

The Accounts Commission for Scotland

Agenda

Meeting on Thursday 11 December 2014
in the offices of Audit Scotland, 18 George Street, Edinburgh

The meeting will begin at 10.00am

1. **Apologies for absence.**
2. **Declarations of interest.**
3. **Decisions on taking business in private:** The Commission will consider whether to take items 10 to 14 in private.
4. **Minutes of meeting of 13 November 2014.**
5. **Minute of meeting of Financial Audit and Assurance Committee of 27 November 2014.**
6. **Minute of meeting of Performance Audit Committee of 27 November 2014.**
7. **Update report by the Secretary to the Accounts Commission:** The Commission will consider a report by the Secretary to the Commission on significant recent activity in relation to local government.
8. **Update report by the Controller of Audit:** The Commission will consider a verbal report by the Controller of Audit providing an update on his recent activity.
9. **Statutory report – South Ayrshire Council:** The Commission will consider a report by the Controller of Audit.

The following items are proposed to be considered in private:

10. **Statutory report – South Ayrshire Council:** The Commission will consider the action it wishes to take on the report.
11. **Review of Auditing Best Value:** The Commission will consider a report by the Director of Performance Audit and Best Value.
12. **Performance Audit Programme 2015/16:** The Commission will consider a report by the Director of Performance Audit and Best Value.
13. **Statutory performance information: 2014 Direction:** The Commission will consider a report by the Controller of Audit.
14. **Commission business matters:** The Commission will discuss matters of interest.

The following papers are enclosed for this meeting:

Agenda Item	Paper number
Agenda Item 4: Minutes of meeting of the Commission of 13 November 2014	AC.2014.10.1
Agenda Item 5: Minutes of meeting of the Financial Audit and Assurance Committee of 27 November 2014	AC.2014.10.2
Agenda Item 6: Minutes of meeting of the Performance Audit Committee of 27 November 2014	AC.2014.10.3
Agenda Item 7: Report by Secretary to the Commission	AC.2014.10.4
Agenda Item 9: Report by Controller of Audit	AC.2014.10.5
Agenda Item 11: Report by Director of Performance Audit and Best Value	AC.2014.10.6
Agenda Item 12: Report by Director of Performance Audit and Best Value	AC.2014.10.7
Agenda Item 13: Report by Controller of Audit	AC.2014.10.8

ACCOUNTS COMMISSION

MEETING 11 DECEMBER 2014

MINUTES OF PREVIOUS MEETING

Minutes of the meeting of the Accounts Commission held in the offices of Audit Scotland at 18 George Street, Edinburgh, on Thursday, 13 November 2014, at 10.00am

PRESENT: Douglas Sinclair (Chair)
Ronnie Hinds (Deputy Chair)
Alan Campbell
Sandy Cumming
Colin Duncan
Tim McKay
Christine May
Stephen Moore
Linda Pollock
Colin Peebles
Graham Sharp
Pauline Weetman

IN ATTENDANCE: Paul Reilly, Secretary to the Accounts Commission
Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value (PABV)
Ronnie Nicol, Assistant Director, PABV [Item 7]
Gordon Smail, Senior Manager, PABV [Item 7]
Phil Grigor, Project Manager, PABV [Item 7]
David McConnell, Assistant Director, ASG [Item 7]
Antony Clark, Assistant Director, PABV [Item 9]
Russell Frith, Assistant Auditor General [Item 12]

<u>Item No</u>	<u>Subject</u>
1.	Apologies for absence
2.	Declarations of interest
3.	Decisions on taking business in private
4.	Minutes of meeting of 9 October 2014
5.	Update report by the Secretary to the Commission
6.	Update report by the Controller of Audit
7.	Audit of Best Value (follow-up) – City of Edinburgh Council
8.	Briefing: Scottish Budget 2015/16
9.	Shared risk assessment 2015/16
10.	Local Government Benchmarking Framework
11.	Audit of Best Value (follow-up) – City of Edinburgh Council [<i>in private</i>]
12.	Application of ethical standards for auditors [<i>in private</i>]
13.	Commission business matters [<i>in private</i>]

1. Apologies for absence

It was noted that there were no apologies for absence.

2. Declarations of interest

The following declarations of interest were made:

- Ronnie Hinds, in items 7 and 11 as a senior officer in City of Edinburgh Council until 2006, and in item 10, as the former chair of the Local Government Benchmarking Board.
- Tim McKay, in items 7 and 11, as an elected member of City of Edinburgh Council until May 2012.
- Christine May, in items 7 and 11, as an owner of a property in the City of Edinburgh, and in item 9, as Vice-Chair of Fife Cultural Trust.
- Colin Peebles, in items 7 and 11, as a property owner and registered private landlord in the City of Edinburgh.
- Linda Pollock, in item 9, as a member of the board of the Care Inspectorate.
- Pauline Weetman, in items 7 and 11, as a resident of the City of Edinburgh.

3. Decisions on taking business in private

It was agreed that items 11 to 13 should be taken in private as they contained draft reports and confidential issues.

4. Minutes of meeting of 9 October 2014

The minutes of the meeting of 9 October 2014 were submitted and approved, subject to noting advice from the Secretary that:

- in relation to item 4 (second bullet point, second sub-bullet: The impact of welfare reforms on council rent arrears in Scotland), he wrote to council chief executives on 29 October commending the report, and the letter and report had been placed on the Commission members' portal.
- in relation to item 8 (third bullet point: annual strategy seminar), the annual strategy seminar would take place on 27-28 April 2015.
- in relation to item 10:
 - the report would be published on 27 November.
 - the Chair and the Auditor General gave evidence on 5 November to the Parliament's Local Government and Regeneration Committee as part of its scrutiny of the Community Empowerment.
 - the Chair and the Auditor General would brief the National Community Planning Group on the report at its meeting on 2 December.

5. Update report by the Secretary to the Accounts Commission

The Commission considered a report by the Secretary to the Commission providing an update on significant recent activity relating to local government and issues of relevance or interest across the wider public sector.

During discussion the Commission:

- noted advice from the Secretary that:
 - the Commission, represented by Douglas Sinclair, Sandy Cumming and Linda Pollock, met with the board of Moray Community Planning Partnership on 6 November to discuss the report of the Commission and Auditor General on the audit of the partnership, published on 10 July 2014.
 - the Chair and Deputy Chair met the Cabinet Secretary for Finance and Cabinet Secretary for Finance, Employment and Sustainable Growth, and the Minister for Local Government and Planning, on 11 November.
- in relation to paragraph 9 (Scottish Government development event for non-executive directors), heard feedback from Linda Pollock on the event, and noted that papers therefrom had been placed on the members' portal.

Thereafter the Commission noted the report.

6. Update report by the Controller of Audit

The Controller of Audit provided a verbal update on his recent activity including meetings and discussions with stakeholders, from which it was agreed that:

- the Controller of Audit engage in a fuller discussion with the Commission at its January meeting on issues emerging from his engagement with council chief executives.
- the Controller of Audit provide the Commission with a paper on the current budget deliberations by councils, including any themes emerging in relation to specific service areas.

Actions: Controller of Audit

7. Audit of Best Value (follow-up) – City of Edinburgh Council

The Commission considered a report by the Secretary introducing a follow-up report by the Controller of Audit of the Audit of Best Value – City of Edinburgh Council and seeking direction on how to proceed.

During consideration, the Commission agreed:

- that the Controller of Audit provide further information on progress with issues around the council's statutory repairs service.

Action: Controller of Audit

- that the Director of Performance Audit provide advice on the status of all councils' workforce strategies.

Action: Director of Performance Audit

- to note the report.
- to consider in private how to proceed.

8. Briefing: Scottish Budget 2015/16

The Commission considered a report by the Secretary to the Commission providing a briefing on the Scottish Draft Budget 2015-16 and highlighting some of the key issues for local government.

During consideration, the Commission agreed that the Secretary provide further information in relation to

- the in-principle educational outcomes-based approach referred to in paragraph 14.
- the Hostels Specific Resource Grant referred to in paragraph 19, and in particular its relation to budget provisions on homelessness.

Actions: Secretary to the Commission

Thereafter the Commission agreed to note the report.

9. Shared risk assessment 2015/16

The Commission considered a report by the Director of Performance Audit and Best Value informing of the proposed approach to, and timetable for, the 2015/16 shared risk assessment (SRA) process.

During consideration, the Commission agreed:

- that minutes of meetings of the Strategic Scrutiny Group be submitted formally to the Commission for its interest.
- that more information be provided on the actions proposed from Exhibit 2 in the report.

Thereafter the Commission agreed to endorse the approach to, and the timetable, for the 2015/16 SRA process.

10. Local Government Benchmarking Framework

The Commission considered a report by the Secretary to the Commission, who introduced representatives of the Local Government Benchmarking Framework in attendance to update the Commission on the progress of the project.

The Chair welcomed the representatives: Elma Murray, SOLACE representative on the project board and Chief Executive of North Ayrshire Council; Councillor Michael Cook, COSLA representative on the project board and Vice-President of COSLA; Mark McAteer, Director, Governance and Performance Management, Improvement Service; and Emily Lynch, Senior Project Manager - Performance Management & Benchmarking, Improvement Service.

Following discussion, the Commission agreed:

- to commend the representatives on the progress of the project.
- to note its particular ongoing interest in roads maintenance services, given its recent reports in this regard.
- to note that the Commission's annual performance Direction would be considered at its meeting on 11 December 2014.

Thereafter the Chair thanked the representatives for their presentation.

11. Audit of Best Value (follow-up) – City of Edinburgh Council [in private]

The Commission agreed that this item be held in private to allow it to consider how to proceed in relation to a report by the Controller of Audit.

The Commission discussed how to proceed in relation to the report by the Controller of Audit on the Audit of Best Value (follow-up) – City of Edinburgh Council.

Following discussion, the Commission agreed:

- to make findings, to be published in early course.
- to seek a private meeting with the Council to explain the reasons for its decision.

12. Application of ethical standards for auditors [in private]

The Commission agreed that this item be held in private to allow it to discuss the application of ethical standards for the Commission.

The Commission considered a report by the Assistant Auditor General inviting the Commission to discuss the application of ethical standards for auditors issued by the Financial Reporting Council to its own work.

Following discussion, the Commission agreed:

- to endorse the proposals set out in the report to apply such standards to its own work.
- to update its Code of Conduct in order to reflect the measures, subject to approval by Ministers.

Actions: Secretary to the Commission

13. Commission business matters [in private]

The Commission agreed that the Chair's update on Commission business matters be held in private to allow it to discuss issues of a confidential nature relating to the operations of the Commission.

The Chair briefed the Commission on matters of interest.

ACCOUNTS COMMISSION

MEETING 11 DECEMBER 2014

MINUTES OF MEETING OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE OF 27 NOVEMBER 2014

Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of Audit Scotland, 18 George Street, Edinburgh on Thursday, 27 November 2014, at 10.30am.

PRESENT: Graham Sharp (Chair)
Colin Duncan
Tim McKay
Linda Pollock
Pauline Weetman
Douglas Sinclair

OTHER COMMISSION MEMBERS PRESENT: Sandy Cumming

IN ATTENDANCE: Paul Reilly, Secretary to the Commission
Fraser McKinlay, Director of Performance Audit and Best Value (PABV) and Controller of Audit
Fiona Kordiak, Director of Audit Services
Elaine Barrowman, Senior Audit Manager, Audit Services [Item 8]
Anne MacDonald, Senior Audit Manager, Audit Services [Item 5]
Paul O'Brien, Senior Manager, Audit Strategy [Item 9]
Allister Perston, Audit Manager, Audit Services [Item 5]
Gordon Smail, Senior Manager, PABV [Item 7]
Gill Miller, Senior Performance Auditor, PABV [Item 7]

1. Apologies for absence
2. Declarations of interest
3. Introductory remarks
4. Draft minutes of meeting of 11 September 2014
5. Current audit issues in councils
6. Intelligence Report: Scottish Public Services Ombudsman, Commissioner for Ethical Standards in Public Life in Scotland; Standards Commission; and Information Commissioner
7. Local government overview report: emerging messages
8. Presentation: Local Government Pension Scheme
9. Accounting and auditing update
10. Annual audit in focus: a firm's perspective – a presentation by Jim Boyle, Partner, Deloitte
11. Any other business

1. Apologies

It was noted that no apologies for absence had been received.

2. Declarations of interest

The following declarations of interest were made:

- Tim McKay, in item 8, as former Chair of Lothian Pension Trustees.
- Linda Pollock, in item 5, as a member of the board of the Care Inspectorate.
- Douglas Sinclair, in item 6, as a member of the Public Services Ombudsman's Audit and Advisory Committee

3. Introductory remarks

The Chair advised that this was his first meeting of the Committee in his new role as Chair, and that he would be circulating around members of the Commission a paper setting out his intentions, in conjunction with the Commission Chair, for developing the role of the Committee. He indicated that he would encourage discussion on the paper.

4. Minutes of meeting of 11 September 2014

The minutes of the meeting of 11 September 2014 were approved.

Arising therefrom:

- In relation to item 3, second bullet point (Aberdeen City Council social care ALEO), Linda Pollock requested a copy of the paper tabled at the meeting.
Action: Secretary to the Commission
- In relation to item 4, the Committee noted advice from the Director of Performance Audit and Best Value (PABV) that:
 - In relation to the second bullet point (pay modernisation), the subject would feature in his report to the Commission on the performance audit programme.
 - In relation to the third bullet point (legacy liabilities), he would report to the Commission in this regard early in the New Year.

5. Current audit issues in councils

The Committee considered a report by the Director of Audit Services outlining emerging issues, recurring themes and individual issues of interest in Scottish councils, focusing on issues relevant to the annual audit.

The Committee also considered a supplementary report from the Director updating the Committee on the performance of Aberdeen City Council's local authority trading company, Bon Accord Care Ltd.

During discussion it was agreed:

- In relation to paragraph 7 of the report (council budgets):
 - to note advice from the Director of PABV that he would report to the Commission in the New Year on council budgets, including the definitive position in relation to budget shortfalls.

- to note advice from the Secretary that a briefing on progress with health and social care integration, including hearing from practitioners, was planned for the February meeting of the Commission.
- further in this regard, that the briefing include reference to the effect on health and social care integration of the current budget deliberations of health boards and councils.

Action: Director of PABV

- That, for future reports, the Appendix containing contextual information on councils be updated, including information on total population, budgets etc.
- In relation to the Appendix on individual councils:
 - to note advice from the Director of PABV that Aberdeenshire Council announced on 19 November that its new chief executive would be Jim Savege.
 - to note advice from the Director of PABV that potential issues around the use of accountancy firms by councils in consultancy or collaborative work would be part of considerations in the next round of audit appointments.
 - to note advice from the Controller of Audit that in the New Year he would be submitting to the Commission a report on the Best Value audit of East Dunbartonshire Council.
 - to note advice from the Controller of Audit that he continued to monitor various issues in Midlothian Council.
 - that the Director of Audit Services report further on the issues around the use of NHS counter-fraud services in partnerships.

Action: Director of Audit Services

- To note the additional report on Bon Accord Care Ltd.

Thereafter the Committee agreed to note the report.

5. Intelligence Report: Scottish Public Services Ombudsman, Commissioner for Ethical Standards in Public Life in Scotland; Standards Commission; and Information Commissioner

The Committee considered a report by the Secretary to the Accounts Commission providing an update for intelligence emerging from the work of the Scottish Public Sector Ombudsman (SPSO), Commissioner for Ethical Standards in Public Life in Scotland; Standards Commission for Scotland; and the Standards Commissioner.

Following discussion the Committee agreed:

- That in future reports, expanded intelligence from the Information Commissioner be provided.

Action: Secretary to the Commission

- To note the report.

6. Local government overview report: update paper

The Committee considered a report by the Director of Performance Audit and Best Value setting out the emerging messages from the 2015 local government overview report.

Following discussion the Committee agreed:

- Noted the potential links with the performance audit on borrowing and treasury management, and thus that the Director of PABV ensure that both draft reports make appropriate references when presented to the Commission.
- To endorse the emerging messages from the 2015 local government overview report, subject to a number of changes arising in discussion.
- That a draft report be brought to the Commission meeting in February 2015, prior to publication in March 2015.

Actions: Director of Performance Audit and Best Value

7. Presentation: Local Government Pension Scheme

The Committee considered a presentation by the Director of Audit Services on the 2013/14 audit of local government pension fund accounts. The presentation was undertaken by Elaine Barrowman, Senior Audit Manager, Audit Services Group.

Following discussion the Committee agreed:

- To note the issues raised in the presentation.
- That the Chair write to pension fund trustees and local authorities highlighting the headline messages arising from the audits.
- That local auditors follow up this letter with discussions with audited bodies.
- That it further consider longer-term issues arising from the audit during the next year.

Actions: Director of Audit Services

The Chair thanked Elaine Barrowman for her presentation.

8. Accounting and auditing update

The Committee considered a report by the Assistant Auditor General setting out accounting and auditing developments affecting the public sector, particularly local government in Scotland.

Following discussion, the Committee noted the report.

9. Annual audit in focus: a firm's perspective – a presentation by Jim Boyle, Partner, and Pat Kenny, Director, Deloitte

The Chair welcomed Jim Boyle, Partner, and Pat Kenny, Director, Deloitte, to the meeting, who delivered a presentation to the Committee illustrating the annual audit process from an auditing firm's perspective. In their presentation, they covered:

- Issues arising from the audit of financial statements.
- Other discussion points including best value.

Following discussion, the Chair thanked Jim Boyle and Pat Kenny for their presentation.

10. Any other business

The Chair advised that there was no other business for the Committee to consider.

ACCOUNTS COMMISSION

MEETING 11 DECEMBER 2014

MINUTES OF MEETING OF PERFORMANCE AUDIT COMMITTEE OF 27 NOVEMBER 2014

Minutes of meeting of the Performance Audit Committee of the Accounts Commission held in the offices of Audit Scotland, 18 George Street, Edinburgh on Thursday, 27 November 2014, at 2pm.

PRESENT: Ronnie Hinds (Chair)
Alan Campbell
Sandy Cumming
Christine May
Stephen Moore
Colin Peebles
Douglas Sinclair

IN ATTENDANCE: Paul Reilly, Secretary to the Commission
Fraser McKinlay, Director of Performance Audit and Best Value (PABV)
Ronnie Nicol, Assistant Director, PABV [Items 4 and 6]
Colin Bragg, Performance/Best Value Auditor, PABV [Item 6]
Tricia Meldrum, Senior Manager, PABV [Item 5]
Kathrine Sibbald, Senior Manager, PABV [Item 6]

<u>Item no.</u>	<u>Subject</u>
1.	Apologies for absence
2.	Declarations of interest
3.	Minutes of meeting of 11 September 2014
4.	Update on Performance Audit programme and <i>How Councils Work</i> series
5.	Performance audit: emerging messages – <i>Commonwealth Games (third report)</i>
6.	Performance audit impact report: <i>Housing in Scotland</i>
7.	Any other business

1. Apologies for absence

It was noted that no apologies for absence had been received.

