the Acting Audit Services / Programme Review Manager undertook an internal self assessment of compliance with PSIAS. This was reported to the Audit and Governance Panel in February 2016.

123. The main areas of non-conformance were:

- where the audit committee has no role in setting resources or budgets for Internal Audit; and
- the reporting of outcomes of the Quality and Improvement Programme. This is due to the Programme requiring external assessment as well as internal self-assessment. To date there has not been an external PSIAS assessment although the council has agreed to participate in the scheme being proposed by the Scottish Chief Internal Auditors Group. This is planned to take place during 2016/17.

124. We concluded that the areas where internal audit is working towards full compliance with PSIAS do not impact on the range and quality of work carried out.

125. It is now over a year since the previous Audit Services / Programme Review Manager retired. No permanent structure and staffing of the service has yet been put in place by management. Excluding the acting Audit Services / Programme Review Manager, the current complement of internal audit staff is 2.75 full time equivalent (FTE), one of whom (the only qualified member) is on a temporary contract.

The acting Audit Services / Programme Review Manager now has other duties including the management of two FTE fraud staff and the role of Chief Internal Auditor to the integration joint board.

- 126.** The internal audit service, in any organisation, is an important element of internal control providing assurance to members and the management team on governance, risk management and control systems as well as providing a deterrent effect to potential fraud. Management should compare internal audit structures and staffing at similar sized councils in order to inform a judgement on current and future internal audit capacity required by the council. Inadequate staffing of the section in terms of numbers and qualifications, will inevitably lead to a degraded service to members and management.

#### **Recommendation 2**

- 127.** During the year, Internal Audit issued two “red” reports which meant only limited assurance could be taken over the integrity of the arrangements in place. One was in respect of creditor care payments generally and the other on a specific care provider. These reports both related to payments that were being made for social care but where up to date contracts were not in place or where the efficacy of the contracts was questionable and not subject to review.
- 128.** It is important to note that social care services have been provided to service users as required, however, the findings indicate a risk that the council's contracts with service providers are not securing value for money. The Audit and Governance Panel is actively

monitoring progress against these reports to ensure that corrective action is taken to improve contract arrangements.

### **ICT audit**

- 129.** In 2015/16 we reviewed the council’s arrangements in respect of “cyber security”. The review looked at how the council sought to identify risks to its ICT systems and what measures it had in place to mitigate these.
- 130.** We found that there was scope to enhance the council’s ICT risk register to ensure a clear focus to specific issues and allow management and members to have oversight of the risks relating to ICT and the mitigation strategies in place. We also found that the council could mitigate the risks to its cyber security through regular patching of its key systems and by running an IT health check to identify any vulnerabilities in its systems.
- 131.** The council has agreed to address these issues through its Digital Transformational change programme.

### **Arrangements for the prevention and detection of fraud**

- 132.** The council’s arrangements in relation to the prevention and detection of fraud and irregularities were found to be satisfactory.

## National Fraud Initiative in Scotland

133. The National Fraud Initiative (NFI) in Scotland brings together data from local government, health boards and other public sector bodies, to help identify and prevent a wide range of frauds against public funds.
134. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.
135. An NFI data-matching exercise is carried out every other year targeting specific transactions and processes. The most recent exercise was undertaken in 2015 and the results published by Audit Scotland in [“The National Fraud Initiative in Scotland”](#) in June 2016.
136. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

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

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

## Transparency

138. Transparency and accountability are mutually reinforcing. Together they enable citizens to have a say about issues that matter to them and a chance to influence decision making and hold those making decisions to account. When a council’s meetings are open to the press and the public, its budgets may be reviewed by anyone and its plans and decisions are open to discussion, these are indicators of openness and transparency.
139. Members of the public are free to attend meetings and have access to agendas and minutes through the council website.
140. The council hold public consultations via its website on an ongoing basis enabling local communities and stakeholders to have an input on local issues, for example, school site relocation, as well as council wide initiatives for example, budget savings proposals. In addition, the council facilitates a “citizens’ panel”, called “South Ayrshire 1000”, as it is the intention to have 1,000 members on the panel to be consulted regularly on matters of local concern.

- 141.** South Ayrshire Council consistently produces good quality unaudited financial statements. Officers work with the auditors to make suggested presentational adjustments arising from the audit process. Copies of audited financial statements are provided to members and senior officers and are available on the council's website shortly after the conclusion of the audit.
- 142.** Budget monitoring reports (both revenue and capital) are submitted to the Leadership Panel on a quarterly basis. The council reviewed the format of reports in 2015/16 in response to previous audit findings. The reports are comprehensive, well laid out and provide useful explanations for variances. The reports provide members with good information to hold services to account.
- 143.** The council's website has links from the home page to all public facing services. Corporate documents, including, for example, agendas and reports, council plans, financial regulations, performance information, the register of interests and the register of gifts and hospitality are available on the website.
- 144.** In 2014/15 the Accounts Commission found the council's public performance reporting to be patchy. The council has sought to address this by refining its calendar, which is distributed to residents, to focus on outcomes and revising the annual publication of performance measures to a web based Public Performance Report. The council is also currently undertaking a survey of the South Ayrshire 1000 to evaluate whether its calendar remains fit for purpose.