2. Declarations of interest

The following declarations of interest were made:

- Christine May, in items 7 and 12, as Vice-Chair of Fife Cultural Trust.
- Colin Peebles, in item 6, as chair of Stirling, Falkirk and Clackmannan branch of Soldiers, Sailors, Airmen and Families Association (SSAFA) Forces Help, and as a property owner and registered private landlord.

3. Minutes of meeting of 29 May 2014

The minutes of the meeting of 29 May 2014 were approved as a correct record.

Arising therefrom, the Committee:

- In relation to item 4, first bullet point (Performance audit report: School Education), noted advice from the Director of Performance Audit and Best Value (PABV) that he would report to the next meeting of the Committee on the impact of the report.

Action: Director of PABV

- In relation to item 4, fifth bullet point (health and social care integration), noted advice from the Secretary that a briefing on progress in health and social care integration would take place at the February meeting of the Commission.
- In relation to item 7 (Performance audit report: Protecting consumers), noted advice from the Secretary that he would establish when a roundtable event was planned.

Action: Secretary to Accounts Commission

4. Update on Performance audit programme and *How Councils Work* series

The Committee considered a report by the Director of PABV providing an update on progress with performance audits and related impact reports and the *How Councils Work* series.

During discussion, the Committee:

- Agreed, in relation to the Commission performance audit report on School Education, to note advice from the Director that the audit team would be meeting the leadership team of Education Scotland, upon which he would report back at the next meeting of the Committee.
- In relation to the performance audit report on self-directed support:
 - Agreed to note advice from the Director that self-directed support would feature in his report to the Commission at its December meeting on the performance audit programme.
 - Agreed that the impact report include reference to savings from the initiative.
- Agreed, in relation to the Commission performance audit report on Procurement in councils, that the Director consider how due diligence might feature in performance audit work.

- Agreed to note advice from the Director that the issue of balance between new areas of work and follow-up/impact work would feature in his report to the Commission at its December meeting on the performance audit programme.
- In relation to the Commission performance audit report on roads maintenance, that the issue of road traffic numbers in relation to road condition be considered in scoping for the proposed follow-up report in this regard.

Actions: Director of PABV

Thereafter, the Committee noted the report.

5. Performance audit: emerging messages – Commonwealth Games (third report)

The Committee considered a report by the Director of PABV on the emerging messages from the performance audit *Commonwealth Games – third report*, a joint audit for the Accounts Commission and Auditor General. The report was complemented with a presentation from the audit team.

Following discussion, the Committee agreed:

- A number of specific points to be addressed by the audit team in drafting the report of the audit.
- To note that the approach taken by the Commission and Auditor General in producing three reports has so far allowed an effective longitudinal assessment of the Games project.
- To note that there remains an option of a further report in this regard in the future.

Actions: Director of PABV

6. Performance audit: impact report – Housing in Scotland

The Committee considered a report by the Director of PABV providing an update on the impact of the Accounts Commission's report on *Housing in Scotland* published in July 2013.

Following discussion, the Committee agreed:

- A number of specific points to be addressed by the audit team in drafting the final impact report.
- To recommend to the Commission that further thought be given by the Commission to performance audit work in relation to housing, in the context of its report at its December meeting on the performance audit programme.
- That, further in this regard, to recommend to the Commission that it consider follow-up work in this regard.
- That Audit Scotland liaise with the Housing, Regeneration and Welfare Finance Board to re-emphasise the messages of the report.
- To note the report and agree that it be published.

Actions: Director of PABV

7. Any other business

The Chair advised that there was no other business for the Committee to consider.

ACCOUNTS COMMISSION

MEETING 11 DECEMBER 2014

REPORT BY SECRETARY TO THE ACCOUNTS COMMISSION

UPDATE REPORT

Introduction

1. The purpose of this report is to provide a regular update to the Commission on significant recent activity relating to local government, as well as issues of relevance or interest across the wider public sector.
2. The regular Controller of Audit report to the Commission which updates the Commission on his activity complements this report. The Commission's Financial Audit and Assurance Committee also receives a more detailed update on issues relating to local government. Further, detailed news in relation to local government activity is provided in the weekly media digests produced by Audit Scotland's Communications Team and provided to Commission members alongside Commission meeting papers.
3. The information featured is also available on the Accounts Commission member portal. Hyperlinks are provided in the electronic version of this report for ease of reference.

Commission business

Impact of recent reports

4. As reported to the Accounts Commission meeting of 13 November 2014, [Orkney Community Planning Partnership](#) report was published on 6 November 2014. The Orkney CPP report secured good media coverage. Reporting was accurate, reflecting the report's key messages in Press Association copy, the *Orcadian*, *Press and Journal*, [BBC Online](#) and *BBC Radio Scotland*. There was also a more in-depth article by the Herald's Highland correspondent. The report's strong findings enhanced by the current media interest in health in Grampian and the north generated significant coverage. From publication up to 30 November 2014, there were 458 downloads of the main report and the podcast recorded 44 listens. The Accounts Commission is expected to meet with CPP Board in the New Year.
5. On 27 November 2014, the [Community Planning Partnership \(CPP\) Overview](#) report was published. The report received reasonable media coverage in the light of competition from significant news stories, e.g., the Smith Commission findings. The report was covered in [Public Finance](#), [Holyrood magazine](#), *Courier*, [Herald](#) Evening Times and [Evening Telegraph](#), although there was no broadcast or online coverage on STV or BBC websites. Coverage was generally fair and accurate. There was no third party comment apart from Hugh Henry, Convener of the Public Audit Committee, who said: "*Community planning is a dry title for something which affects the lives of every person in Scotland. We need to get this right so the Auditor General for Scotland (AGS) findings of inconsistencies in leadership, scrutiny and challenge are concerning. I know the Committee will want to explore these findings further with the AGS in our public meeting on 3 December before it decides what further action to take.*"

6. Online statistics for the report recorded 421 downloads of the main report and 18 listens to the Podcast up till 30 November 2014 in the short period since publication.
7. In [evidence](#) to the Local Government and Regeneration Committee on 26 November 2014, John Swinney, Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy, referred to the Accounts Commission CPP reports in response to a question from Alex Rowley MSP. He commented:

“While recognising and respecting the independent, democratic character of local government, we have tried to bring as much cohesion and synergy as possible to the setting of shared priorities at local level. That is the process that we have used to encourage that approach. We reinforced it by inviting the Accounts Commission to undertake reviews of the effectiveness of CPPs. The commission has carried out a number of reviews to assess whether, frankly, the rhetoric of the Government is translating into good operational practice at local level. It would be fair to say that there was some encouragement in among all that, but there were some challenges around what had to be achieved into the bargain.

The national community planning group brings together ministers, leading local authority figures, leading health board figures, Police Scotland, the Scottish Fire and Rescue Service, the enterprise companies, skills networks and a number of other public bodies to monitor and maximise the progress that we are making, so that we can see much greater evidence on the ground of budget sharing and complementarity between the budgets of different public bodies.”

8. The top report downloads during November 2014 were the [School Education](#) report, published in June 2014, at 999 and the Health Inequalities report, published in December 2012, at 1165.

Other Commission business:

9. The Chair of the Commission attended the Public Audit Committee of 3 December 2014 to give evidence on the joint Accounts Commission and Auditor General for Scotland Section 23¹ report, [Community planning: Turning ambition into action](#) (see para 28).
10. As reported to the Commission’s November meeting, the Scottish Government’s Public Bodies Unit hosted a [Development Event for Non-Executive Directors](#) on 3 November 2014. Linda Pollock attended the seminar on behalf of the Accounts Commission and briefed members at the previous meeting. Seminar material on [Good Governance in the Scottish Government](#) and information from the [Permanent Secretary](#) is now available for reference on the members’ portal.

Auditor General for Scotland:

11. A number of articles featuring contributions from the Auditor General for Scotland (AGS) have been published over the last month. In November 2014, the Certified Public Accountants (CPA) Ireland website featured an article, [Fighting Corruption and Fraud. The role of Professional Accountants](#) by the AGS, on her work as chair of the International Ethics Standards Board for Accountants (IESBA) Task Force, to establish how professional accountants should respond when they encounter fraud or illegal

¹ The Auditor General for Scotland (AGS) reports to the Public Audit Committee under Section 23 of the Public Finance and Accountability Act on economy, efficiency and effectiveness of public sector bodies (excluding local government).

activity. She presented an update on the project which aims to enhance the independence provisions in the Code of Ethics for Professional Accountants at the World Congress of Accountants [conference](#) in Rome on 11 November 2014. In addition, Public Finance International magazine published an [interview](#) with Caroline Gardner in a special edition on the Congress. On 2 December 2014, Public Finance featured an interview with Caroline Gardner, entitled [Gardner: we need whole picture on Scotland's public finances](#). She discusses the need for better tools for monitoring Scotland's public finances to go with its new devolved powers.

12. Online statistics for the [NHS in Scotland 2013-14](#) report, published on 30 October 2014, show it continues significant internet interest with 1247 downloads of the main report, 76 downloads of the text only version, 117 downloads of the supplement and 30 listens to the podcast.

Audit Scotland:

13. The [Audit Scotland Newsletter - November 2014](#) includes an article by John Maclean, the new Chair of the Audit Scotland Board, in which he sets out his priorities for the year ahead. Copies of previous newsletters can be read on Audit Scotland's [website](#).
14. Audit Scotland published a briefing on [Complaints Handling – Staff Update](#) in November 2014. This update presents the findings of a review of Audit Scotland's complaints handling arrangements conducted earlier in the year and presented to the Audit Scotland Board. It provides information on the findings of the review, a message from John Maclean, Chair of the Board on the importance of effective complaints handling as well as a reminder of the complaints handling arrangements. Further information on the detailed complaints procedure is available on Audit Scotland's [website](#).

Issues affecting local government

Scottish Government:

15. On 21 November 2014, the First Minister, Nicola Sturgeon, announced her new Cabinet. More details of the [Ministerial Appointments](#) are available at on the Scottish Government [website](#) and at [BBC online](#). The full Cabinet team was named as follows:
 - Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy - **John Swinney MSP**. He retains in his portfolio some areas of interest to the Commission, such as public service reform, public bodies policy and efficient government
 - Cabinet Secretary for Health, Wellbeing and Sport - **Shona Robison MSP** (replacing Alex Neil MSP).
 - Cabinet Secretary for Justice - **Michael Matheson MSP** (replacing Kenny MacAskill MSP).
 - Cabinet Secretary for Education and Lifelong Learning - **Angela Constance MSP** (replacing Mike Russell MSP).
 - Cabinet Secretary for Fair Work, Skills and Training - **Roseanna Cunningham MSP**.
 - Cabinet Secretary for Infrastructure, Investment and Cities - **Keith Brown MSP**
 - Cabinet Secretary for Social Justice, Communities and Pensioners' Rights - **Alex Neil MSP** (move from Health). His portfolio includes local government,

community planning and community empowerment, as well as democratic renewal, elections, planning, building standards, business improvement districts, town centres, housing, welfare, measures against poverty and homelessness, the third sector and the social economy, equality, social and human rights, religious and faith organisations, cross-government co-ordination on pensioners' rights, and welfare.

- Cabinet Secretary for Rural Affairs, Food and Environment - **Richard Lochhead MSP**
- Cabinet Secretary for Culture, Europe and External Affairs - **Fiona Hyslop MSP**

16. In addition to these Cabinet posts, **Marco Biagi MSP** was appointed as the new Minister for Local Government and Community Empowerment.
17. The Scottish Government published its legislative programme, entitled [One Scotland - Programme for Government 2014-15](#) on 26 November 2014. The document sets out the Scottish Government's legislative priorities for the year ahead, as well as summarising achievements to date and future aims. The programme includes 12 Bills:
 - Budget Bill
 - Education Bill
 - Higher Education Governance Bill
 - Carers' Bill
 - Public Health Bill
 - Human Trafficking and Exploitation Bill
 - Fatal Accident Inquiries Bill
 - Community Justice Bill
 - Land Reform Bill
 - Succession Bill
 - Harbours Bill
 - Community Charge Debt Bill
18. The First Minister, Nicola Sturgeon presented the legislative programme to the Scottish Parliament, on 26 November 2014. The [Official Report](#) of the session and the [Minutes of Proceedings](#) are available on the Scottish Parliament [website](#). More details of the programme are available at the Scottish Government [website](#) and [BBC online](#).
19. On 25 November 2014, the Scottish Government published statistics on [Recorded Crime in Scotland, 2013-14](#). The bulletin presents statistics on crimes and offences recorded and cleared up by the police in Scotland in 2013-14. Statistics on crimes and offences recorded by the police provide a measure of the volume of crime with which the police are faced. More details, including the full Excel spreadsheets, are available at the Scottish Government [website](#).

Scottish Parliament:

Chamber Proceedings:

20. On 19 November 2014, Nicola Sturgeon was elected as [First Minister](#) by the Scottish Parliament, following the resignation of Alex Salmond on 19 September 2014. The Official Report is available on the Scottish Parliament [website](#) and more details are available at [BBC online](#).

Parliamentary Committee News:

Local Government and Regeneration Committee:

21. At its meeting of 19 November 2014, the Committee heard evidence at Stage 1 on [Air Weapons and Licensing \(Scotland\) Bill](#).
22. The meeting of 24 November 2014 was a single item agenda to take further evidence on the [Community Empowerment \(Scotland\) Bill](#) at Stage 1.
23. On 26 November 2014, the Committee took evidence on the [Scottish Government's Draft Budget 2015-16](#) from a number of senior councillors and officers of local authorities.
24. The Committee continued its consideration of the [Air Weapons and Licensing \(Scotland\) Bill](#) at Stage 1 at the 3 December 2014 meeting. Also at this meeting, the Committee considered its report on the Scottish Government Draft Budget 2015-16.
25. The Committee's membership has recently been renewed. Clare Adamson MSP and Willie Coffey MSP have been appointed to the Committee replacing Mark McDonald MSP and Stuart McMillan MSP.

Public Audit Committee:

26. At its 19 November meeting, the Committee considered the Auditor General for Scotland's Section 22 report entitled, [The Scottish Government consolidated accounts 2012/13: Common Agricultural Policy Futures programme](#). It took evidence from Caroline Gardner, Auditor General for Scotland; and Gemma Diamond, Senior Manager, Audit Scotland. The Committee agreed to note the evidence received and agreed to consider an update to the report from the Auditor General for Scotland in early 2015.
27. Also at this meeting, the Committee considered a [response](#) from Glasgow Kelvin College to the Section 22 report, [The 2012/13 audit of North Glasgow College](#). It agreed to note the response and to seek written evidence from the Scottish Government and the Scottish Funding Council on issues raised in discussion.
28. In addition, the Committee considered several Section 23 reports by the Auditor General for Scotland, namely:
 - [Reshaping care for older people](#): The Committee considered a [response](#) from the Scottish Government. It agreed to note the response and agreed to consider a further response from the Scottish Government in 2015.
 - [Managing early departures from the Scottish public sector](#): The Committee considered a [written submission](#) from the Scottish Government on the report. It agreed to note the submission.

- [Modern apprenticeships](#): The Committee considered written submissions from [Skills Development Scotland](#) and the [Scottish Government](#) on the report. It agreed to note the submissions.
 - [Self-directed support](#): The Committee considered a [written submission](#) from the Scottish Government on the report. It agreed to note the submission.
29. The Committee considered its future work programme and agreed to undertake a fact finding visit to NHS Tayside. The Committee also agreed to meet in Inverness in early 2015 to take evidence from NHS Highland on the Auditor General for Scotland's report, [The 2013/14 audit of NHS Highland: Financial management](#).
30. At the meeting of 3 December 2014, the Committee considered the joint Accounts Commission and Auditor General for Scotland and Section 23 report, [Community planning: Turning ambition into action](#). It took evidence from Douglas Sinclair, Chair of the Accounts Commission; Caroline Gardner, Auditor General for Scotland; and Antony Clark, Assistant Director, Best Value, Scrutiny and Improvement, Audit Scotland. The Committee also considered a draft report on the Auditor General for Scotland report, [Accident and Emergency- performance update](#).
31. There have been a number of changes to the PAC's membership. Nigel Don MSP replaces Willie Coffey MSP; David Torrance MSP replaces Bruce Crawford MSP and Gil Paterson replaces James Dornan MSP. Sandra White MSP replaces David Torrance as the SNP substitute member for the Committee.

Infrastructure and Capital Investment Committee:

32. At its meeting of 26 November 2014, the Committee heard evidence on the Scottish Housing Regulator annual report 2013-14. It also considered a draft report to the Finance Committee on the Scottish Government's [Draft Budget 2015-16](#) and agreed to consider a further draft report at its next meeting.
33. On 3 December, the Committee continued its consideration of a draft report to the Finance Committee on the Scottish Government's [Draft Budget 2015-16](#).

Finance Committee:

34. On 19 November 2014, the Committee took evidence on [further fiscal devolution](#) as part of its continuing inquiry.
35. At its meeting of 26 November 2014, the Committee heard evidence on the Scottish Government's [Draft Budget 2015-16](#) and Devolved Taxes Implementation.
36. At the 1 December 2014 meeting which was held in Arran High School, Lamlash, Arran, the Committee continued its scrutiny of the [Draft Budget 2015-16](#): Members reported on the outcomes of the workshop sessions involving local organisations which preceded the meeting. In the formal session, the Committee heard evidence on the [Draft Budget 2015-16](#) from John Swinney, Cabinet Secretary for Finance, Constitution and Economy and senior Scottish Government officials.

Welfare Reform Committee

37. At its meeting of 18 November 2014, the Committee considered a draft Stage 1 report on the [Welfare Funds \(Scotland\) Bill](#). It also took evidence on the Scottish Government's [Draft Budget 2015-16](#).

38. The Committee continued its consideration a draft Stage 1 report on the [Welfare Funds \(Scotland\) Bill](#).at its meeting of 2 December 2014. It also considered a draft report to the Finance Committee on the [Draft Budget 2015-16](#).

Devolution (Further Powers) Committee

39. At its meeting of 2 December 2014, the Committee took evidence from Lord Smith of Kelvin, Chair, and Jenny Bates, Head of Secretariat, [The Smith Commission](#). The Committee will next meet on 4 December 2014 when it is due to take evidence from the Alistair Carmichael, Secretary of State for Scotland, Scotland Office; and from John Swinney, Deputy First Minister & Cabinet Secretary for Finance, Constitution and Economy, Scottish Government.

Justice Committee:

40. At its meeting of 25 November 2014, the Committee heard evidence on the Scottish Government's Draft Budget 2015-16 from Chief Constable Sir Stephen House; Deputy Chief Constable Neil Richardson; Michael Matheson, Cabinet Secretary for Justice designate; and senior officials form Police Scotland and Scottish Government..

Bills – Progress Updates:

41. The [Community Empowerment \(Scotland\) Bill](#) was introduced by the John Swinney MSP, Cabinet Secretary, on 11 June 2014. Stage 1 consideration is due to be completed by 6 February 2015. The Local Government and Regeneration Committee is the lead committee.
42. Consideration of the [Criminal Justice \(Scotland\) Bill](#) at Stage 2 is continuing – a completion date has not yet been considered. Stage 1 consideration was completed on 27 February 2014. The lead committee is the Justice Committee.
43. Stage 1 consideration of the Government Bill, [Air Weapons and Licensing \(Scotland\) Bill](#) (introduced 14 May 2014) continues. The Local Government and Regeneration Committee is lead committee. Stage 1 is due to be completed by 3 April 2015..
44. The [Welfare Funds \(Scotland\) Bill](#) was introduced by Nicola Sturgeon MSP, Cabinet Secretary, on 10 June 2014. The lead committee is the Welfare Reform Committee. Stage 1 is due to be concluded on 19 December 2014.
45. The [Courts Reform \(Scotland\) Bill](#) was passed at Stage 3 on 7 October 2014. The [Courts Reform \(Scotland\) Act 2014](#) received Royal Assent on 10 November 2014.

Recess Dates:

46. The Scottish Parliament will be in recess from 19 December 2014 until 4 January 2015 inclusive.

Smith Commission - Updates:

47. On 27 November 2014, the Smith Commission published its [Report of the Smith Commission for further devolution of powers to the Scottish Parliament](#). The report outlines Heads of Agreement on proposals for the further devolution of powers to the Scottish Parliament. The report was produced following nine plenary sessions of cross-party talks involving all five of Scotland's main political parties represented in the

Scottish Parliament, i.e., Conservative, Green, Labour, Liberal Democrat and the SNP, and a series of bilateral meetings with Lord Smith. It makes a series of proposals for powers arranged according to three pillars or broad principles (set out below). It also identifies a number of additional issues for consideration which do not involve the devolution of a power to the Scottish Parliament but where there is agreement that the Scottish and UK Governments should work together.

- Pillar 1: Providing for a durable but responsive constitutional settlement for the governance of Scotland.
 - Pillar 2: Delivering prosperity, a healthy economy, jobs, and social justice.
 - Pillar 3: Strengthening the financial responsibility of the Scottish Parliament.
48. The UK Government has stated its intention to produce draft clauses implementing the consensus set out in the report. These clauses will be published by 25 January 2015. More information on the Commission can be found on its [website](#).
49. The Smith Commission also published [Submissions to the Smith Commission – Summary Report](#) summarising responses to its [public consultation](#) on further powers to be devolved to the Scottish Parliament in November 2014, before the publication of its final report. The summary sets out an analysis of the further powers the public said should, or should not be devolved to the Scottish Parliament and outlines the broad reasons people gave to support their submissions. It includes text of the campaigns and petitions received and examples of the range of submissions received by the Commission. Over the five week consultation period, 407 submissions were received from organisations and groups and over 18,000 submissions from the public. The submissions, including those from the [Accounts Commission](#) and [AGS](#), are available on the Commission's [website](#).
50. I will report further to the Commission on the implications of the Smith Commission's report, on its work and that of the AGS and Audit Scotland.

COSLA, Improvement Service etc.:

51. The COSLA Convention met on 31 October 2014. Major items of business considered at the meeting included: responding to the Lord Smith Commission, Police Scotland: Governance and Scrutiny report and Management of COSLA's strategic activity. More details including summaries of the business and public reports are available at COSLA's [website](#). The COSLA Leaders Group met on 21 November 2014 (the summary of meeting is not yet available). The [COSLA 2015 conference](#) has been scheduled for 12 to 13 March 2015 at Crieff Hydro Hotel.

Current activity and news in local government:

Individual councils:

52. The following paragraphs highlight current activity and news occurring in local government over the previous month as well as developing issues. The items are drawn from a range of sources including news articles, websites and media summaries. Some of the more significant issues are highlighted in the following sections.
53. Holyrood Magazine has announced the [shortlist](#) for its inaugural Scottish Public Service Awards. Caroline Gardner, AGS, is a member of the judging panel. The

winners will be presented at an ceremony hosted by the First Minister and Presiding Officer, to be held on 12 December 2014 at the Scottish Parliament.

54. Council nominees have been shortlisted in six categories (listed below):
- Emerging Talent Award - Ms Nicole Paterson, Land Services Manager, Stirling Council.
 - Engagement Award - Arrears Task Group, West Lothian Council.
 - Innovation in Public Service Delivery Award - Call Blockers, Angus, East Renfrewshire and East Dunbartonshire Councils.
 - Project and Programme Management Award - City Operations, Glasgow 2014 Commonwealth Games and Flooding Team, Perth and Kinross Council.
 - Employee Engagement and Skills Award - Education and Children's Services Facilities, Management Team, Perth and Kinross Council.
 - Leadership Award - Leaders and Chief Executives of Comhairle Nan Eilean Siar, Orkney Islands Council and Shetland Islands Council.

People and Appointments:

55. On 7 November 2014, Annemarie O'Donnell was announced as [Chief Executive of Glasgow City Council](#) to replace George Black, who retires in December 2014.
56. On 19 November 2014, Jim Savege was [announced](#) as the new Chief Executive of Aberdeenshire Council. He is currently Corporate Director for Environmental and Community Services at Cumbria County Council. He is expected to take on the role of Chief Executive in February 2015 and replaces the outgoing Chief Executive, Colin Mackenzie who announced his [retirement](#) in September 2014. Also at Aberdeenshire Council, SNP candidate Ross Cassie won the [Troup ward](#), held on 27 November 2014. This was a gain for the SNP. The by-election was held following the death in September of Conservative councillor John Duncan. More information is available on the council's [website](#).
57. Councillor Stewart Cree was announced as the new [Leader of the Moray Council](#) on 18 November 2014. His appointment follows the resignation of former Leader, Councillor Allan Wright, over a schools vote. More details are available at [BBC online](#). A by-election will be held for the Elgin City North ward on 11 December 2014 following the resignation of Councillor Barry Jarvis (Labour). The council's Administration is currently an Independent / Conservative coalition.
58. On 18 November 2014, Councillor Steven Heddle (Independent), Convener of Orkney Islands Council, was elected as [President of Islands Commission of the Conference of Peripheral Maritime Regions \(CPMR\)](#). The commission represents 23 island regions across 12 European countries, and more than 15 million people. More details are available at [BBC online](#).
59. Leslie Manson (Independent) won the [Kirkwall West and Orphir ward](#) by-election for Orkney Islands Council, held on 27 November 2014. The by-election was held following the resignation of Jack Moodie (Independent) in September 2014.
60. In an article published in the Guardian on 24 November 2014 entitled [Is saving Newcastle a mission impossible?](#), Nick Forbes, Leader of Newcastle City Council,

discusses the continuing financial crisis facing the council. The full article is available at the Guardian's [website](#).

Scrutiny and Inspection Bodies

Healthcare Improvement Scotland (HIS):

61. On 2 December 2014, HIS published two reports relating to Aberdeen Royal Infirmary. Together the reports form part of a [comprehensive review](#) into the safety and quality of care at Aberdeen Royal Infirmary (ARI). The review was initiated on 10 June 2014, when NHS Grampian invited HIS to undertake a detailed review of the leadership, culture, behaviours and values of ARI. More details are available on HIS [website](#).
62. The [Aberdeen Royal Infirmary: Short-Life Review of Quality and Safety](#) report identified a range of concerns regarding leadership, governance, culture and inappropriate behaviours which impact on the quality of care at ARI and have the potential to have a more serious impact if not urgently addressed by NHS Grampian. The report makes a series of recommendations for improvement focussing on Patient outcome, patient experience data, complaints management, leadership and culture, governance and accountability, staff governance as well as recommendations from the Royal College of Surgeons (England) and the unannounced Older People in Acute Hospitals inspection. HIS, along with other key stakeholders, will support the development of NHS Grampian's action plan to implement the recommendations.
63. The [Unannounced Inspection Report – care for older people in acute hospitals](#) presents the findings of an unannounced inspections to Aberdeen Royal Infirmary and Woodend Hospital carried out between 6 October and 10 October 2014. The inspection on the care of older people with dementia and cognitive impairment, nutritional care and hydration, and preventing and managing pressure ulcers. Overall, the report highlighted one area of strength and listed 22 areas for improvement. These included the management of patient flow and capacity in ARI and Woodend Hospital which is not fit for purpose and puts patient safety at risk; and senior nurse and medical leadership which must regain the confidence of staff by addressing the issues of staffing, staff motivation, and patient flow and capacity. The report recommends that NHS Grampian must now implement its recommendations and prioritise areas where improvement is required to meet a recognised standard.

Her Majesty's inspectorate of Constabulary of Scotland (HMICS):

64. The HMICS report [Crime Audit 2014](#) published on 12 November 2014, presents the findings of an assessment of the state, efficiency and effectiveness of crime recording by Police Scotland and the extent to which recording practice complies with the Scottish Crime Recording Standard and Scottish Government Counting Rules. Overall, the quality of most incident and crime recording decisions by Police Scotland is good. 92 per cent of incidents were closed correctly and 94 per cent of crime was counted and classified correctly. There is scope for improvement, concerning areas including sexual offences and non-crime related incidents. More details are available on HMICS [website](#).
65. Also published on 12 November 2014, [HMICS - Review of Scottish Police Authority - Terms of Reference](#) sets out the Terms of Reference for HMICS first review of the Scottish Police Authority. HMICS undertook in its Scrutiny Plan for 2014-15 to carry out a programme of reviews of the SPA and Police Scotland. The fieldwork is ongoing and the review will be concluded in early 2015. A report is due to be published and laid

before the Scottish Parliament and published in March 2015. More details are available on HMICS [website](#).

Scottish Public Sector Ombudsman (SPSO):

66. The [SPSO News – November](#) was published on 19 November 2014. The November newsletter summarises October case numbers, outlines Investigations Reports, recent SPSO news and highlights current issues, including in this month's edition, the Ombudsman's annual letters to local authority Chief Executives providing annual statistics for each local authority about complaints to SPSO. More information on the SPSO's work, including detailed Investigations and decision reports, can be found on the [Our findings](#) webpage. More detailed intelligence in this regard was considered by the Financial Audit and Assurance Committee on 27 November 2014.

Commissioner for Ethical Standards in Public Life in Scotland:

67. From 1 November to 3 December 2014, the Commissioner published decisions on four complaints, of which two cases were found to be no breaches and two were not pursued. More detailed intelligence in this regard was considered by the Financial Audit and Assurance Committee on 27 November 2014.

Standards Commission for Scotland:

68. From November to 3 December 2014, the [Standards Commission](#) undertook two hearings to investigate complaints against councillors (referred from the [Commissioner](#)), namely [Councillor George Black](#), West Dunbartonshire Council and [Councillor Barbara Grant](#), East Renfrewshire Council, which were held on 4 November and 2 December 2014 respectively. More detailed intelligence in this regard was considered by the Financial Audit and Assurance Committee on 27 November 2014.

Scottish Information Commissioner (SIC):

69. The SIC [2013/14 Annual Report Taking FOI forward](#), published in September 2014 outlines the performance of SIC across the year and presents plans to progress FOI in Scotland in future. The report provides an overview of performance statistics and the organisation's performance in fulfilling its role. For the first time, national statistics about FOI requests in Scotland were collected and collated. A total of 578 requests, covering 35 different subject areas, were received in 2013/14. The vast majority of these related to FOI appeals (88 per cent) and the remainder to Environmental Information (Scotland) Regulations (EIR). There 2,008 enquiries, the highest number to date and an increase of 11 per cent on 2012/13. More detailed intelligence in this regard was considered by the Financial Audit and Assurance Committee on 27 November 2014.

Other UK Audit Bodies

National Audit Office:

70. NAO published a report on [Financial sustainability of local authorities 2014](#) on 19 November 2014. The report concluded that local authorities have worked hard to manage reductions in government funding, but there is considerable variation in the scale of funding reductions faced by different authorities. The Department for Communities and Local Government (DCLG) must be better informed about the situation across England. This is the NAO's first report on local government since the

announcement of the wind up of Audit Commission on 31 March 2015. More details are available on NAO's [website](#).

71. Also published on 19 November, [The Impact of Funding Reductions on Local Authorities](#) found significant variation in the way that authorities have responded to the funding reductions. Authorities experiencing larger cuts in government funding have been less able to protect funding of adults' and children's social care as effectively as those facing lower cuts. This report is designed to complement the NAO report, [Financial sustainability of local authorities 2014](#), More details are available on NAO's [website](#).
72. On 26 November 2014, NAO published [Universal Credit: progress update](#). It found that the Department for Work and Pensions (DWP) has placed Universal Credit on a sounder basis but at significant cost. Delivery risks have been reduced by extending the implementation phase and opting for a more expensive approach. It concludes that it is too early to determine if the DWP will achieve value for money in its implementation of Universal Credit. More details are available on NAO's [website](#).

Westminster

Public Accounts Committee:

73. On 26 November, the Chair of the Committee, Rt Hon Margaret Hodge MP issued a critical [statement](#) in response to the NAO report, [Universal Credit: progress update](#). She commented that, "*The Department for Work & Pensions is still not getting it right on Universal Credit, its single biggest programme which all parties support and want to see work.*" Concluding her statement, she urged, "*Given its track record, the Department needs to get its act together quickly if it is to deliver a system that vulnerable benefit claimants can rely on.*"
74. The Committee launched an inquiry into the [Financial sustainability of local authorities](#) on 24 November 2014. The inquiry will investigate the spending power of local authorities in the event of further funding reductions. On 26 November 2014, the Committee held an evidence session as part of the inquiry. The session explored issues raised in the NAO report, [Financial sustainability of local authorities 2014](#). Sir Bob Kerslake, Permanent Secretary, Department for Communities and Local Government (DCLG) was among witnesses who gave evidence.

Scottish Affairs Committee:

75. At its meeting of 3 December 2014, the Committee took evidence from Lord Smith of Kelvin on the [Smith Commission's proposals](#) for the further devolution of powers to the Scottish Parliament, following the publication of the Commission report on 27 November 2014. The Committee questioned Lord Smith on the Commission's proposals which include devolving powers over income tax and Air Passenger Duty, some benefits and the election and running of the Scottish Parliament.

Treasury Committee:

76. On 4 November 2014, the Treasury Committee held an evidence session as part of announced its ongoing inquiry into [Proposals for further Fiscal and Economic Devolution to Scotland](#).

Information and Intelligence

77. Fiscal Affairs Scotland published [Long-term Scottish Budget Predictions](#) in November 2014. This analysis paper provides projections for the Scottish government's discretionary budget (Barnett Block grant or Departmental Expenditure Limit (DEL)) up to 2018-19. It aims to assist bodies in receipt of public funding, to plan their future spending plans. More information is available on Fiscal Affairs Scotland's [website](#).

Conclusion

78. The Commission is invited to consider and note this report.

Paul Reilly
Secretary to the Accounts Commission
3 December 2014

ACCOUNTS COMMISSION

MEETING 11 DECEMBER 2014

COVER NOTE BY SECRETARY TO THE COMMISSION

STATUTORY REPORT: SOUTH AYRSHIRE COUNCIL

Purpose

1. The purpose of this report is to introduce a report by the Controller of Audit on South Ayrshire Council. The Commission is invited to consider the report and decide how it wishes to proceed.

Background

2. At its meeting on 13 February 2014, the Commission considered a report by the Controller of Audit on Best Value in South Ayrshire Council, which covered the extent to which the council is meeting its statutory duty, with a focus on leadership and culture, performance management and scrutiny.
3. In its findings published on 27 February 2014 (attached in the Appendix), the Commission expressed serious concern about the Council's inability, over a number of years, to fulfil its Best Value responsibilities and achieve continuous improvement. The Commission required a further report by the Controller of Audit on the progress made by the Council by December 2014 at the latest. The Commission stated that on receipt of this report, further action that it might take may include a requirement for further reports from the Controller over time until the Commission is satisfied that a culture of improvement at the council is embedded fully.

The report

4. The attached report to the Commission is made by the Controller of Audit under section 102(1) of the Local Government (Scotland) Act 1973 (as amended by subsequent legislation including the Local Government in Scotland Act 2003).
5. The legislation enables the Controller of Audit to make reports to the Commission with respect to:
 - a) the accounts of local authorities audited under the Act;
 - b) any matters arising from the accounts of any of those authorities or from the auditing of those accounts being matters that the Controller considers should be considered by the local authority or brought to the attention of the public.
 - c) the performance by a local authority of their statutory duties in relation to best value and community planning.
6. A copy of the report is being sent to the Council, which is obliged to supply a copy to each elected member of the Council and to make additional copies available for public inspection. Once the Controller of Audit's report is sent to the Council it is effectively in the public domain.

Procedure

7. The legislation provides that, on receipt of a Controller of Audit report, the Commission may do, in any order, all or any of the following, or none of them:
 - (a) direct the Controller of Audit to carry out further investigations;
 - (b) hold a hearing;
 - (c) state its findings.

8. If the Commission considers that it requires further information to proceed with its consideration of the report, it may direct the Controller of Audit to carry out further investigations. If the Commission is satisfied with the information which it has, it may wish to proceed to make findings unless members consider that a hearing is necessary.
9. The circumstances in which the Commission may wish to hold a hearing may include:
 - where the Commission has serious concerns about the performance of a local authority as demonstrated in the audit report; or
 - where there is a strong difference of opinion between the Controller of Audit and the local authority.
10. Findings may include recommendations and the persons to whom those recommendations may be made include Scottish Ministers, who have powers to make an enforcement direction requiring an authority to take such action as is specified in the direction.
11. Members of the audit team will be present at the Commission's meeting and will be available to answer questions on the evidence presented in the report.