- 145.** Overall we concluded that the council operates in an open and transparent manner.

## Freedom of Information requests

- 146.** Over the course of 2015/16 the council responded to 1,189 Freedom of Information (FOI) requests compared to 1,110 in 2014/15, representing a 7.1% increase year on year. Of these, 91% were responded to within the statutory timescales of 20 days compared to 82% in 2014/15. This response rate represents an improvement in performance by the council, closer to the 93% achieved in 2013/14.

## Integration of health and social care

- 147.** 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.
- 148.** The South Ayrshire Integrated Joint Board (IJB) was formally established on 1 April 2015 when it began delivering health and social care services for the residents of South Ayrshire. This includes services for older people, adults, children and families and for those people in the criminal justice system.
- 149.** The IJB is financed by contributions from South Ayrshire Council and NHS Ayrshire and Arran. In 2015/16 the council's budgeted contribution to the IJB was £70.652 million. The final outturn saw the council contributing £70.071 million to the operating costs of the board. The annual accounts of the board record an underspend of

£0.634 million of which £0.583 million is attributable to the council's contribution to fund social care. The council has earmarked £0.416 million of the underspend to be carried forward for use in 2016/17.

150. In December 2015 Audit Scotland published the first of three reports, "[Health and Social Care Integration](#)", which outlined the progress made in the creation of integration authorities in Scotland. The report was presented to the Audit and Governance Panel in February 2016 along with a report from the Director of Health and Social Care which set out the key issues from the report.
151. A further report was put to the Audit and Governance Panel in April 2016 which outlined the local progress made on the report recommendations. The council has responded to Audit Scotland's report as intended and is seeking to ensure that it acts upon the recommendations made in the national report.

## Housing and council tax benefits performance audit

152. In May 2016, Audit Scotland undertook a risk assessment to determine the extent to which the council's benefits service was meeting its obligations to achieve continuous improvement in all its activities. Specifically, the risk assessment considered the effectiveness of the benefits service in meeting national and local priorities, business planning and reporting, and delivering outcomes. The review also provided a follow up to the last review undertaken by Audit Scotland in 2013.

153. The review found that the council had fully addressed three action points raised in the 2013 review but that a further two action points remained in progress. The review also identified four new risks to the delivery of an effective benefits service. The findings of the review were presented to the Audit and Governance Panel in September 2016.

## Local scrutiny plan

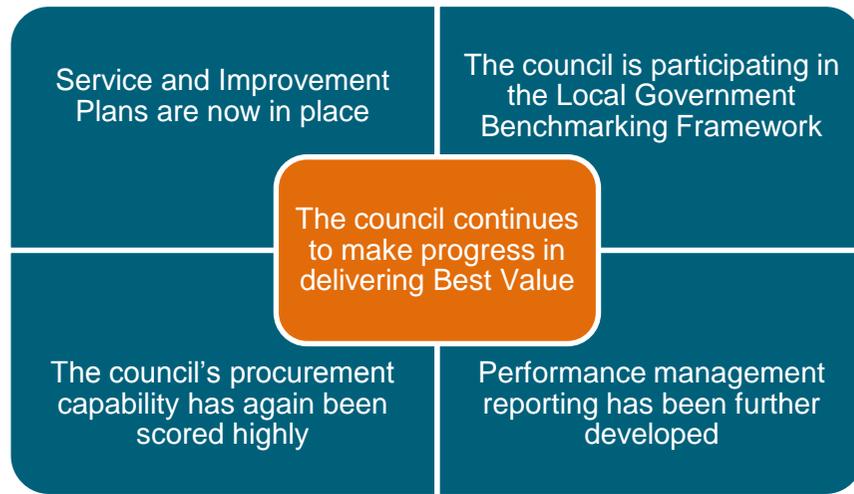
154. The 2016/17 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the council was submitted to a meeting of the council in May 2016.
155. No scrutiny risks requiring additional scrutiny or audit work in 2016/17 were identified from the risk assessment. A range of national scrutiny activity will be undertaken in 2016/17, the nature and timing will be reflected in the next scrutiny plan.

## Outlook

156. The council faces continuing challenges on a number of fronts including reduced funding, expectations of sustained levels of service delivery and supporting the integration joint board in the delivery of health and social care.
157. Embedding robust governance arrangements will be an essential element in meeting these challenges and maintaining accountability. All stakeholders including citizens, the public, staff, the management team and the Scottish Government, benefit from the assurance and confidence a good governance regime brings.