Conclusion

12. The Commission is invited to:
 - consider the report by the Controller of Audit on South Ayrshire Council; and
 - decide how it wishes to proceed.

Paul Reilly
Secretary to the Commission
3 December 2014

Appendix 1 : Commission findings on Best Value audit report, South Ayrshire Council, February 2014

1. The Accounts Commission accepts the Controller of Audit's report on the targeted Best Value audit covering leadership and culture, performance management and scrutiny in South Ayrshire Council.
2. We are seriously concerned about the council's inability, over a number of years, to fulfil and sustain its statutory Best Value responsibilities, ie continuous improvement in the above areas. The depth and pace of improvement in these areas have been inadequate and, while there are signs of improvement, these should have been established much earlier. However, we acknowledge and recognise that the performance of council services raised no significant concerns.
3. The people of South Ayrshire and its communities are entitled to expect the leadership of the council to take the steps necessary to embed and sustain continuous improvement and to address the major challenges facing the council. It is the responsibility of all councillors to provide strong strategic leadership and to ensure that the council has the senior management capacity to support change and sustain improvement. Equally, the public and council staff expect senior management to provide clear leadership and consistent corporate working to address the lack of progress to date and help deliver the future success of the council. In particular, the chief executive has a key leadership role in embedding a positive organisational culture.
4. Councillors and senior officers must have a clear and shared understanding of their respective roles and responsibilities. Working together, they must build trust and confidence that each will deliver what is expected of them in leading and managing the council. However well intended, it is not the role of a council Leader to be involved in the operational management of a council; that is the responsibility of the chief executive.
5. We are also concerned that the council has not had a corporate plan since 2012 and that this is likely only to be resolved in March 2014. A corporate plan has a key role in ensuring that all departments and individual staff are focussed on common strategic objectives. Without a plan, there is no clear statement of the council's priorities for services and improvement. Nor is there clear information about how it will address significant national issues, such as health and social care integration, in the context of other priorities and challenges.
6. Scrutiny and performance management arrangements are ineffective. Councillors must ensure that the council's scrutiny arrangements are fit for purpose and transparent. They must also insist on receiving comprehensive information that is accurate, timely and consistent across services. Officers must ensure that performance reports support effective scrutiny and that the underpinning management processes support service improvements.
7. We require progress to be made as a matter of urgency. Otherwise, the weaknesses identified by the targeted audit of Best Value will increasingly have a negative impact on the services that the council provides for people and communities in South Ayrshire and on the public's confidence in the council.
8. It is essential that the corporate plan and supporting service and resource plans are in place and that these are implemented and monitored from the start of the 2014/15 financial year. These must include a clear commitment to Best Value and how that will be achieved and sustained. Within these plans, the Commission requires explicit references to the significant weaknesses highlighted in the Controller of Audit's report. Those explicit references should set out specifically what will be done, by whom and when, and how progress will be measured and reported.
9. We are of the firm view that Best Value can only be achieved when councillors and officers have the necessary support and skills to carry out their roles. The challenges the council faces in establishing and sustaining effective leadership and improvement are both deep rooted and

substantial. The council as a matter of urgency needs to seek external assistance through, for example, peer support and assistance from the Improvement Service.

10. We require a further report by the Controller of Audit on the progress made by the council by December 2014 at the latest, and earlier if the Controller identifies concerns that he considers should be brought to our attention before then. When we receive the Controller's report we will decide what further action we need to take. This may include a requirement for further reports from the Controller over time until the Commission is satisfied that a culture of improvement at the council is embedded fully.

South Ayrshire Council

Statutory Report following the 2013/14 Annual Audit

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Purpose

1. I am making this statutory report to the Accounts Commission under Section 102(1) of the Local Government (Scotland) Act 1973.
2. Its purpose is to bring to the Commission's attention the 2013/14 annual audit report for South Ayrshire Council, and to provide an update on the council's progress following the Best Value audit report published on 27th February 2014.

Background

3. At its meeting in February 2014 the Commission considered my report on Best Value in South Ayrshire Council, which covered the extent to which the council is meeting its statutory duty, with a focus on leadership and culture, performance management and scrutiny. In its Findings on my report (Appendix 1), the Commission expressed serious concern about the council's inability, over a number of years, to fulfil its Best Value responsibilities and achieve continuous improvement.
4. The Commission was also concerned about:
 - inadequate depth and pace of improvement;
 - strategic leadership by councillors and effective relationships between members and officers;
 - senior management capacity to support change, sustain improvement and embed a positive organisational culture;
 - the lack of a corporate plan, the need for clarity on council priorities and the importance of supporting service and resource plans across the council;
 - ineffective scrutiny and performance management arrangements.
5. The Commission called for the council to make progress as a matter of urgency, noting that weaknesses would have an increasingly negative impact on the services the council provides for people and communities in South Ayrshire.
6. Given the nature of the issues facing the council, the Commission indicated that it might need regular assurance over time before it is satisfied that a culture of improvement is fully embedded in South Ayrshire, and asked me to provide a further report by December 2014 on the progress made. Auditors have monitored the situation and assessed action taken by the council during the intervening period. Our conclusions are summarised in the Annual Audit Report (AAR) for the council, which I have attached to this report (Appendix 2) and cross-referenced throughout this report.

The council's response to the Best Value report

7. The Commission recognised that South Ayrshire Council faces challenges that are deep rooted and substantial. However, I can report that the council has shown a positive attitude in responding to the Commission's report. It quickly acknowledged and accepted the Accounts

Commission's findings, and there is clear evidence of it taking action aimed at addressing the weaknesses identified. Work has started against all the recommendations in the Best Value audit report.

8. An early development was the creation of a Best Value working group, comprised of elected members from across political parties and senior officers, to identify what action needs to be taken and to monitor progress. The working group undertook self-evaluation, including use of Best Value toolkits, to investigate further where improvements can be made. This approach has provided focus and direction for members and senior officers and has contributed to improved leadership during this period (paragraph 15 and 132 of the AAR).

Planning and performance management

9. In February, the Accounts Commission expressed concern that the council had not had a corporate plan in place since 2012. It considered it essential that a corporate plan and supporting service and resource plans were in place for the start of the 2014/15 financial year. Paragraphs 135 to 139 of the annual audit report outline the business planning framework that the council now has in place.
10. Members approved the "Council Plan" in March 2014 and this incorporates the council's overall improvement agenda. One of its strategic objectives is to 'Improve the way that we work as a council' and it lists the outcomes that it wants to achieve:
 - Ensuring that our assets are fit for purpose;
 - Continuing to improve procurement;
 - Providing equality of opportunity in our service provision;
 - Developing our workforce and maximising attendance;
 - Using performance management and self evaluation to drive improvement; and
 - All services are systematically reviewed using a standard methodology every three years
11. The council has also developed 11 Service and Improvement Plans (SIPs), which incorporate the actions and sub-actions services will take to contribute to the council achieving its strategic objectives and outcomes. At the time of the auditors' review, the council was developing "team plans" related to the SIPs. These arrangements should provide a framework to cascade the council's strategic objectives throughout the organisation. The council has also refreshed its staff appraisal process, which includes links between personal objectives, the SIPs and team plans, and is supported by a competency framework. The process is being applied across the whole council.
12. The SIPs are supported by performance indicators that will measure the council's progress in delivering planned outcomes. It is intended that service performance will be monitored through six monthly reports on the SIPs to the new Service and Performance Panel, which recently had its first meeting. The council is also developing its self-evaluation approach, How Good is Our Council (HGIOC). The Director of Education and his staff, who are more familiar

with the approach, initially led this work but there is evidence that other services are taking a more active role in leading discussions at HGIOC evaluation events.

13. The council recognises that planning and performance management is an evolving process and that it still has work to do, particularly in refining its vision and developing more tangible strategic objectives. The council should use the Council Plan as a core building block in developing clear direction for the council, and to start measuring and monitoring performance against this. The council should also agree a clear plan for how and when the strategic objectives will be reviewed and refined.
14. Overall, the new arrangements provide the council with the opportunity to place a greater focus on service performance and continuous improvement. However, at the time of our audit work, the system was just becoming operational. Indeed, the new Service and Performance Panel only met for the first time in September. The new arrangements need time to become fully embedded within the council before we can assess their effectiveness and impact.

Scrutiny and governance arrangements

15. In its last report, the Accounts Commission said that the council's scrutiny arrangements were ineffective. While the council had an active audit committee, two of its three scrutiny panels met infrequently and lacked a clear remit to monitor and challenge service performance. The council has taken action intended to improve these arrangements, agreeing a revised structure for scrutiny in July 2014 (paragraphs 93-97 of the AAR). The previous four Scrutiny Panels (the three Standing Scrutiny Panels and the Scrutiny and Governance Management Panel) were replaced with four new panels:
 - Audit and Governance Panel
 - Service and Performance Panel
 - Partnership Panel
 - Public Processes Panel
16. The council agreed remits for these panels and appointed Chairs in July 2014 and Vice Chairs in August 2014. An Independent councillor, who is not a member of the current administration, chairs the Audit and Governance Panel. This is in line with good practice principles for audit committees. The council has established new standing orders and introduced a scrutiny handbook to support its new arrangements and the Improvement Service is providing external support during the early stages of implementation.
17. However, it is too early to assess the effectiveness of the changes in scrutiny, as the revised structure and scrutiny tools have still to be fully implemented and embedded. In any event, successful scrutiny also requires that structures are managed effectively and that both members and officers engage properly in the process. The council will need to ensure that the flow of information is consistent, balanced and well-managed across the system, and that the different remits of the Panels remain clear in practice. The council must also maintain transparency in its decision-making and regularly monitor risks to this. Auditors will keep the new system under review as it develops.

Roles and responsibilities

18. The Commission's February report on Best Value found that senior officers were not working well as a team. Since then, the council has revised its management structures for Chief Officers, and these were approved in May 2014. This includes a move from three Executive Directors to two, with the deletion of the post of Executive Director for Care, Learning and Wellbeing as a result of services being delegated to the Shadow Integration Board and the new Director for Health and Social Care post established within that arrangement.
19. The restructure created a new Director of Educational Services post, which incorporates the existing remit of the Head of Education as well as early years and childcare, and additional support needs. The posts of Head of Children's Services and Head of Community Care and Housing, were deleted, also as a result of the Shadow Integration Board developments.
20. The council has made a number of other changes to strengthen the Corporate Management Team (CMT). This includes a Head of Policy and Performance post that will have responsibility for Best Value, the Single Outcome Agreement, the Council Plan, oversight of Service and Improvement Plans, performance and public affairs. The council is also in the process of creating a Business Improvement Team, reporting to the Chief Executive, which aims to provide additional capacity and resource to support business change in the council.
21. While there is still some ongoing recruitment to these positions, there are early indications of cultural change. Both officers and members speak of there being a more corporate and collegiate environment, and there is evidence of structured and strategic discussions at CMT meetings supported by monitoring and tracking of decisions and actions required. Members of the CMT have been assigned corporate responsibilities and at an Away Day in October they worked on developing a Team Charter.
22. The Chief Executive and the CMT as a whole are developing their leadership roles and working to embed a positive organisational culture across the council. Members of CMT are showing a better understanding of their roles and responsibilities, aided by the introduction of business planning arrangements. Once the full CMT is in place, it should take the opportunity to ensure a broad, common understanding amongst all council staff about the roles and responsibilities of CMT and the role of the new Business Improvement Team.
23. In relation to improving strategic leadership by elected members, the council accessed external support from the Improvement Service on the roles and responsibilities for members and on governance issues. Attendance at a session on roles and responsibilities in May 2014 involved 24 of the 30 councillors. A series of training events on a range of specific topics has also been established, which are held regularly on Wednesday afternoons. Attendance at these sessions has been consistently good, and included for example, briefings from Audit Scotland staff on recent reports by the Accounts Commission.
24. A degree of political tension remains, but this will be more easily managed if councillors and senior officers have a clear and shared understanding of their respective roles and responsibilities. Working together, they must build trust and confidence that each will deliver what is expected in leading and managing the council. Following the changes in management

structure, the council should consider how effectively the political portfolio positions align with service development and delivery.

25. The council's Best Value Working Group has cross party representation and gives councillors ownership of the council's improvement agenda. Elected members demonstrate a good understanding of the council's business planning arrangements and the role that they have in scrutinising council and service performance.

Conclusions

26. The council has responded quickly and positively to the Accounts Commission's findings. It has made clear progress in creating a framework to deliver on its Best Value duties, and there is some evidence of a changing culture and increased commitment. This has been achieved at a good pace, over a relatively short period, which is significant given the scale of improvements needed and the deep rooted nature of the weaknesses that were affecting the council. It is too early to evidence the full impact of the actions taken.
27. It will be important for members and officers to sustain this improvement and begin to realise the benefits of the work done so far. Developing and embedding a culture of continuous improvement is critical, and there are a number of specific areas where the council needs to ensure ongoing focus. These include:
- maintaining a political commitment to make the revised approach to scrutiny work and assessing the effectiveness of the new approach in addressing previous weaknesses;
 - ensuring the new business planning and performance management arrangements deliver improvements in services for the public and outcomes for communities;
 - maintaining the improvements made in corporate leadership and management and developing senior management capacity to drive change and transformation.

Fraser McKinlay
Controller of Audit
December 2014

Appendix 1

Commission findings on Best Value audit report, February 2014

- The Accounts Commission accepts the Controller of Audit's report on the targeted Best Value audit covering leadership and culture, performance management and scrutiny in South Ayrshire Council.
- We are seriously concerned about the council's inability, over a number of years, to fulfil and sustain its statutory Best Value responsibilities, ie continuous improvement in the above areas. The depth and pace of improvement in these areas have been inadequate and, while there are signs of improvement, these should have been established much earlier. However, we acknowledge and recognise that the performance of council services raised no significant concerns.
- The people of South Ayrshire and its communities are entitled to expect the leadership of the council to take the steps necessary to embed and sustain continuous improvement and to address the major challenges facing the council. It is the responsibility of all councillors to provide strong strategic leadership and to ensure that the council has the senior management capacity to support change and sustain improvement. Equally, the public and council staff expect senior management to provide clear leadership and consistent corporate working to address the lack of progress to date and help deliver the future success of the council. In particular, the chief executive has a key leadership role in embedding a positive organisational culture.
- Councillors and senior officers must have a clear and shared understanding of their respective roles and responsibilities. Working together, they must build trust and confidence that each will deliver what is expected of them in leading and managing the council. However well intended, it is not the role of a council Leader to be involved in the operational management of a council; that is the responsibility of the chief executive.
- We are also concerned that the council has not had a corporate plan since 2012 and that this is likely only to be resolved in March 2014. A corporate plan has a key role in ensuring that all departments and individual staff are focussed on common strategic objectives. Without a plan, there is no clear statement of the council's priorities for services and improvement. Nor is there clear information about how it will address significant national issues, such as health and social care integration, in the context of other priorities and challenges.
- Scrutiny and performance management arrangements are ineffective. Councillors must ensure that the council's scrutiny arrangements are fit for purpose and transparent. They must also insist on receiving comprehensive information that is accurate, timely and consistent across services. Officers must ensure that performance reports support effective scrutiny and that the underpinning management processes support service improvements.
- We require progress to be made as a matter of urgency. Otherwise, the weaknesses identified by the targeted audit of Best Value will increasingly have a negative impact on

the services that the council provides for people and communities in South Ayrshire and on the public's confidence in the council.

- It is essential that the corporate plan and supporting service and resource plans are in place and that these are implemented and monitored from the start of the 2014/15 financial year. These must include a clear commitment to Best Value and how that will be achieved and sustained. Within these plans, the Commission requires explicit references to the significant weaknesses highlighted in the Controller of Audit's report. Those explicit references should set out specifically what will be done, by whom and when, and how progress will be measured and reported.
- We are of the firm view that Best Value can only be achieved when councillors and officers have the necessary support and skills to carry out their roles. The challenges the council faces in establishing and sustaining effective leadership and improvement are both deep rooted and substantial. The council as a matter of urgency needs to seek external assistance through, for example, peer support and assistance from the Improvement Service.
- We require a further report by the Controller of Audit on the progress made by the council by December 2014 at the latest, and earlier if the Controller identifies concerns that he considers should be brought to our attention before then. When we receive the Controller's report we will decide what further action we need to take. This may include a requirement for further reports from the Controller over time until the Commission is satisfied that a culture of improvement at the council is embedded fully.

Appendix 2

Annual Report on the 2013/14 audit



South Ayrshire Council

Annual report on the 2013/14 audit

Prepared for the members of South Ayrshire
Council and the Controller of Audit

October 2014



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Key messages

Financial statements

- Unqualified auditor's report on the 2013/14 financial statements.
- Unqualified auditor's reports on the nine charitable trusts administered by the council.

Financial position

- An underspend of £7.708m against service budgets partly due to unexpended earmarked reserves brought forward from 2012/13.
- Usable reserves have decreased by £1.581m to £43.965 m.
- HRA underspends exceed £11m over 5 years. The budget requires a fundamental review.
- The council is in a strong position to meet future financial challenges.

Governance & accountability

- The council has implemented a new more performance focussed political governance structure.
- Systems of internal control operated effectively.
- The council has an effective internal audit function and sound anti-fraud arrangements.

Best Value, use of resources & performance

- The council has responded positively to the findings and serious concerns expressed by the Accounts Commission after the 2014 Best Value audit.
- It has made progress in creating a framework for Best Value, but it is too early to assess the impact of this on the effectiveness of performance management and the pace of improvement.

Outlook

- Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care. Effective arrangements for Best Value will be essential for efficient use of available resources, and strong governance and leadership will be needed to achieve continuous improvement.

Financial Statements

1. We have given an unqualified audit opinion that the financial statements of South Ayrshire Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2014 and of the income and expenditure for the year then ended.
2. We have also given unqualified audit opinions on the 2013/14 financial statements of nine charitable trusts audited under the provisions of the Charities Accounts (Scotland) Regulations 2006.
3. Overall, the council reported an underspend against budget of £7.642 million. Underspends were recorded across all services, the most significant of which were in Resources, Governance and Organisation and Economy, Neighbourhood and Environment.
4. The Housing Revenue Account (HRA) has continued the pattern of underspending against its expenditure budget noted in previous years. For 2013/14, the underspend amounted to £3.369 million or 11.5% of the original budget. Underbudgeted income of £0.142 million increased the total underspend to £3.511 million. It is our view that budget setting for the HRA is fundamentally unsound. We have recommended that Housing Services re-examine its budget building methodology and its demand models with the assistance of the Finance Service and ensure that a credible budget is in place for 2015/16.