**158.** Good governance will be particularly important where council resources and service delivery are devolved to third party organisations. It will be crucial that the council implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money.

# Best Value



159. 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.

## Best Value audit

160. The Accounts Commission's ('the Commission') second follow-up report on the council's Best Value Audit (February 2014) was published in June 2016.

161. The Commission welcomed the "considerable further progress" made by the council, and highlighted that "a strong culture of improvement" is in place, built upon shared leadership by members and officers and improved relationships between elected members, demonstrated by the effectiveness of the Best Value Working Group and better scrutiny arrangements'.

162. The Commission also highlighted the development of the senior management team as being a significant contributory factor, and noted that there has been encouraging efforts by the council to learn from other organisations in finding new ideas and fresh thinking.

163. The Commission emphasised the need for the council to sustain its momentum, in particular by addressing the difficult decisions that lie ahead in reshaping council services in response to reducing resources. In this respect the Commission considered that the following points would be crucial to the council's success:

- continuity in the stability of leadership arrangements
- embedding the improvement culture further at all levels in the council
- continuing with the full appraisal of options for the future delivery of services
- further improving the approach to engaging service users and communities.

164. The Commission did not request any specific further follow-up work at South Ayrshire Council and advised that the Controller of Audit will continue to monitor progress through the annual audit process.

## Procurement

- 165.** 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. The council had shown notable year on year improvements in its procurement arrangements under this assessment regime.
- 166.** In 2016 a new assessment methodology has been introduced, the procurement and commercial improvement programme (PCIP). The new methodology continues to assess organisations by measuring procurement delivery by way of a series of set questions. New sections including fraud awareness and prevention and commercial acumen are included in the methodology meaning that the scoring of PCIP is not directly comparable to the previous procurement capability assessment.
- 167.** The new assessment places councils in one of twelve bandings depending on performance score. South Ayrshire Council was assessed as being in the top band with a score of 70%. While scoring is not directly comparable to previous years this appears to, at least, maintain the council's strong procurement performance over recent years.

## Shared services

- 168.** The Ayrshire Roads Alliance (ARA) was established in April 2014 as a shared service partnership between South Ayrshire Council and East Ayrshire Council. The aim is to achieve joint savings in excess

of £8 million over the first ten years of the Alliance through an agreed Benefits Realisation Strategy and Plan.

- 169.** The performance of the Ayrshire Roads Alliance is monitored by the Ayrshire Shared Service Joint Committee which includes four members of South Ayrshire Council.
- 170.** In addition, the Partnerships Panel is responsible for the scrutiny of the performance of all services 'delivered through or in partnership with external bodies', including the Ayrshire Shared Service Joint Committee, police, fire and community planning.

## Following the public pound

- 171.** In August 2015 the Accounts Commission reaffirmed that the principles of the Following the Public Pound Code 'remain entirely valid'. These principles are that councils:
- have a clear purpose in funding an external body
  - set out a suitable financial regime
  - make clear their arrangements for monitoring the external body's financial and service performance, and for stipulating any required access to documentation
  - consider very carefully the question of representation on the board of an external body
  - establish limits to involvement in the external body.
- 172.** In establishing the Partnerships Panel and setting out arrangements for monitoring partner organisations South Ayrshire Council has made positive progress towards achieving these principles. The

panel does, however, need to continue to ensure that effective practice is applied consistently across all partner organisations and funded projects.

## Performance management

- 173.** The council's performance management arrangements were considered in our Best Value follow-up report issued in June 2016. We identified that the council has an established business planning and performance framework that managers and councillors clearly understand. It also noted that the performance management framework provides a sound base for improvement.
- 174.** The Service and Improvement Plans (SIPs) are an important part of the framework and all services now use SIPs. A recent positive development was introducing a challenge process for all of the SIPs in June 2015 that focused specifically on public performance reporting.
- 175.** The performance management framework also uses 'How Good is Our Council', and this is now in established use across all services. The council provides corporate support, including facilitated events for all services, to maintain consistent standards in the process.

## Overview of performance targets in 2015/16

- 176.** The council participates in the Local Government Benchmarking Framework (LGBF). The framework aims to bring together a wide range of information about how all Scottish councils perform in delivering better services to local communities, including the cost of

services and how satisfied citizens are with them. All the LGBF measures are incorporated into SIPs and a report on "progress against the council plan during 2015/16" was presented to the Service and Performance Panel in September 2016. The report includes two appendices, one which provides information on progress against "key actions"; the other provides progress against "key measures".

- 177.** Overall the council has made positive progress towards achieving most of the key actions that support each strategic objective:
- Working in partnership to maximise the potential of our local economy – 13 of 14 are on target including delivering the council's employability priorities.
  - Working in partnership to maximise the potential of our young people – nine out of ten are on target or complete, including the implementation of curriculum for excellence for all learners.
  - Working in partnership to maximise the potential of our adults and older people – four out of ten are not on target, with two highlighted as having major concerns including the implementation of the South Ayrshire Carers Strategy (2012-2017)..
  - Working in partnership to maximise the potential of our communities – all 17 key actions are on target including developing proposals for participatory budgeting.
  - Working in partnership to maximise the potential of our environment – six out of 13 are not on target, including

modernising the property maintenance function in line with service review findings.

- Improve the way we work as a Council – 17 of 19 are on target including development of the council's performance management arrangements.
- 178.** In terms of the key measures against which progress is reported, the council's performance is showing signs of improvement:
- Working in partnership to maximise the potential of our local economy – five are in decline and three have improved.
  - Working in partnership to maximise the potential of our young people – seven have improved, four have declined.
  - Working in partnership to maximise the potential of our adults and older people – full data set not yet available.
  - Working in partnership to maximise the potential of our communities – three have improved, two have declined.
  - Working in partnership to maximise the potential of our environment – nine have improved, two have declined.
  - Improve the way we work as a Council – 10 out of 11 key measures have improved.
- 179.** The layout of the reported performance information is clear and accessible, and the inclusion an exception report to aid scrutiny is noted as good practice. The annual performance report would, however, provide better and more meaningful information to users if performance targets were included against each key measure.

### Recommendation 3

## Statutory performance indicators (SPIs)

- 180.** 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.
- 181.** 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.
- 182.** Overall we concluded that the council's arrangements for publication are satisfactory.

## National performance audit reports

- 183.** 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. South Ayrshire Council has processes in place to ensure that all

national reports and their impact on the council are considered by members.

## Outlook

- 184.** It is challenging for members and officers to fundamentally change the way the council has provided a service in the past. But there are significant consequences to not conducting comprehensive option appraisals: services may not be as efficient or effective as they could be and may not be achieving value for money; resources may not be directed to priority areas such as preventative services; and the council may not be able to demonstrate that it is achieving best value.
- 185.** As the landscape of service delivery becomes more complex, the council will need to ensure it has people with the necessary knowledge and skills to manage that complexity. This is important for members and officers, as both must have, for example, skills in options appraisal, programme management, commissioning, finance and scrutiny.
- 186.** In considering all viable options, it will be essential that members are provided with comprehensive and objective information on the cost, benefits and risks of each option. This will help them make considered decisions in partnership with service users and the wider community of South Ayrshire.

# The audit of trusts registered as charities

- 187.** At 31 March 2016, 73 trusts with funds totalling some £0.968 million were under the administration of the council. The trusts are diverse in nature and range in net assets from a few hundred pounds to £0.371 million. Although trust assets and reserves are not the property of the council, the funds are administered through the systems of the council.
- 188.** Members of South Ayrshire Council are sole trustees (that is, only members of the council are trustees) for nine trusts, registered as Scottish charities, with total assets of some £0.539 million, exhibit 7.
- 189.** The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and The Charities Accounts (Scotland) Regulations 2006. The 2006 regulations require charities to prepare annual accounts, and require an accompanying auditor's report where any legislation requires an audit.
- 190.** The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees.

**Exhibit 7: South Ayrshire Council: registered charitable trusts**

Registered charitable trust	Scottish charity number	Net assets as at 31 March 2016
McCracken Trust	SC001702	£5,790
McClymont Trust	SC008495	£43,895
James and Jane Knox Trust	SC008856	£22,074
Glasgow Troon Benevolent Society Fund	SC009075	£2,400
Monkton and Prestwick Nursing Association Trust	SC009903	£23,078
McKechnie Library Trust	SC012759	£6,909
Mary and Hugh Reid Trust	SC014448	£46,137
Loudon Trust	SC017166	£17,389
Robert Hamilton Smith Trust	SC022120	£371,131
<b>Total net assets</b>		<b>£538,803</b>

*Source: Charitable trusts audited accounts 2015/16*

191. Therefore, as a consequence of the interaction of the Local Government (Scotland) Act 1973 with the charities legislation, a full and separate audit and independent auditor's report is required for each registered charity where members of South Ayrshire Council are sole trustees, irrespective of the size of the charity.
192. Our duties as auditors of the charitable trusts are to:
- express an opinion on whether the charity's financial statements properly present the trusts financial position and are properly prepared in accordance with charities legislation
  - read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
  - report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).
193. We have given an unqualified opinion on these matters with respect to the 2015/16 financial statements of the relevant charitable trusts administered by South Ayrshire Council.

## Transfer of assets

194. Some trusts were transferred to the administration of the council in recent years. These trusts had previously been dormant and difficulties have been encountered in tracing and transferring the assets into the trusteeship of the council. This has given rise to some recording issues in the trusts' accounts.