Financial position

5. The general fund balance as at 31 March 2014 decreased by £1.532 million, to £22.926 million. This balance is made up of earmarked commitments of £12.748 million and an unallocated balance of £10.178 million. The HRA balance as at 31 March 2014 decreased by £1.145 million, to £13.455 million. This balance is made up of earmarked commitments of £12.862 million and an unallocated balance of £0.583 million.
6. The council held net assets of £288.115 million at 31 March 2014 and usable reserves amounted to £43.965 million.
7. The council set its 2014/15 budget and indicative budgets for 2015-16 and 2016/17 in December 2013 with updates approved in March 2014. The 2014-15 budget assumes savings of £4.593 million with efficiency requirements of £5.270 million and £8.278 million in 2015/16 and 2016/17.
8. The council's capital programmes have been subject to considerable slippage in previous years. Following a reorganisation of the responsibilities for delivery of the capital programme the council delivered an enhanced capital programme during 2013/14. In effect it regained some of the ground lost in previous years.
9. Although the persistent under spending against budgets has significantly contributed to the level of reserves the council is now in a strong position to meet future financial challenges.

Governance and accountability

10. The council has recently reviewed its scrutiny arrangements and implemented a new governance structure. Although it is too early to make a firm judgement on the effectiveness of the new structure, it looks to have a tighter focus on the key issues of governance and service performance.
11. During 2014 two failures of the council's email system gave rise to serious concerns. The council's response was to employ external expertise to assess the current resilience of the council's systems and report back on the necessary remedial steps.
12. In all other aspects the council's governance and accountability arrangements were operating satisfactorily.
13. The council is well advanced in implementing the integration of health and social care agenda. The Shadow Integration Board has been convened, a director appointed and the council has resolved that all of its social care services will be delegated to the joint board.

Best Value, use of resources and performance

14. The Accounts Commission published a report on South Ayrshire Council, Targeted Best Value Work, in February 2014. The Accounts Commission's findings expressed concerns

about the council's inability, over a number of years, to fulfil and sustain its statutory Best Value responsibilities.

15. The council has shown a positive attitude in responding to the report findings and recommendations. It acknowledged and accepted the Accounts Commission's findings, and there is clear evidence of action being taken aimed at addressing the weaknesses identified. A review of progress highlighted that the council has started to address all the recommendations raised in the report. A Council Plan has now been approved along with supporting Service Improvement Plans. A revised political governance and management structure is in place.
16. The council has introduced new arrangements for the scrutiny of performance through the new Service and Performance Panel. Its remit is to review and monitor the council plan and service and improvement plans.
17. The new structures and arrangements provide the council with the opportunity to place a greater focus on achieving Best Value. However, the arrangements need time to be fully embedded within the council before their effectiveness can be assessed. Continuous improvement will also need to be a long-term focus of the council, requiring full involvement of members and officers to maintain progress.

Outlook

18. The council will continue to operate in an environment which is

Key Messages

subject to sustained pressure to deliver more with less. Major reforms to the welfare system and health and social care are already presenting significant financial and governance challenges. The potential for a changing political and fiscal landscape following the independence referendum adds a further layer of uncertainty in the coming years. Effective working with partners will be required to make the best use of available resources as well as innovation and vision to design and deliver the services needed to serve the future needs of citizens.

19. The council has made clear progress in creating a framework to deliver on its Best Value duties. It must now turn its attention to further developing, refining and implementing its plans and processes to ensure that it achieves the benefits of the work done so far. Developing a new culture of continuous improvement, and ensuring a shared organisational purpose that embeds strategic priorities across services to individual staff members, will be a critically important but longer term task.

Introduction

20. This report is a summary of our findings arising from the 2013/14 audit of South Ayrshire Council. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model and includes a separate section on the findings from our audit of charitable trusts administered by the council.
21. Our responsibility, as the external auditor of South Ayrshire Council, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.
22. The management of South Ayrshire Council is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
23. This report is addressed to the members of South Ayrshire

Council and the Controller of Audit and should form the basis of discussions with the Audit and Governance Panel as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.

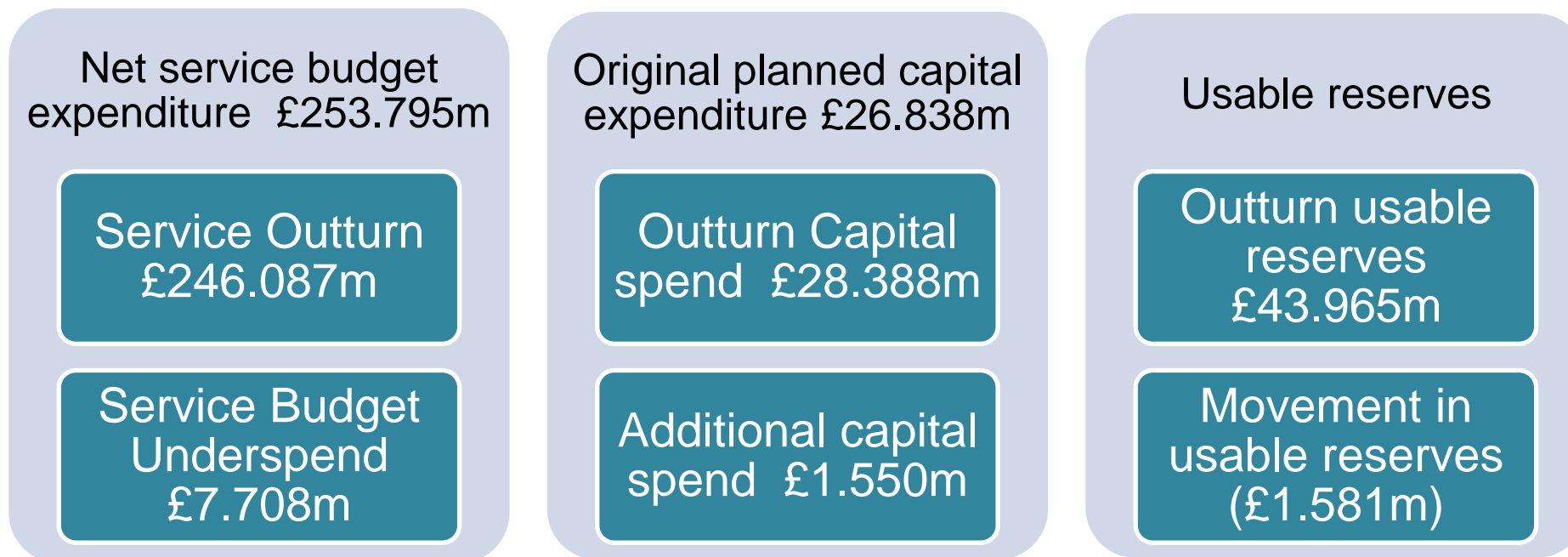
24. This report will be published on our website after it has been considered by the council. The information in this report may be used for the Account's Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
25. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, shown at **appendices I and II**, include recommendations for improvements. We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of South Ayrshire Council.
26. The concept of audit risk is of key importance to the audit process. 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. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix III** sets out the significant audit

Introduction

risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

27. **Appendix IV** is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response".
28. We recognise that not all risks can be eliminated or even minimised. What is important is that South Ayrshire Council understands its risks and has arrangements in place to manage these risks. The council and executive officers group should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
29. 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.
30. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements



Audit opinion

31. We have given an unqualified opinion that the financial statements of South Ayrshire Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2014 and of the income and expenditure for the year then ended.

Other information published with the financial statements

32. Auditors review and report on other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.

Legality

33. We considered the legality of the council's business by way of a range of procedures, including the review of council papers and minutes, sample testing of transactions and obtaining written assurances from the Head of Finance and ICT (section 95 officer). There are no legality issues arising from our audit which require to be reported.

The audit of charitable trusts

34. We have given an unqualified opinion on the 2013/14 financial statements of each of the nine charitable trusts administered by South Ayrshire Council.
35. We have provided further background and comment in the appropriate section of this report.

Group accounts

36. South Ayrshire Council has accounted for the financial results of two subsidiaries and three associates in its group accounts for 2013/14. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £28.010 million.
37. The net assets of the group at 31 March 2014 totalled £316.125 million, compared to net assets of £64.378 million in 2012/13. The movement in the closing net asset balance is

mainly due to the transfer of police and fire services to new national authorities from 1 April 2013 and the consequent removal of police and fire service pension liabilities from the group balance sheet.

Accounting issues arising

Presentational and monetary adjustments

38. A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the unaudited financial statements to correct all errors. The effect of these adjustments was to decrease expenditure and increase net assets by £0.016 million.
39. The most significant change required was £0.723 million adjustment to the Housing Revenue Account. This was a result of a miscategorisation of capital expenditure as revenue. Due to the nature of the transactions (purchase for demolition and impairment charge to HRA) the effect on the HRA and Comprehensive Income and Expenditure Statement was neutral.
40. In addition, a number of non-monetary presentational misstatements or omissions were identified during the course of the audit which have been amended in the audited financial statements.

Financial position

41. There are no unadjusted errors or misstatements to bring to your attention.

Whole of government accounts

42. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted the consolidation pack for audit by the deadline. This has been audited and the audited return submitted to the Scottish Government.

Report to those charged with governance

43. We presented to the Audit and Governance Panel, on 24 September 2014, our report to those charged with governance (ISA 260). The primary purpose of that report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The issues raised, and not discussed elsewhere in this report, are set out in the following paragraphs.
44. **Approval of unaudited accounts:** The new Local Government Authority Accounts (Scotland) Regulations 2014 apply for financial years 2014/15 onwards. The regulations set out in more detail what is required in respect of financial management and internal control, and in respect of the annual financial statements. The regulations require unaudited accounts to be submitted to the council or a delegated

committee by 30 June each year. The annual governance statement should also be approved by members prior to being signed. It has not previously been the practice to submit annual accounts to council (or relevant panel) prior to submission for audit.

45. While the council is mostly compliant with the amended regulations consideration will need to be given to the regulations to ensure full compliance in 2014/15.

Recommendation 1

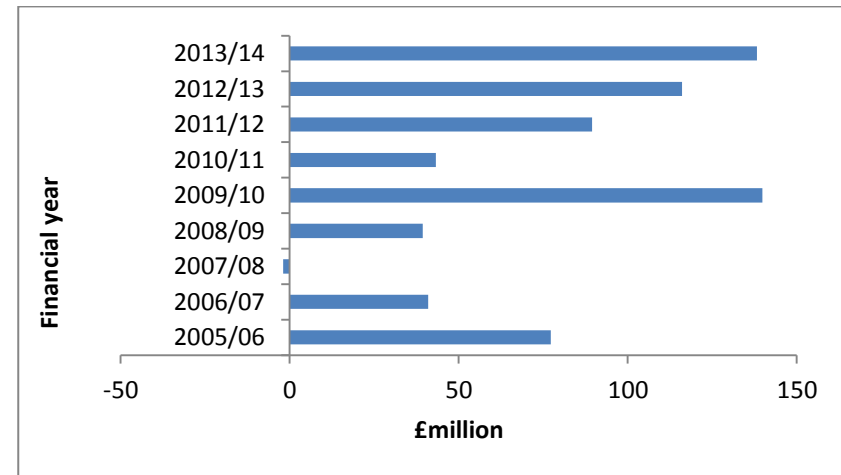
46. **Employee related claims:** In previous years, we commented that the council had made a provision to meet the costs arising from equal pay compensation claims. As a result of a recent decision by the European Court of Justice, the council revised its provision during the year to include potential claims arising from that decision. Based on current information the level of provision is considered to be adequate at this time, however, the ultimate cost to the council remains uncertain.
47. **Reduction in net assets:** The net assets on the council's balance sheet have decreased from £301.607 million in 2012/13 to £288.115 million in 2013/14, a reduction of £13.492 million. The principal reason for this decrease is the £22.123 million increase in the pension liability from £116.054 million to £138.177 million. This is also reflected in the balance sheet for the group.
48. The pension liability represents the difference between

Financial position

expected future pension payments and the underlying value of pension fund assets available to meet this cost. The valuation of pension fund assets and liabilities is assessed by professional actuaries each year and is dependent on a number of external variables, principally projected rates of return on assets, interest rates and mortality rates.

49. In year payments made to the pension fund by the council comprise employer and employee contributions, the rates for which are set on a triennial basis. At the last triennial valuation the Strathclyde Pension Fund was 97.3% funded and had assets of £11.3 billion. The next valuation will take place in 2014 with new contribution rates in place from 1st April 2015. The volatility of the pension asset / liability in recent years is set out in at exhibit 1.
50. The pension reserve, included within unusable reserves in the balance sheet, absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding these benefits. This accounting arrangement ensures that there is no impact on the bottom line of the council's financial position.
51. **Non-current asset valuations:** Audit testing identified a small number of assets with an incorrect valuation recorded in the asset register maintained by Property and Risk Services. The net effect of the errors increased the value of non-current assets in the balance sheet by £0.025 million.

Exhibit 1: Movement of pension (asset)/liability 2005-2014



Source: South Ayrshire Council audited accounts 2005/06-2013/14

52. **Group accounts:** The status of Ayr Renaissance as an associate was reviewed for group accounts purposes. It was considered more appropriate to consolidate the body as a subsidiary in 2013/14. The impact on the figures disclosed in the group accounts is neutral with no change to the group's net assets.

Outlook

53. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The main changes to the Code for 2014/15 affect the group financial

Financial position

statements and include a change to the definition of control. The introduction of the changes is unlikely to have a significant impact on the council's group accounts.

54. The council's highway assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code will require highways to be measured, for the first time, on a depreciated replacement cost basis. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets. The council should make early preparations to ensure full compliance with the Code in 2016/17.

Recommendation 2

Financial position

General services

55. In December 2012 the council approved a net revenue budget for 2013/14 of £246.0 million which was subsequently revised to £252.5 million in February 2013. The budget was based on a band D council tax of £1,154. In setting its budget the council planned to use £1.307 million from unallocated reserves and £7.867 million from earmarked reserves.
56. In 2013/14 the council spent some £384.133 million on the provision of services to the public. Its income totalled £369.653 million, resulting in a deficit on the provision of services of £14.480 million. After adjustments to reflect the difference between the accounting deficit and statutory requirements the decrease in usable reserves was £1.581 million.
57. Overall the council reported an underspend against budget of £7.642 million. Underspends were recorded across all services, the most significant of which were in Resources, Governance and Organisation and Economy, Neighbourhood and Environment.
58. The underspend in Resources, Governance and Organisation amounted to £3.661 million. The underspend of £0.646 million against the employee costs budget was a significant element of the underspend, which officers attributed to the non filling of vacant posts.
59. However, the most significant element of the underspend was £1.253 million in respect of the central repairs budget. Officers acknowledged the underspend as unsatisfactory and provided a detailed explanation for the underspend, essentially a resourcing issue. Officers expect that the structural changes introduced and the development of improved processes will bring about future improvements in delivery.
60. Economy, Neighbourhood and Environment reported an underspend of £2.768 million for 2013-14. The most significant underspend was £1.704 million on employee costs due to unfilled vacancies. Approval was granted for the carry forward of £2.662 million of funding for specific projects, a number of which are phased over several years, for example, £0.869 million for enterprise and tourism projects and £0.450 million Ayr Gaiety Partnership five year funding.
61. 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.
62. The outturn of the general services budget is, broadly, satisfactory. However, there are a number of pockets of

Financial position

underspending/overspending against budget lines which require attention and where necessary adjustments to ensure that the budget approved is up to date and reflects the underlying cost of the service level required.

Recommendation 3

Bed and breakfast accommodation costs

63. In our annual report of 2012/13 we noted that a significant cost (in excess of £2 million over a five year period) was being absorbed by the council's general fund in respect of bed and breakfast accommodation provided to homeless persons. We recommended that the council reviewed its strategy for the provision of temporary accommodation. Housing Services moved with commendable speed to prepare a new strategy, based on the leasing of properties through a private sector company.
64. The new arrangements will, however, take some time to take full effect. The cost to the general fund during 2013/14 was some £0.335 million. South Ayrshire Council remains amongst the highest spenders in this respect. We will continue to monitor progress and report in future years' annual reports.

Housing Revenue Account

65. 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. The HRA budget was set on 18 December 2012 based on a council resolution of November 2011 which approved a fixed rent increase of 5.2% for the years 2012/13 to 2014/15.
66. We have commented in previous years on underspends recorded against budget. The table at exhibit 2 sets out the 2013/14 and cumulative five year underspends on the HRA. It is our view that budget setting for the HRA is fundamentally unsound. The Housing Service should re-examine its budget building methodology and its demand models with the assistance of the Finance Service and ensure that a credible budget is in place for 2015/16.

Recommendation 4

67. Variance explanations, for the HRA, recorded in budget monitoring reports are in some cases difficult to understand and frequently provide no activity based explanation for variances. Senior management should ensure that, in budget monitoring reports, members are being provided with adequate explanations, based on underlying activity, for all significant variances.

Exhibit 2: HRA underspends 2009/10 - 2013/14

Budget line	Underspend 2013/14	Underspend 5 year total
	£'000	£'000
Employee costs	570	2,889
Property	2,205	5,195
Supplies/services	102	513
Transport	25	82
Administration	131	675
Support services	67	226
Agency payments	12	(482)
Transfer payments	23	92
Financing	234	1,922
Total	3,369	11,112

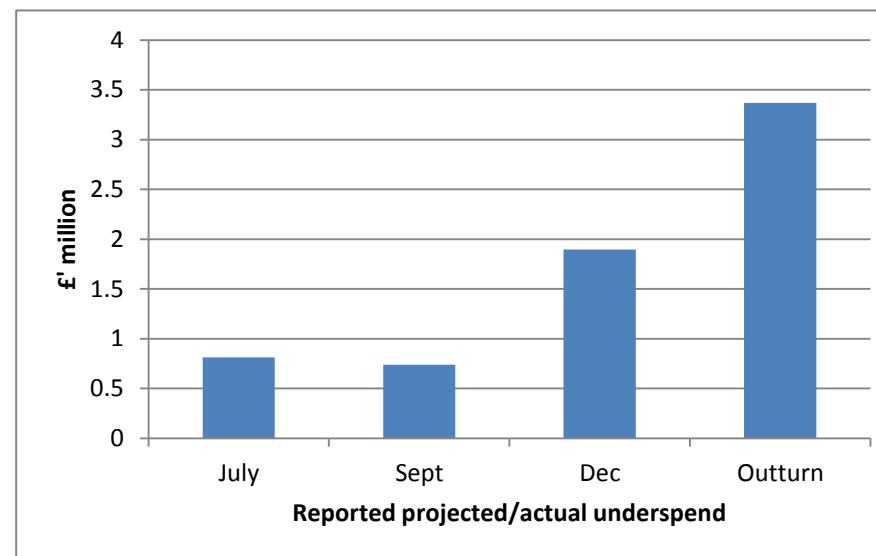
Source: South Ayrshire Council financial statements

68. The HRA base budget for 2013/14 was £29.368 million. Budget monitoring reports provide members with actual spend to period end and a projected year end outturn. The projected outturn figures reported during 2013/14 are set out at exhibit 3. It is to be expected that forecast outturn figures diverge from final actual amounts, however, the scale of the difference between actual and outturn and the large movements between later periods calls into question both the budget setting process

and the usefulness of information being provided to members.