195. For three trusts, investments have been redeemed but not received as the stock is still held by the registrar. This has been included in the statement of balances as the stock held is an asset of the trust.
196. Investment income of £1,614 has been received but remains uncashed as at 31 March 2016. This income is not accounted for in the statements of receipts and payments. Once the transfer of trusteeship is complete, the income will be appropriately accounted for in the receipts and payments of the appropriate year.

## Return on investments

197. Members, as trustees, have a fiduciary duty to exercise their powers in the best interests of the charities and thus the beneficiaries. This includes the investment strategy adopted for the charities' funds.
198. In the main, trust assets are in the form of either cash balances with South Ayrshire Council loans fund or external bond investments. The return on the investment in council's loans fund was of the order of 0.65% for 2015/16. Notwithstanding the low rates of return generally available, the rate of return appears to be considerably less than that available in the market.
199. While we acknowledge that there is a cost involved in an actively managed portfolio, trustees should assure themselves by means of a costs benefits analysis that they are obtaining, commensurate with risk appetite, the best returns possible.

### Recommendation 4

## South Ayrshire Charitable Trust

- 200.** In December 2014 members agreed to a scheme of consolidation of a number of trusts (including eight of the nine registered charities) into a single South Ayrshire Charitable Trust. The purpose of the scheme was to simplify trusts and make funds more readily accessible to current and future potential beneficiaries.
- 201.** Following discussions with OSCR a scheme of amalgamation was agreed and presented to the council in June 2015. The relevant trusts have now been wound up and transferred to the South Ayrshire Charitable Trust, SC045677.

- 202.** Requirements in respect of annual accounts and audit are unchanged although there will only be two charities producing accounts instead of the previous nine.

# Appendix I: Significant audit risks

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

Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>Accounting for the Integration Joint Board</b> NHS Ayrshire and Arran will require to have the financial statements of the IJB available to it in sufficient time to allow incorporation into its group financial statements.</p> <p><i>Risk: The council is unable to provide the necessary information within the timescales required by NHS A&amp;A to meet its statutory sign-off deadline of 30 June 2016.</i></p>	<ul style="list-style-type: none"> <li>We engaged with the council and the auditors of NHS Ayrshire and Arran and the IJB to ensure that the information provided by the council is accurate and timeous.</li> <li>Obtained assurances from auditors of the IJB over the accuracy of the IJB financial statements.</li> </ul>	<p>The council were able to provide the requisite information to the IJB in sufficient time to allow NHS Ayrshire and Arran to prepare its accounts by the statutory deadline.</p>
<p><b>Accounting for IJB financial transactions</b> The income and expenditure transactions, in respect of social work services now provided by the IJB, will continue to be processed through the financial ledger of the council.</p> <p><i>Risk: That income and expenditure are coded to the council rather than the IJB.</i></p>	<ul style="list-style-type: none"> <li>We carried out detailed testing on income and expenditure to ensure it had been correctly coded to either the council or the IJB.</li> </ul>	<p>We identified no issues with the coding of expenditure to social services.</p>