Recommendation 5

Exhibit 3: HRA underspend projections 2013/14



Source: South Ayrshire Council budget monitoring statements

69. Capital from current revenue (CFCR) is a means of augmenting or substituting borrowing to fund capital expenditure. As such CFCR should form an integral part of the HRA capital investment and borrowing strategy. It is a revenue expense to the HRA and should form part of the HRA budget for the financial year. Earmarked CFCR has increased by £6.890 million over 2012/13. CFCR should be subject to the

Financial position

same budgetary control as any other budget line. The practice of hypothecating revenue budget underspends to fund future capital projects is not transparent and indicates a lack of planning in terms of housing capital investment.

Recommendation 4

70. Earmarked reserves are funds which councils choose to set aside to meet known or predicted commitments. Of the balance carried forward at 31 March 2014, the council has earmarked £12.862 million for specific capital and revenue expenditure. Exhibit 4 shows four identifiable earmarked amounts in reports made to members in respect of outturns on the HRA for the five years 2009/10 to 2013/14.

Exhibit 4: HRA earmarked reserve five year trend

	2009/10	2010/11	2011/12	2012/13	2013/14
	£'000	£'000	£'000	£'000	£'000
CFCR	5,502	6,380	7,056	2,425	9,315
Planned maintenance carried forward	298	358	323	95	573
Maisonettes North Ayr	4,964	3,561	3,189	3,095	1,972
Riverside House	204	529	572	572	493
Total	10,968	10,828	11,140	6,187	12,353

Source: South Ayrshire Council financial statements

71. Members should request specific assurances on how and

when specific projects will be delivered, what planned maintenance is being carried forward and when it will be delivered and what plans are in place to deliver those projects to be funded by CFCR.

Reserves

72. The general fund reserve has no restrictions on its use. There is no specified minimum level of reserves that an authority should hold; it is the responsibility of the section 95 officer to advise on the level of reserve to be held. 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.
73. In July 2014, an updated reserves strategy was presented to members which continued to focus on the aim to hold unallocated general fund reserves of £8 million at 31 March 2014 which reflects CIPFA best practice guidance of holding 2% - 4% of revenue expenditure. The council's unallocated reserve stands at £10.187 million as at 31 March 2014 which is at the upper end of the best practice range.

Exhibit 5: Usable reserves

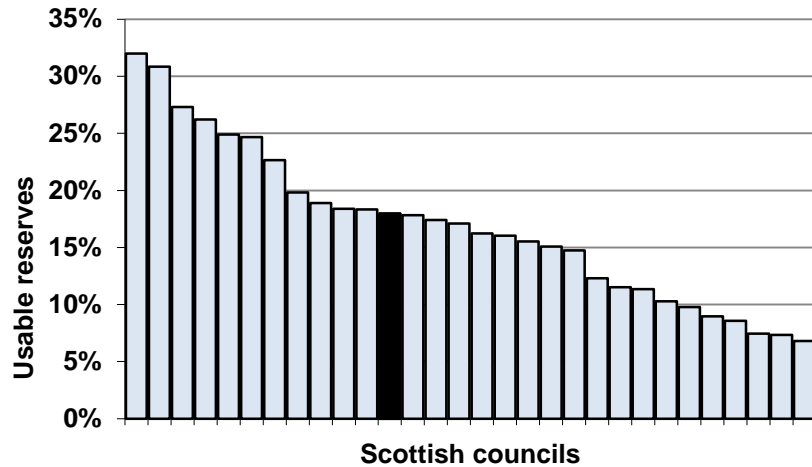
Description	31 March 2013	31 March 2014
	£ million	£ million
General fund	24.458	22.926
Housing revenue reserve	14.590	13,445
Repair and renewal fund	4.297	6.312
Capital grants unapplied	1.187	0.857
Capital receipts reserve	0.589	nil
Insurance fund	0.425	0.425
Total usable reserves	45.546	43.965

Source: South Ayrshire Council 2013/14 financial statements

74. The overall level of usable reserves held by the council decreased by £1.581 million compared to the previous year and totalled £43.965 million, exhibit 5. The General Fund balance includes £10.178 million of unallocated general fund reserves. Planned commitments from the general fund balance amounted to £12.748 million and include the workforce change fund, the efficiency and improvement fund, the affordable homes strategy and directorate expenditure commitments for 2014/15.

- 75. The council added additional funds to its repair and renewals fund during 2013/2014 to give a total balance at the year end of £6.312 million. Approval has already been given for draws of £2.636 million, leaving an uncommitted balance of £3.675m.
- 76. South Ayrshire Council's useable reserves (highlighted in black) now stand at £43.965 million. Exhibit 6 shows the comparative picture, across Scotland, of reserves as a proportion of net revenue stream.

Exhibit 6: Scottish councils: total usable reserves as a percentage of net revenue stream



Source: Scottish councils' unaudited accounts 2013/14 (excluding Orkney and Shetland Island councils)

Capital programme 2013/14

77. Capital expenditure for 2013/14 totalled £28.388million (2012/13, £18.512 million). Spend on the housing programme was some £12.549million (2012/13, £10.284 million) and on the general services programme was £15.839 million (2012/13, £8.228 million). The housing programme focused mainly on "major component replacement" and new build council houses. The general services programme was concentrated on the new

build, refurbishment and repair of schools, delivery of various ICT projects and roads and transport infrastructure.

- 78. The council approved its general services capital programme for 2013/14 in December 2012. The budget was set at £15.283 million (2012/13, £12.980 million). Throughout the year further adjustments were made to the programme to reflect new expectations on project delivery and spend brought forward from 2012/13. This resulted in a final revised programme of £17.127 million.
 - Actual spend on the general services capital programme amounted to 104% (2012/13, 62%) of the original programmed expenditure (£15.283 million).
 - Actual spend on the general services capital programme amounted to 92% (2012/13, 91%) of the final revised programmed expenditure (£17.127 million).

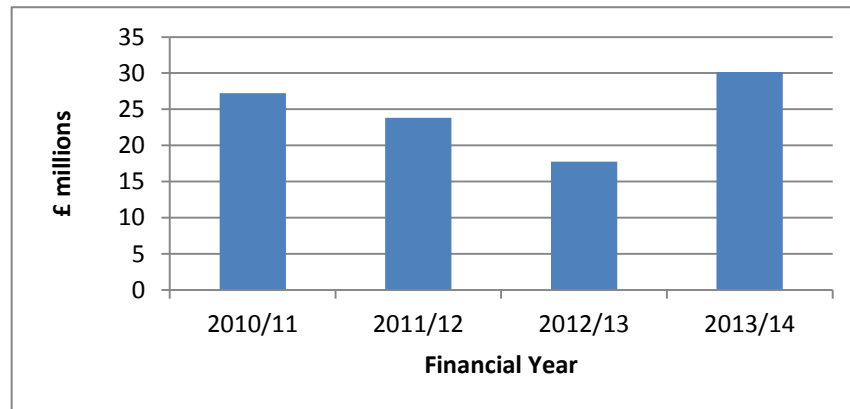
- 79. The council approved its housing capital programme for 2013/14 in December 2012. The budget was set at £11.555 million. Throughout the year further adjustments were made to the programme to reflect new expectations on project delivery and projects brought forward from 2012/13. This resulted in a final revised programme of £14.664 million.
 - Actual spend on the housing capital programme amounted to 108% (2012/13, 72%) of the original programmed expenditure (£11.555 million).

Financial position

- Actual spend on the housing capital programme amounted to 85% (2012/13, 88%) of the final revised programmed expenditure (£14.664 million).

80. In previous years we have reported on poor performance against the council's capital programme for both housing and non-housing elements. The outturn for 2013/14 represents a considerable improvement in delivering the original programme. Exhibit 7 shows the level of capital expenditure from 2010/11 to 2013/14.

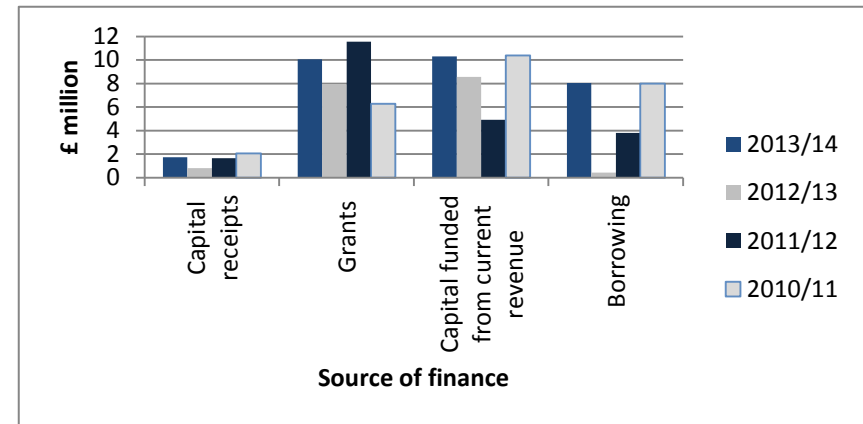
Exhibit 7: Capital expenditure 2010/11-2013/14



Source: South Ayrshire Council financial statements

81. The council funded its capital programme through government grants, capital receipts, capital funded from current revenue and borrowing. Exhibit 8 shows the sources of capital expenditure funding for the period 2010/11-2013/14.

Exhibit 8: Sources of capital funding 2010/11-2013/14



Source: South Ayrshire Council Annual Accounts 2010/11 to 2013/14

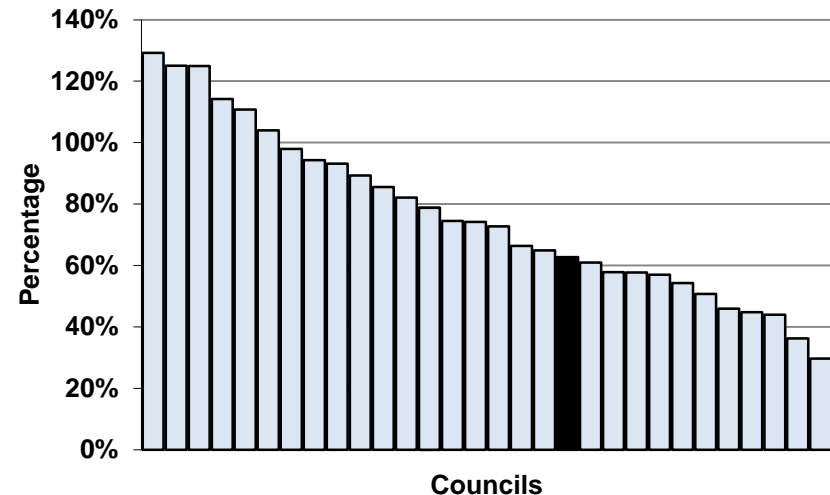
82. In December 2013 the council set itself ambitious targets for its 2014/15 capital programme, with the general services programme set at £28.429 million and the housing programme at £20.036 million. These budgets have subsequently been revised to £37.406 million and £24.799 million respectively. The latest capital programme monitoring reports covering the period to 31 July 2014 reported expenditure of £2.851 million on general services and £1.604 million on housing services. The low level of spend as at 31 July indicates that there may be difficulty in achieving the capital programmes. The Leadership Panel have requested that a review of the programmes be undertaken.

Treasury Management

83. At 31 March 2014 long term borrowing stood at £178.1 million, an increase of £0.9 million on the 2013 borrowing level of £177.2 million. During the same period, short term borrowing reduced from £10.1 million to £4 million. This is in line with the councils Treasury Management Strategy for 2013/14, which was to make use of internally generated funds before using long term borrowing facilities. Interest payable and similar charges fell by £0.126 million in 2013/14 to £14.517 million.
84. While the council's borrowing fell slightly during the year, its investments increased by £9.841 million to £42.695 million. These investments were all held with either UK banks and building societies or other UK local authorities.
85. Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 9 (South Ayrshire Council in black) shows long term borrowing as at 31 March 2014 as of net revenue stream a proportion of the actual outturn for the year for all mainland councils in Scotland. The council's long term borrowing at around 60% of net revenue stream places it at the lower end of the scale.
86. Audit Scotland has, on behalf of the Accounts Commission, recently completed a national review of borrowing and treasury management in councils. This involved discussions with members and officers as well as visits to a number of councils.

The review focused on the affordability and sustainability of borrowing and governance arrangements and considered how councils demonstrate best value in their treasury management functions. The national report is planned for publication in January 2015.

Exhibit 9: Scottish councils' long term borrowing as a percentage of net revenue stream



Source: Scottish councils' unaudited accounts 2013/14 (excluding Orkney and Shetland Island councils)

Financial position

Icelandic bank debt recovery

87. In October 2008 the Icelandic bank Landsbanki Islands hf went into administration. The council had two deposits amounting to £5 million with Landsbanki at the time of administration. The council had been receiving repayments in line with the administrator's timetable, and the expectation was that the investments would be fully recovered by December 2019. We reported in our 2012/13 annual audit report that a market had opened up for these claims and that the council was exploring the opportunity to sell its remaining interest as a preferred creditor. In January 2014 the council sold the remaining claim through a competitive auction process. The council collected 92.39% of its principal debt through the distributions received from the administrator and the final disposal. While this represents a financial loss of around £0.380 million, the council has recovered its investment almost 6 years ahead of the administrator's schedule.

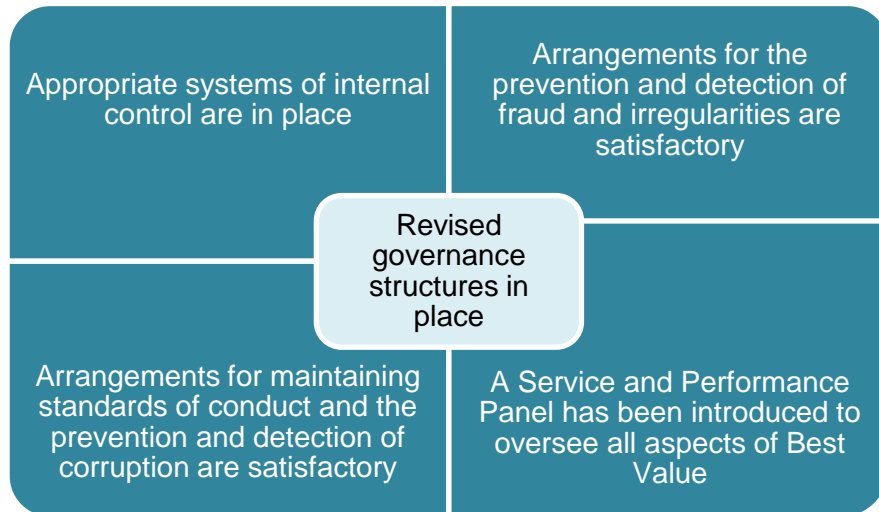
Outlook

88. The council set its 2014/15 budget and indicative budgets for 2015-16 and 2016/17 in December 2013. The 2014/15 budget was set at £246.037 million and assumes savings of £4.593 million. A number of efficiency measures have been agreed and are being implemented across the council. Some of the more significant measures include re-focussing homecare to those with the highest need and at greatest risk, contract

savings through cross directorate procurement efficiencies and a reduction in non-essential services, rationalisation of production kitchens and cleaning provision in council buildings, re-configuration of bed and breakfast provision and the rationalisation and streamlining of Human Resource structures and processes.

89. The council also set indicative budgets for 2015/16 and 2016/17 in December 2013 with updates approved in March 2014. The budgets require efficiency savings of £5.270 million and £8.278 million respectively. While the council has been proactive in its approach to identify savings opportunities, the realisation of these savings will become progressively more challenging year on year.
90. The revenue budget monitoring report for the period to 31 July 2014 showed an anticipated year end overspend of £1.792 million. This relates to an overspend on social care services, a report on which is being presented to members of the Leadership Panel to set out the reason for the projected overspend and the proposed action to mitigate the situation.

Governance and accountability



91. Members and management of the council are responsible for establishing arrangements for ensuring the proper conduct of the affairs of South Ayrshire Council and for monitoring the adequacy and effectiveness of these arrangements. Internal controls were operating effectively throughout the year.

Corporate governance

92. The Accounts Commission report of February 2014 found that

the council has an active audit committee, but that two of its three scrutiny panels met infrequently and lacked a clear remit to monitor and challenge service performance. As a result there were significant weaknesses in the scrutiny of council and service performance by elected members.

93. The council's improvement action plan included an action to 'review scrutiny arrangements to address weaknesses in the current arrangements'. A revised structure for scrutiny was agreed by council on 3 July 2014. The previous four Scrutiny Panels (the three Standing Scrutiny Panels and the Scrutiny and Governance Management Panel) were replaced with four new panels:

- Audit and Governance Panel
- Service and Performance Panel
- Partnership Panel
- Public Processes Panel

94. The council agreed remits for these panels and appointed Chairs in July 2014 and Vice Chairs in August 2014. These structures still need time to be fully established with only one meeting of the Audit and Governance Panel and Service and Performance Panel having taken place as at the end of September 2014. The other two panels met for the first time in October 2014.

95. The Audit and Governance Panel is chaired by an Independent

Governance and accountability

councillor who is not a member of the current administration, this is in line with good practice principles for audit committees. The Chair of the Public Processes Panel, while not a member of the Leadership Panel, is a member of the current administration. As the remit of this panel is to consider 'call-ins' from the Leadership Panel and could cover holding portfolio holders and chief officers to account, there is a risk that scrutiny is not seen as completely separate from the council administration. The council should assure itself that, in the light of advice from officers, this meets best practice in scrutiny that the review of structures set out to achieve.

96. In August 2014 the council agreed its revised Scheme of Delegation and Standing Orders to reflect these revised arrangements. The council also agreed a revised Audit Handbook and introduced a Scrutiny Handbook to support the new scrutiny arrangements.
97. Since the Accounts Commission's report the council has taken action to respond to the weaknesses in previous scrutiny arrangements. The new structure should form the basis from which the council can deliver an effective corporate governance framework. However, it is too early to assess the effectiveness of these new arrangements as the revised structure and scrutiny tools have still to be fully implemented and embedded.

Internal control

98. As part of our audit we reviewed the high level controls in a number of the council's systems that impact on the financial statements. This audit work covered payroll, trade payables and the council tax billing and collection system. We also confirmed the existence of key financial controls in trade receivables, main accounting system, cash income and banking, non-domestic rates billing and collection, housing rents, treasury management, housing benefit and council tax reduction scheme and capital accounting arrangements to ensure that they continue to operate in accordance with our understanding.
99. Our overall conclusion was that the key controls within the council's main financial systems were operating satisfactorily, and no significant risks were identified.

Internal audit

100. Internal audit provides members and management of the council with independent assurance on the overall 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.

Governance and accountability

- 101.** Our review of internal audit concluded that the internal audit service operates largely in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.
- 102.** On 30 January 2014 the Corporate and Community Planning Standing Scrutiny Panel agreed to the proposal that the council's Internal Audit Service participate in the Scottish Local Authority Chief Internal Auditors Group (SLACIAG) scheme for external assessment, this will move the council's service closer to full compliance with PSIAS. The Audit Services/Programme Review Manager has, however, advised that areas of non-compliance are being kept under review and it may be the case that he may recommend to the panel to opt to remain non-compliant in some areas.
- 103.** The areas of non-compliance with PSIAS did not impact on the range and quality of the work performed. We were able to place formal reliance on aspects of the work of internal audit in several accounting systems including:
- Capital contracts: Interim payments.
 - Cash income and banking: Reconciliations.
 - Non-domestic rates: Recovery and enforcement.
 - Debtors: Licencing income.
 - Main accounting: Coding, cash and bank balances.

- Treasury management: Loans and reporting.
- Housing rents: Arrears management.
- Payroll: System of real time information to HMRC.

- 104.** In terms of our wider responsibilities under the Code in relation to governance and performance we have also been able to place formal reliance on selected aspects of the work of internal audit in the following areas:

- Performance indicators
- Council tax: welfare reform issues
- Unified benefits: welfare reform issues

ICT audit

- 105.** In 2014 we reviewed the background to two significant ICT failures of the council's email system. The incidents were reported to the Leadership Panel who expressed serious concerns and requested updates at future meetings to advise on the work programme required to resolve the issues. Six actions were recommended to the panel including an independent review of ICT resilience, a staged plan for reducing mailbox sizes and a review of all service business continuity plans.
- 106.** The work programme has been initiated with the appointment of an external contractor, to review the resilience and capability

Governance and accountability

of the council's ICT service provision. This work will be carried out in three phases with the aim of establishing in phase one, the current position, in phase two, development of an ICT strategy for going forward and in phase three, making recommendations on how to progress the required work programme to achieve a successful outcome.

107. In parallel with the external review the ICT service have developed new guidance on the use and archiving of email within the council, and are putting in place plans to reduce the size of mailboxes. Prior to circulation of guidance the council are currently provisioning additional storage capacity to cope with the additional archiving that will result from this more balanced approach for storage and recovery of email messages.
108. Another of the six recommendations was to review business continuity plans for outages and service interruption. The external contractor will consult with ICT staff, around business continuity planning as part of the resilience assessment and make appropriate recommendations.

Arrangements for the prevention and detection of fraud

109. 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

110. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.
111. South Ayrshire Council participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error.
112. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI. We will monitor progress against NFI 2014/15 during the year, and comment as necessary in our report to members in 2015.

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

113. 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.
114. Internal audit were involved in a number of investigations into allegations of fraud during the year. There were no significant system failures identified from the investigations completed.

Correspondence referred to the auditor by Audit Scotland

115. No correspondence was referred to us for local investigation.

Integration of adult health and social care

116. 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. Integration will be complex and challenging and the council will need to engage at the highest level with the NHS Ayrshire and Arran to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose. This requires:

- The establishment of a local integrated partnership and related governance arrangements.
 - Integrated budgets for health and social care.
 - Joint responsibility for strategic and locality planning in the area served.
117. The Scottish Government has set two prescribed dates; 1 April 2015 for the approval of integration schemes, and 1 April 2016 for the delegation of functions. There is a further statutory requirement for the first strategic plans to be prepared by 31 March 2015 to allow the integration start date of 1 April 2015 to be achieved.
118. The model adopted for delivery is the joint board model. The Integration Joint Board is a full and equal partnership between South Ayrshire Council and NHS Ayrshire and Arran and will operate within the wider context of community planning and the existing council and NHS strategic frameworks, including joint arrangements such as the Single Outcome Agreement. In March 2014 the council approved the transfer of all social work services to the joint board.
119. South Ayrshire Council has been working with colleagues in NHS Ayrshire and Arran to meet the integration deadlines. The Shadow Integration Board is well advanced in meeting the required timescales.

Welfare Reform

120. The council recognises the impact that the changes to the UK welfare system will have on resources and service provision. 2013/14 was a period of significant change with council tax benefits being replaced by the new Council Tax Reduction Scheme and the introduction of the Scottish Welfare Fund. Councils continue to face uncertainties over the roll out of Universal Credit and there is the potential for even further reforms following the Scottish independence referendum.
121. The council has been monitoring developments and planning ahead to minimise the impact of the reforms. The introduction of welfare reform changes from 1 April 2013 is having a very significant impact on the workload of officers across Revenues and Benefits and Housing and Customer Services. The main areas of impact have been in relation to under occupancy, reclassification of property, the benefit cap, discretionary housing payment applications and Scottish Welfare Fund applications. The council are liaising with tenants and local support organisations to mitigate the impact where possible.
122. Rent arrears continue to rise as a consequence of the reforms, especially as a result of the under occupancy rules. At 31 March 2014, 459 tenants were in arrears £153,657 as a direct consequence of under occupancy rules, and this had increased to 621 tenants with arrears of £173,459 at 30 August 2014.
123. The council received £0.262 million from the Scottish

Government to award discretionary housing payments to those most impacted by the introduction of welfare reform, allowing the council to award a total available of £0.655 million in 2013/14. The council expects to use the full amount available of £1.025 million for 2014/15.

124. The under occupancy rules are impacting on the council's ability to offer tenancies to homeless persons. The council reports that single person and couple households are opting to remain in temporary accommodation and wait for a one bedroom property to avoid being affected by size criteria/under-occupancy reduction in housing benefit.

Housing and council tax benefits performance audit

125. In September 2013, a focused review of the council's performance in respect of the speed of processing housing and council tax benefit claims was performed.
126. South Ayrshire Council's speed of processing performance had been consistently strong and over the three years up to March 2013 it has been in the top three Scottish performers for processing new claims. The review found that performance had slipped to 37 days to process a new claim, and 29 days for a change in claimant's circumstances. This deterioration put the council in the bottom quartile for processing time following a prolonged period of strong performance.

Governance and accountability

127. An action plan was prepared to address the issues identified. Management reported, to the June meeting of the Leadership Panel, that all actions had been completed. Speed of processing performance had improved for the quarter ended 31 March 2014. A significant effort to clear the backlog of new claims resulted in a reduction in processing times. The council expects to report further improved processing performance later in 2014.

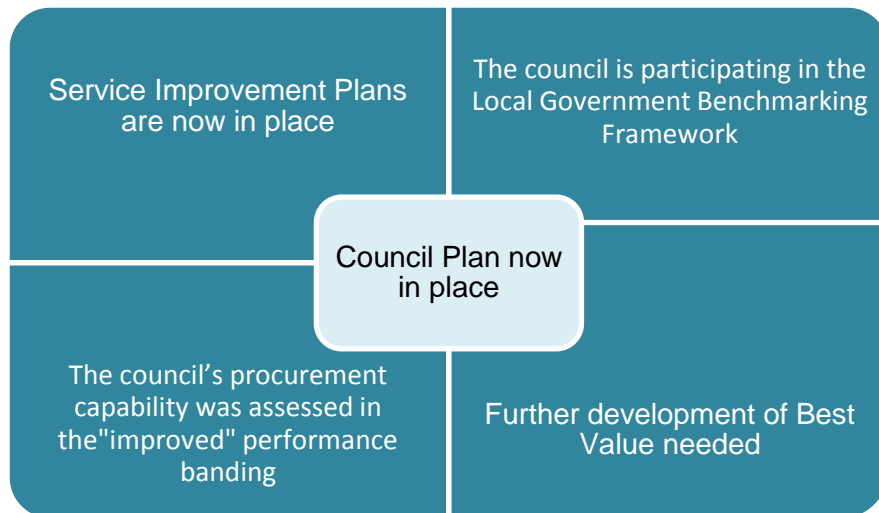
Outlook

128. Councils continue to face rising demands for services alongside managing major reforms in welfare and health and social care. There is now a greater need than ever for strong governance and leadership. The integration of health and social care is a complex and challenging process and the council will need to continue to engage at the highest level with partners to ensure that the unified service is in place by the statutory date of 1 April 2016.

129. There are major changes in councils' responsibilities for the investigation of fraud relating to benefits. The new Single Fraud Investigation Service (SFIS) is a national fraud investigation service, within the Department for Works and Pensions, which

will take over the responsibility for the investigation of housing benefit frauds. The investigation of local council tax reduction scheme and corporate fraud cases will remain the responsibility of councils. South Ayrshire Council staff transferred to SFIS in October 2014. Management advise that the council have retained two whole time equivalent staff, for fraud investigation, to mitigate the risk that the council's arrangements for the prevention and detection of fraud may be weakened.

Best Value, use of resources and performance



130. Local authorities have a statutory duty to provide Best Value in those services they provide directly as well as those provided through agreements with Arms Length External Organisations. This requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. There is also

the duty to report performance publicly so that local people and other stakeholders know what quality of service is being delivered and what they can expect in the future.

Arrangements for securing Best Value

131. The Accounts Commission published a report on South Ayrshire Council, Targeted Best Value Work, in February 2014. The Accounts Commission's findings expressed their concerns about the council's inability, over a number of years, to fulfil and sustain its statutory Best Value responsibilities of continuous improvement in leadership and culture, performance management and scrutiny.
132. The council has responded positively to the report findings and recommendations. It acknowledged and accepted the Accounts Commission's findings, and there is clear evidence of action being taken aimed at addressing the weaknesses highlighted. Following the report the council created a Best Value working group, comprised of senior officers and members from across political parties, to identify what action needed to be taken and to monitor progress. A review of progress highlighted that the council has started action against all the recommendations made in the report.
133. A key element of the action plan was the agreement of the Council Plan in March 2014. This plan outlines six strategic objectives: That South Ayrshire Council will work to maximise the potential of:

Best value, use of resources and performance

- Our local economy
- Our children and families
- Our adults and older people
- Our communities
- Our environment; and
- To improve the way that we work as a Council.

134. The council recognises that this is an evolving process and that it still has work to do in refining its vision and developing more tangible strategic objectives. The council should use the Council Plan as a core building block in developing a clear direction for the council, and to start to measure and monitor performance against this. The council should also have a clear plan in place for how and when the strategic objectives will be reviewed and refined.

Performance management

135. The Council Plan is aligned with the Single Outcome Agreement for South Ayrshire and outlines how the council contributes to partnership working in the area. The council has also developed 11 Service and Improvement Plans (SIPs), which incorporate actions and sub-actions as to the contribution that services will make to deliver the council's strategic objectives and outcomes. This should provide a

framework to cascade the council's strategic objectives throughout the organisation.

136. SIPs reflect clearly Council Plan outcomes and detail specific actions and contributions by services, and provide a solid platform for taking forward the broad objectives of the Council Plan at service level. The SIPs include measures and specific actions by which services will achieve the council outcomes. Councillors display a good awareness of the strategic planning framework.

137. The SIPs are supported by performance indicators that will measure the council's progress in delivering the intended outcomes. It is intended that service performance will be monitored through six monthly reports on the SIPs to the Service and Performance Panel, the first of these are to be reported in November 2014. A half-yearly report on the Council Plan is due to be considered by the full council at its meeting in December 2014. Executive directors are meeting regularly with heads of service to consider performance against the SIPs. As the Council Plan is reviewed and refined the SIPs will need to remain relevant to the current priorities of the council.

138. These new arrangements provide the council with the opportunity to place a greater focus on service performance and continuous improvement. However, they are only now becoming operational with the Service and Performance Panel meeting for the first time in September 2014. The

Best value, use of resources and performance

arrangements need time to become fully embedded within the council before their effectiveness can be assessed.

139. The council is participating 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 have been incorporated into the Council Service and Improvement Plans and a full report on progress against the measures was reported to the Leadership Panel in April 2014.

Use of resources

Asset Management

140. The council's balance sheet as at 31 March 2014 discloses an aggregate valuation in excess of £645 million in respect of non-current assets. It is important that the council, as custodian of a significant public asset base, is able to justify its holding in terms of best value and efficient and effective service delivery. A corporate asset management plan is intended to provide a strategic approach to the management of a council's assets and how they will be deployed in meeting its corporate objectives. A corporate asset management plan also better facilitates rational and informed decision-making, based on identified needs and available funding.

141. The council is currently revising and updating its corporate asset management plan following a revision of the staffing structure within its asset management team. The plan was originally scheduled for completion by 30 September 2014 but this has been revised to December 2014. The council should ensure that it delivers its comprehensive asset management plan by the revised target date.

Workforce Management

142. Effective workforce management is essential for ensuring that the council maximises the effectiveness of its employees. A workforce strategy is key to setting out how the council will ensure it has appropriately skilled people in place to deliver its services. The council is currently in the process of reviewing its workforce strategy and is actively looking at ways to facilitate better working.
143. The council introduced a Maximising Attendance policy which sought to address the increasing problem of a poor absence rate in the council. The 2013/14 performance indicators show that there has been an improvement in absence rates in 2013/14 from 7.7 days to 7.1 days for teachers and 11.6 days to 11.0 days for other employees. This is the lowest absence rates the council has had for 6 years and is being attributed to the impact of the maximising attendance policy. There is clearly some way to go in terms of further reducing absence across the council but the steps taken and the results to date are encouraging.

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144. In 2013/14 the council granted exit packages to 88 staff at a cost of £0.985 million (49 in 2012/13 costing £0.570 million). These reductions form part of the council's plans to achieve future financial savings.

Ayrshire Roads Alliance

145. From 1 April 2014 the council's roads services have been delivered through The Ayrshire Roads Alliance, a partnership with East Ayrshire Council. The new body delivers roads maintenance, design and infrastructure, traffic and transportation and road safety across South and East Ayrshire. The combination of the roads services of the two contiguous councils is an excellent example of sharing services. The new shared service is predicted to achieve joint savings in excess of £8 million over a ten year period.

146. The performance of the Ayrshire Roads Alliance is monitored by a joint committee which includes four members of South Ayrshire Council. In addition, the Partnership Panel, established in July 2014, will be responsible for the scrutiny of the performance of all shared services, including the Ayrshire Roads Alliance. The council should monitor the level and quality of services being delivered through the partnership on a regular basis to ensure that the arrangement is operating as intended and is meeting the needs of South Ayrshire residents.

Procurement

147. The Public Procurement Reform Programme aims to drive

continuous improvement in public sector procurement. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. In the most recent PCA (December 2013) the council scored 65%. This continued a trend of year on year improvement from 19% in 2009 to the current position. This latest score takes the council comfortably into the "improved" performance banding. This is a considerable achievement in improving procurement practices over recent years. The council has expressed its commitment to improve procurement practices further to enable them to achieve maximum benefit from procurement efficiencies.

Overview of performance targets in 2013/14

148. A report was submitted to the Service and Performance Panel in September 2014 setting out progress against a series of performance measures. The layout of the reported data was clear and accessible, and the inclusion of brief narrative explanations for movements and responsible managers is noted as good practice.

149. The report indicated that performance had improved in 30% of indicators, maintained at previous levels in 6% of indicators and declined in 25% of indicators. There was no comparable information or data was not yet available for 39% of indicators, for example, examination success indicators were not available

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at the date of preparation.

150. Overall positive performance trends were noted for management of employees, procurement, criminal justice, environmental health. Benefits, leisure and cultural services and roads and transportation indicators displayed overall negative trends. The other indicator sets either presented a mixed set of results or data was insufficiently complete to form a judgement.
151. Key citizen facing indicators exhibiting decline were; the cost of collecting council tax per dwelling; the time taken to process benefit claims and the percentage of tenants expressing satisfaction with the repairs and maintenance service.

Statutory performance indicators (SPIs)

152. Since its 2008 Direction, the Accounts Commission has moved away from specifying individual indicators and has focused on public performance reporting (PPR) and placed more emphasis on councils' responsibility for the performance information they report.
153. For 2013/14 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.
154. Overall we concluded that the council's arrangements for the preparation of SPIs was satisfactory.
 155. An evaluation of all Scottish councils' approaches to public performance reporting was carried out by Audit Scotland's Performance Audit and Best Value group during 2013/14 and reported to the Accounts Commission in June 2014. An individual assessment for South Ayrshire Council was issued to the Leader and Chief Executive in July 2014.
 156. The results for South Ayrshire Council were mixed, with 63% fully meeting the criteria, 33% partially meeting the criteria and 5% not meeting the criteria. A further evaluation of councils' approaches to PPR is due to be carried out by Audit Scotland in Spring 2015. The report to the Accounts Commission cited the South Ayrshire Council's annual calendar, which includes PPR information as an example of good practice.

Assurance and improvement plan 2014-17

157. The 2014-17 Assurance and Improvement Plan (AIP) prepared by the Local Area Network of scrutiny partners for the council was submitted to South Ayrshire Council on 15 May 2014.

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158. A number of areas were highlighted in the AIP where scrutiny was required. These were leadership and direction, governance and accountability and improving and transforming public services. These were considered as part of the Best Value work reported in February 2014, details of which are referred to earlier in this report.
159. We will revisit all of these areas as part of the Shared Risk Assessment process for 2015-18.

Local performance audit reports

160. A number of local performance audit reports are issued each year. A summary of those issued in 2013/14 is included at appendix I.

“Arms Length External Organisations – Are you getting it right?”

161. In July 2014, the local audit team issued its follow-up report to “Arms Length External Organisations – Are you getting it right?”. The review sought to identify whether the council had formally considered the How Councils Work report on ALEOs, how clear the council was about its reasons for delivering services through ALEOs, how well the council understands the financial commitment and risk to which it is exposed through ALEOs and where members or senior officers are appointed to

the board or equivalent of ALEOs, how clear are they about their roles?