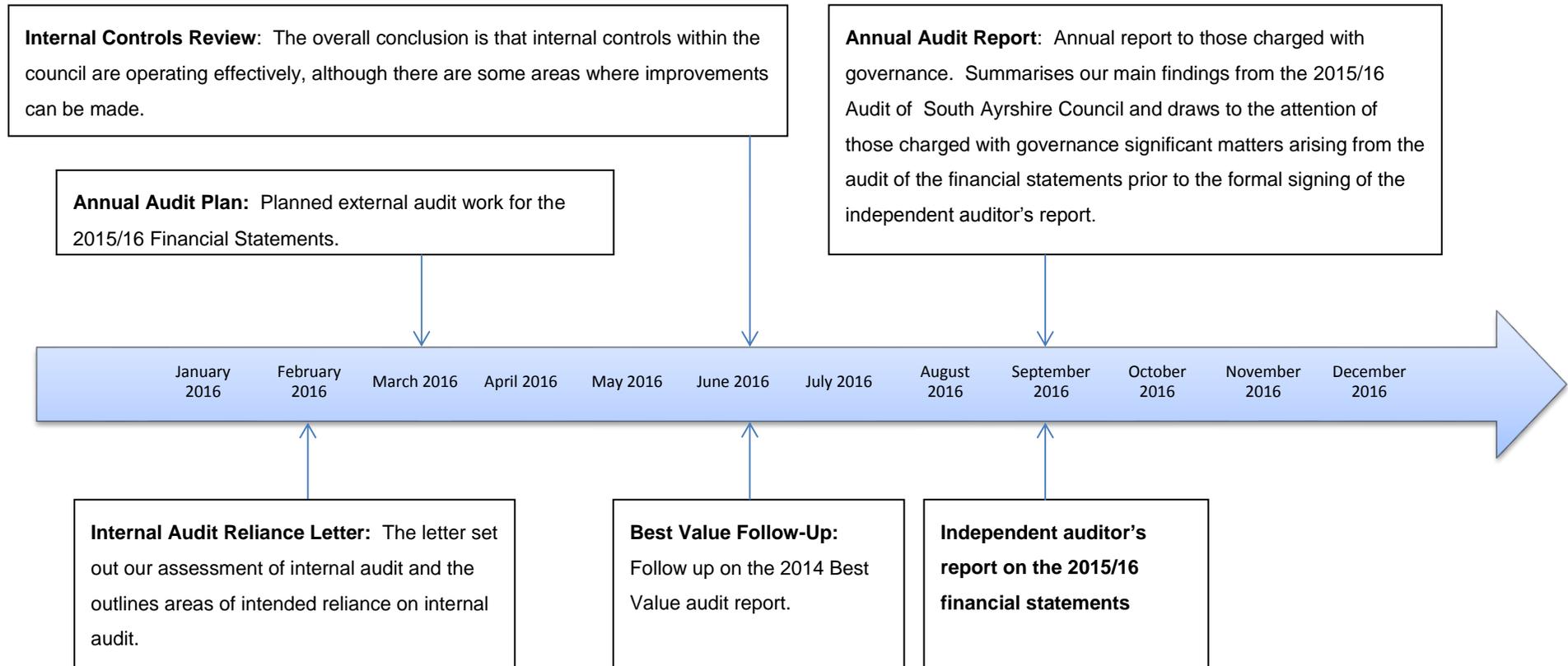
Audit Risk	Assurance procedure	Results and conclusions
<p><b>Income</b></p> <p>South Ayrshire Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.</p> <p><i>Risk: Fraud on the council's income.</i></p>	<ul style="list-style-type: none"> <li>• We tested the controls operating over accounts receivables.</li> <li>• We carried out detailed testing of revenue transactions across each service area.</li> <li>• We carried out testing of significant grants received.</li> <li>• We carried out focused testing of the Council Tax Income Account.</li> </ul>	<p>Satisfactory results were obtained for all assurance procedures. No instances of fraud or other irregularity were identified.</p>
<p><b>Management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, including the potential for management override of controls.</p> <p><i>Risk: Management manipulation of the position disclosed in the financial statements by overriding controls that otherwise appear to be operating effectively.</i></p>	<ul style="list-style-type: none"> <li>• We carried out detailed testing of journal entries.</li> <li>• We reviewed accounting estimates for bias.</li> <li>• We considered whether there were any significant transactions outside the normal course of business.</li> <li>• We carried out focussed testing of the regularity and cut-off assertions as part of our financial statements audit.</li> </ul>	<p>Satisfactory results were obtained for all assurance procedures. No evidence of management override of controls was found.</p>
<p><b>Employee related claims provision</b></p> <p>The council maintained its 2014/15 employee related claims provision at the 2013/14. The council agreed to revisit the level of this provision in 2015/16 to ensure it reflects the</p>	<ul style="list-style-type: none"> <li>• We monitored developments throughout the year and reviewed the adequacy and basis the employee related claims provision as part of our 2015/16 financial statements audit.</li> </ul>	<p>We assessed the scale of the provision in the light of developments during the year. We agreed the reduction in the provision as reasonable.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>most recent legal judgements.</p> <p><i>Risk: The provision does not reflect the most recent legal judgements and therefore the best estimate of the ultimate liability.</i></p>		
<p><b>Oracle upgrade – Accounts Payable</b></p> <p>The council had a technical upgrade of its Oracle ledger system in June 2014 which resulted in a number of issues, some of which were potentially business critical. The council took steps during 2015 to remedy the business critical issues however some operational issues which were logged after the upgrade have yet to be resolved</p> <p><i>Risk: The council does not proceed to resolve the outstanding issues now that the business critical weaknesses have been resolved.</i></p>	<ul style="list-style-type: none"> <li>We carried out focussed testing of key controls within the ledger system and substantive testing on expenditure.</li> </ul>	<p>As part of our final accounts audit procedures we increased the level and depth of testing to increase the probability of detecting any anomalies. No errors attributable to the weaknesses previously identified were discovered.</p>
<p><b>Risks identified from the auditor’s wider responsibility under the Code of Audit Practice</b></p>		
<p><b>Financial pressures</b></p> <p>Councils are facing significant financial pressures with reductions in funding, increasing unavoidable costs and the uncertainty around the newly created</p>	<ul style="list-style-type: none"> <li>We considered developments and have included comment in our Annual Audit Report.</li> </ul>	<p>We monitored the council’s financial planning throughout the year and concluded that it was taking appropriate actions to mitigate the financial pressures.</p>

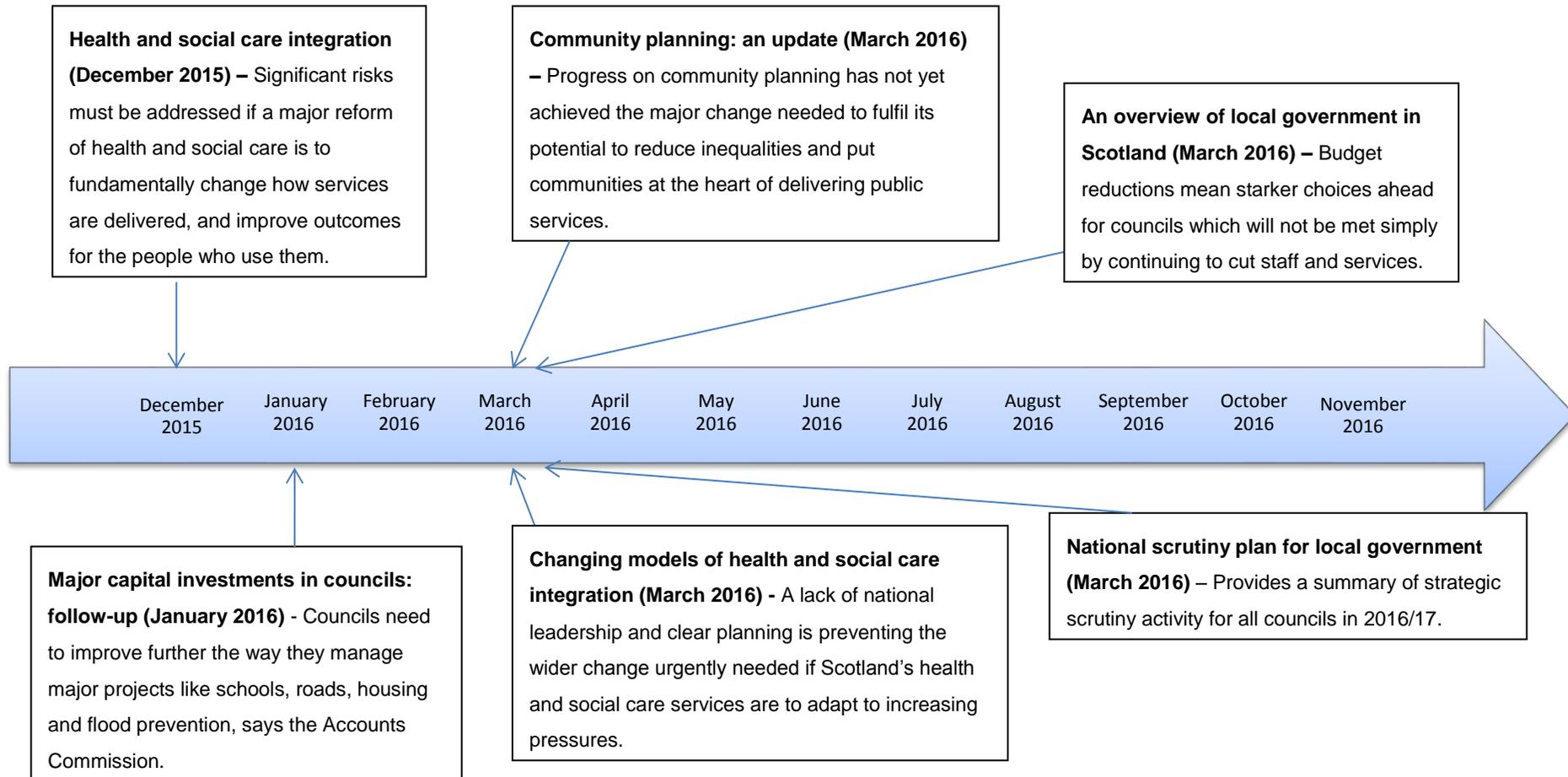
Audit Risk	Assurance procedure	Results and conclusions
<p>Integrated Joint Boards.</p> <p><i>Risk: The council is not able to identify sustainable savings measures or meet cost pressures as they arise.</i></p>		
<p><b>Budgeting</b></p> <p>In previous years the council has continued to generate unplanned surpluses.</p> <p><i>Risk: The council's base budgets are not up to date and budget resources are not aligned with priorities.</i></p>	<ul style="list-style-type: none"> <li>We have included appropriate comment on the financial position as part of the 2015/16 financial statements audit.</li> </ul>	<p>Although the council has again returned a substantial surplus over budget the signs are that this is an overshoot on savings targets rather than structural budget issues.</p>
<p><b>Capital Programming</b></p> <p>The council has a history of underspends against its capital programme, both general services and housing.</p> <p><i>Risk: The council continues to underspend in 2015/16, despite the arrangements in place, which will deprive the area of the benefits the programme intended to provide.</i></p>	<ul style="list-style-type: none"> <li>We analysed the outturn and the underlying reasons for the performance and have included comment in our Annual Audit Report.</li> </ul>	<p>The council's delivery of the 2015/16 capital programmes has improved substantially over previous years.</p>
<p><b>Transfer of data to the IJB</b></p> <p>The move to integrated health and social care services requires the sharing of data between</p>	<ul style="list-style-type: none"> <li>We assessed the arrangements in place for data sharing and access to council systems.</li> </ul>	<p>A contract has been awarded to a consultant on behalf of the three Ayrshire councils and NHS Ayrshire and Arran to review each organisation's infrastructure and deliver a</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>council and health board colleagues.</p> <p><i>Risk: The council does not have robust arrangements in place to ensure the safe transfer of data between colleagues.</i></p>		<p>suitable solution. We followed up our work in this area and concluded that satisfactory progress was being made in implementing data access/transfer solutions.</p>
<p><b>ICT Strategy</b></p> <p>The council does not have an up to date ICT strategy in place.</p> <p><i>Risk: The absence of an up to date ICT strategy could result in a reactive rather than a proactive culture; technology not being applied to the right tasks, or in an ineffective manner; piecemeal developments; poor value for money and under or over-funding of ICT.</i></p>	<ul style="list-style-type: none"> <li>• We assessed progress on taking forward the findings Socitm review.</li> </ul>	<p>We confirmed that the council is developing an ICT Strategy as part of its Digital Transformation Programme.</p>