162. The council’s only ALEO is Ayr Renaissance. Our review commented on the original set up of Ayr Renaissance and made some recommendations, principally relevant to any future ALEO set up.

“Major capital investment in councils”

163. The local audit team also reported its findings to the follow-up audit “Major capital investment in councils” in July 2014. This review sought to establish to what extent South Ayrshire Council had improved performance in managing its capital investment programme since the original report was issued in March 2013.
164. The review highlighted a number of areas of good practice as well as areas where improvements could be made.

National performance audit reports

165. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2013/14, a number of reports were issued which are of direct interest to the council. These are outlined in appendix II. South Ayrshire Council has processes in place to ensure that all national reports and their impact on the council are considered by members.

Outlook

166. In common with other councils, South Ayrshire Council faces the key challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. Savings have been made in recent years largely by reductions in the workforce. However, as choices on how to address funding gaps become increasingly difficult, councils will have to focus on making the very best use of all available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities.
167. The council has made clear progress in creating a framework to deliver on its Best Value duties. It must now turn its attention to further developing, refining and implementing its plans and processes to ensure that it achieves the benefits of the work done so far. Developing a new culture of continuous improvement, and ensuring a shared organisational purpose that embeds strategic priorities across services to individual staff members, will be a critically important but longer term task.

The audit of charitable trusts

168. 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.

169. The Local Government (Scotland) Act 1973 specifies the accounting and audit requirements for any trust fund where a local authority, or some members of the authority, are the sole trustees (ie only members of the authority are trustees).

170. Therefore, as a consequence of the interaction of Local Government (Scotland) Act 1973 with the charities legislation, a full and separate audit and auditor's report is required from 2013/14 for each registered charity where members of South Ayrshire Council are sole trustees, irrespective of the size of the charity.

171. Our duties as auditors of the charitable trusts administered by South Ayrshire Council 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).

172. We have given an unqualified opinion on these matters with respect to the 2013/14 financial statements of the relevant charitable trusts administered by South Ayrshire Council.

173. However, as the 2012/13 financial statements were not audited, we are required to state in an "other matter" paragraph in the auditor's report on the 2013/14 audit, that the corresponding amounts are unaudited. Whilst they are not audited, we have gained assurance from the council's accounting records on the trusts' brought forward figures.

174. The members of South Ayrshire Council are trustees for a number of funds held in trust for the benefit of other individuals or purposes. In practice, although they are not the property of the council, the funds are administered through the systems of the council. At 31 March 2014 75 trusts with funds totalling some £1.1 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 £0.369 million.

175. Members of South Ayrshire Council are sole trustees for nine trusts, registered as Scottish charities, with total assets of some £0.547 million, exhibit 9.

Exhibit 9: South Ayrshire Council: registered charitable trusts

Registered charitable trust	Scottish charity number	Net assets as at 31 March 2014
McCracken Trust	001702	£7,185
McClymont Trust	008495	£44,335
James and Jane Knox Trust	008856	£23,557
Glasgow Troon Benevolent Society Fund	009075	£4,069
Monkton and Prestwick Nursing Association Trust	009903	£24,017
McKechnie Library Trust	012759	£7,999
Mary and Hugh Reid Trust	014448	£47,404
Loudoun Trust	017166	£18,916
Robert Hamilton Smith Trust	022120	£369,746
Total net assets		£547,228

Source: Charitable trusts audited accounts 2013/14

176. The essence of a trust is that property is held by one person or a number of persons (trustees) for the benefit of others. The duties of trustees are more onerous than those of elected members. When acting as trustees, members need to ensure that they take decisions in the best interest of the trust and not necessarily the council. Trustees have an absolute duty to administer the trust estate in accordance with the terms of the trust, including accounting for the trust property to the beneficiaries.

177. The trustees and officers should consider introducing revised governance arrangements for trusts. New arrangements and guidance should include:

- provision for separate meetings of members when acting as charity trustees;
- provisions for receiving and approving accounts;
- lines of reporting between council officers and trustees;
- training and guidance on the duties of trustees.

Recommendation 6

178. In the case of the council's trusts the beneficiaries are, for the most part, a class of individuals, identifiable from the founding document. Given the age of some trusts the beneficiaries may no longer be easily identifiable in the simplistic terms of the documents of a bygone era. For example, the Loudoun Trust was set up, in the early 20th century, for the purposes of

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“providing coals for the poor”. Historically, the lack of disbursements has resulted in a gradual accumulation of reserves over some considerable time.

179. We are advised by officers of South Ayrshire Council's Legal Service that one scheme of amalgamation and rationalisation (concerning four Prestwick charitable trusts) has been submitted to Office of the Scottish Charity Regulator (OSCR) for ratification. This will allow, through the alteration of objects and the merging and de-restriction of funds, increased flexibility in terms of potential beneficiaries and awards. In addition a rationalisation scheme is being prepared for two Girvan trusts and the future of the remaining trusts is also under consideration.
180. While we acknowledge that this represents good progress, the legal resource applied to the task is limited. Trustees and officers should consider the employment, at the trusts' expense, of further dedicated resources to obtain a speedier settlement and make these funds available for the benefit of the people of South Ayrshire.

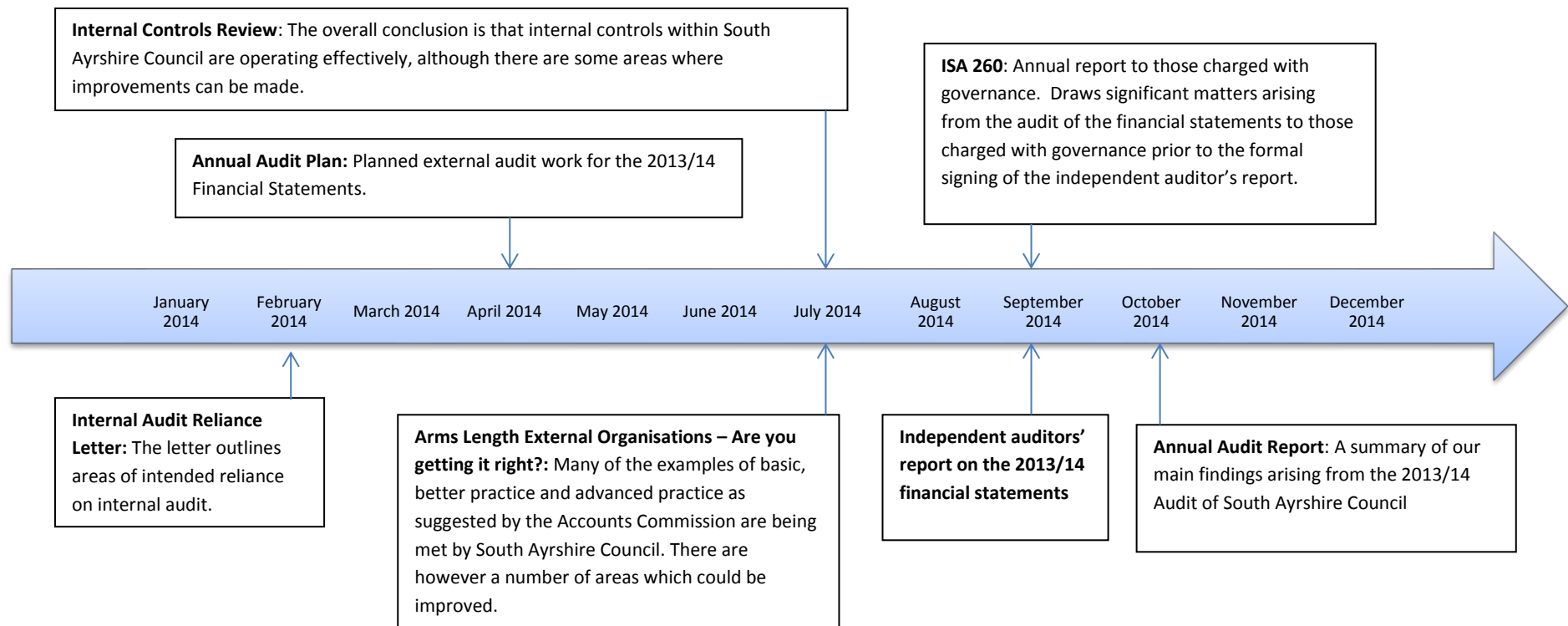
Recommendation 7

181. 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 0.85% for 2013/14. Notwithstanding the low rates of return generally available, the rate of return

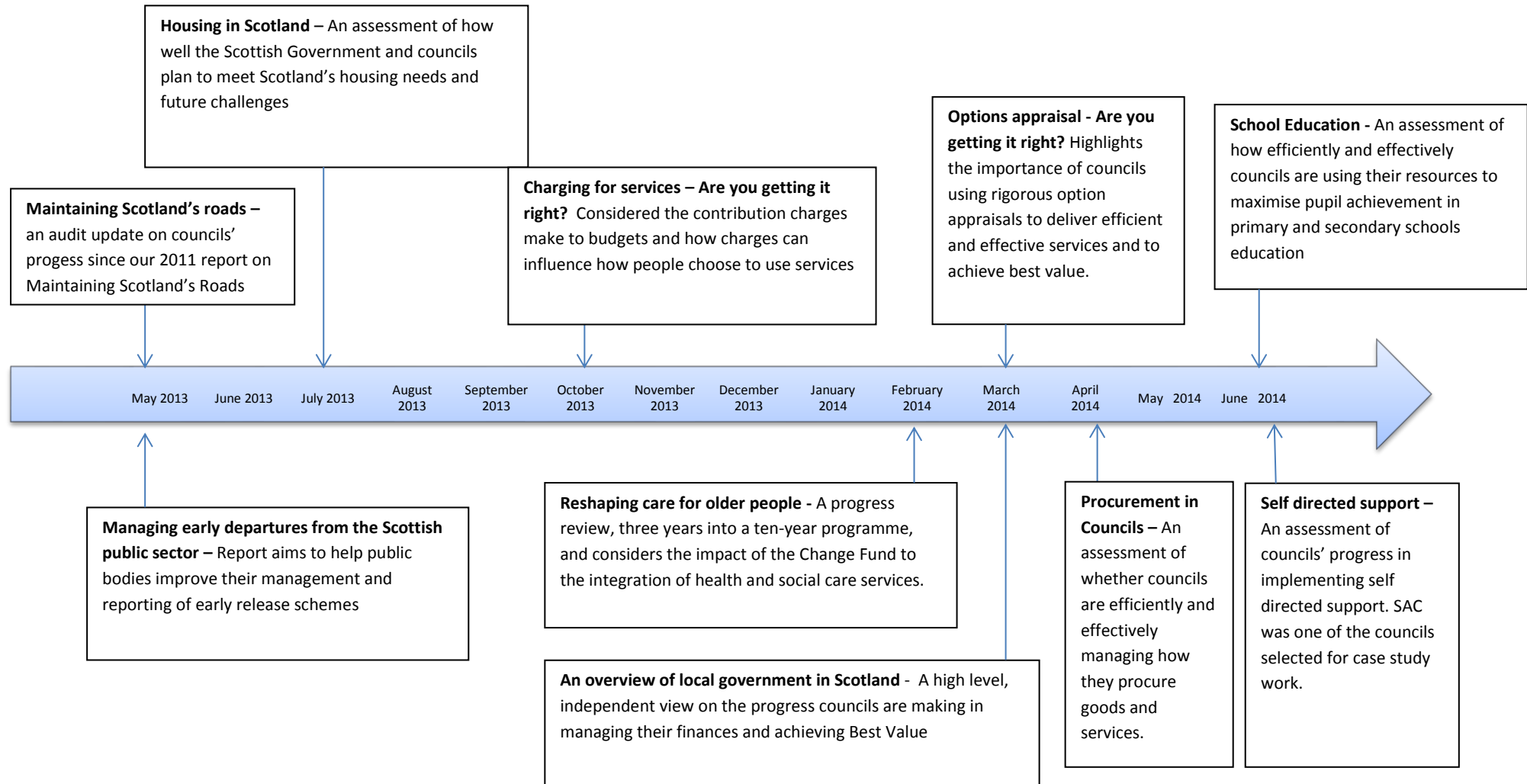
appears to be considerably less than that available in the market. While we acknowledge that there is a cost involved in an actively managed portfolio, trustees should assure themselves by means of a costs benefits analysis that they are obtaining, commensurate with risk, the best returns possible.

Recommendation 8

Appendix I – Summary of South Ayrshire Council local audit reports 2013/14



Appendix II – Summary of Audit Scotland national reports 2013/14



Appendix III – Significant audit risks

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

Audit Risk	Assurance procedure
<p>Financial management and sustainability</p> <p>The council has identified a funding gap of £18.591 million over the next three years to 2016/17. Difficult decisions will be required to ensure that the council is able to prepare a balanced budget throughout these years. Delivering services within constrained budgets will require robust financial planning and budget monitoring arrangements.</p> <p>Risk: The council is unable to agree and deliver savings measures and is unable to deliver services within budget.</p>	<p>Reviewed council papers and minutes to identify any potential areas of risk.</p> <hr/> <p>Monitored revenue and capital budget monitoring reports throughout the year to identify any significant variances between budgeted and actual spend to identify any potential issues.</p>

Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p>Financial Statements: Provisions</p> <p>The potential liability resulting from equal pay claims remains uncertain.</p> <p>Risk: The ultimate cost to the council is significantly different from that provided in the financial statements.</p>	<p>Reviewed most current information available to assess whether provisioning was justified.</p> <hr/> <p>Performed substantive testing of the provisions in the unaudited accounts as part of the audit of financial statements.</p>
<p>Financial Statements: Pension fund liability</p> <p>The pension liability included in the financial statements is an actuarial calculation based on information provided by the council. Any significant differences between the information provided to the actuary and the actual position with pension fund membership may result in material differences in the pension asset / liability in the financial statements.</p> <p>Risk: The financial statements may be materially mis-stated if accurate details are not provided to the scheme actuary at the year end.</p>	<p>Confirmed as part of the audit process that there were no significant changes between the information provided to the actuary by the council and the year end outturn on staff numbers.</p> <p>Confirmed the disclosures in the financial statements to the actuary report.</p>

Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p>Financial Statements: Charitable trusts</p> <p>South Ayrshire Council currently administers ten trust funds registered as a charity, where members are the sole trustees of the fund. These trusts will require an independent audit certificate for the year ended 31 March 2014.</p> <p>Risk: The requirements of charities legislation and accounting requirements are not met.</p> <p>Trust deeds unavailable.</p> <p>Fund use incompatible with trust deed specifications.</p>	<p>Liaised with the council's legal services early in the year to ensure early receipt of trust deeds.</p>
	<p>Liaised with the council's legal services early in the year to ensure early receipt of trust deeds or other governing documents as necessary..</p>
	<p>Reviewed the detail of the deeds and performed testing on the income and expenditure of each trust to ensure that transactions were in accordance with the purpose of the fund.</p>

Appendix III – Significant audit risks

Audit Risk	Assurance procedure
<p>Best Value</p> <p>Following Audit Scotland's targeted best value work the Accounts Commission issued a report and recommendations in February 2014 which required improvement as a matter of urgency.</p> <p>Risk: The council does not implement the council service plans and performance management arrangements as intended.</p>	<p>The local audit team is working with colleagues in Audit Scotland's Performance Audit and Best Value group to follow up progress against the issues raised in the report. A high level summary is included within the Best Value section of this report and a report by the Controller of Audit will be published after it has been considered by the Accounts Commission in December 2014.</p>

Appendix IV – Action plan

Para/page	Recommendation	Management action/response	Responsible officer	Target date
1 45/11	<p>Local Government Authority Accounts (Scotland) Regulations 2014</p> <p>The regulations require unaudited accounts to be submitted to the council or a delegated committee by 30 June each year. The annual governance statement should also be approved by members prior to being signed.</p>	The Head of Finance and ICT will ensure that the 2014/15 financial statements and Annual Governance Statement will be submitted for approval by council prior to 30 June 2015.	Executive Director Resources, Governance and Organisation and Head of Finance and ICT	June 2015
2 54/13	<p>Revaluation of highway assets</p> <p>The council should make early preparations to ensure full compliance with the Code in 2016/17.</p>	The Head of Finance and ICT will liaise with Ayrshire Roads Alliance to clarify required actions and set a timetable to ensure preparations are undertaken.	Head of Finance and ICT	November 2014
3 62/14	<p>General services budgeting</p> <p>Areas of persistent and significant variation from budget should be reviewed and where necessary adjustments made, to ensure that the budget approved is up to date and reflects the underlying cost of the service level required.</p>	The council budget process includes consideration of under/overspends and this will be factored in prior to budget setting in December 2014.	Corporate management team	December 2014

Appendix IV – Action plan

Para/page	Recommendation	Management action/response	Responsible officer	Target date
4 66/15 69/16	<p>HRA budgeting</p> <p>The Housing Service should re-examine its budget building methodology and its demand models with the assistance of the Finance Service and ensure that a credible budget is in place for 2014/15.</p>	The HRA business plan is being reviewed prior to setting the 2015/16 rent increase in December 2014. It is proposed to undertake a fundamental review following a member/officer working group during 2015/16.	Executive Director Economy, Neighbourhood and Environment and Head of Housing and Facilities	December 2014
5 68/16	<p>HRA budget monitoring</p> <p>Senior management should ensure that members are being provided with adequate explanations, based on underlying activity, in writing, for all significant variances.</p>	A review of the management information currently being presented as part of the budget management report will be undertaken.	Head of Housing and Facilities and Head of Finance and ICT	March 2015
6 177/38	<p>Charitable trusts</p> <p>The trustees and officers should introduce revised governance arrangements for trusts.</p>	Review Governance arrangements and report back to Elected Members in 2015 with any required changes.	Executive Director Resources, Governance and Organisation and Head of Legal and Democratic Services	March 2015

Appendix IV – Action plan

Para/page	Recommendation	Management action/response	Responsible officer	Target date
7 180/39	Charitable trusts Trustees and officers should consider the employment, at the trusts' expense, of further dedicated resources to obtain a speedier derestriction of funds.	A review of the options to address restriction of funds is already underway and will be presented to Elected Members in 2015.	Executive Director Resources, Governance and Organisation/Head of Legal and Democratic Services/ Head of Finance and ICT	March 2015
8 181/39	Charitable trusts The trustees and officers should consider whether the investment strategy is best value for trusts.	A review of the options to address restriction of funds is already underway and will be presented to Elected Members in 2015.	Executive Director Resources, Governance and Organisation/Head of Legal and Democratic Services/ Head of Finance and ICT	March 2015