# Appendix II: Local audit reports 2015/16



# Appendix III: Audit Scotland national reports 2015/16



## Appendix IV: Action plan

No.	Page / paragraph	Issue/recommendation	Management action/response	Responsible officer / target date
1.	20/84	<p><b>Issue</b></p> <p>The council does not have a council-wide workforce plan setting out the size and constitution of workforce required to deliver future services and objectives.</p> <p><b>Recommendation</b></p> <p>The council should develop a workforce plan</p>	<p>The Council has a Workforce Strategy which was approved by Council in October 2015. This contains a series of Action Plans, with details of who is responsible to deliver these actions, which in most cases is Service Managers. Training was delivered to Managers by the Improvement Service at the end of 2015 to support the launch of this Strategy. Work has already started to deliver on these actions across a range of services and this work includes an analysis of workforce data against organisational objectives, future business needs, internal workforce demographics and capability, the external labour market and other environmental factors This work will continue and will form a corporate workforce plan in line with the Good Practice Guide which we will deliver by December 2017.</p>	<p>Corporate Management Team/Executive Director – Resources, Governance and Organisation</p> <p>December 2017</p>

No.	Page / paragraph	Issue/recommendation	Management action/response	Responsible officer / target date
2.	27/127	<p><b>Issue</b></p> <p>Inadequate staffing of internal audit, in terms of both numbers and qualifications, could lead to a degraded service to members and management.</p> <p><b>Recommendation</b></p> <p>Management review the provision of the internal audit service and implement a sustainable solution.</p>	<p>The staffing level and reporting lines for the Internal Audit section will be subject to review and consideration by Leadership Panel. The review will consider the requirements of PSIAS and practice in other Councils.</p>	<p>Chief Executive March 2017</p>
3.	35/179	<p><b>Issue</b></p> <p>The layout of the reported performance information is clear and accessible, and the inclusion an exception report to aid scrutiny is noted as good practice. The annual performance report would, however, provide better and more meaningful information to users if performance targets were included against each key measure.</p> <p><b>Recommendation</b></p> <p>Targets should be incorporated into the performance reports to allow members and stakeholders to better gauge performance against expectations.</p>	<p>This information is included within the annual report on Council performance being presented to Council on 8 October.</p>	<p>Head of Policy and Performance October 2016</p>

No.	Page / paragraph	Issue/recommendation	Management action/response	Responsible officer / target date
4.	38/199	<p><b>Issue</b></p> <p>Notwithstanding the low rates of return generally available, the rate of return on trust balances held in the council's loans fund appears to be considerably less than that available in the market.</p> <p><b>Recommendation</b></p> <p>While we acknowledge that there is a cost involved in an actively managed portfolio, trustees should assure themselves by means of a costs benefits analysis that they are obtaining, commensurate with risk appetite, the best returns possible.</p>	<p>A review of the David Edwards Elder Trust externally managed investment portfolio has commenced. This review will be expanded to consider the benefits of placing additional trust fund investments and potentially common good funds out to be externally managed. The review will consider the cost to benefit in conjunction with risk appetite.</p>	<p>Head of Finance and ICT</p> <p>March 2017</p>