

North Ayrshire Council

**Report to Members and the Controller of Audit
on the 2007/08 Audit**



October 2008



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Key Messages

Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by the council. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes from the 2007/08 audit and the outlook for the period ahead.

Financial statements

We have given an unqualified opinion on the financial statements for North Ayrshire Council for 2007-08. The un-audited statements were submitted to the controller of audit prior to the deadline of the 30 June. The council dealt well with the significant changes to the format of the financial statements. The working papers were of a high standard which enabled the audit to progress smoothly with the issue of the unqualified opinion on 29 September 2008.

Financial position

The balance on the general fund to be carried forward at 31 March 2008 is a surplus of £16.877 million, of which £10.154 million was unallocated. The council's reserves strategy is to maintain a minimum unallocated general fund balance of 3% of the net annual budget. The council's unallocated general fund balance of £10.154 million at 31 March 2008, met their minimum 3% target for the second consecutive year.

The council faces significant financial pressures. As is the case with all councils, North Ayrshire will require to make savings and efficiencies of around £11 million when setting their budgets for 2009/10 and 2010/11, in addition to the £6 million built into their 2008/09 budget. This will be a challenge to the council however they have taken steps to minimise the risk to services by employing an experienced consultant to review their budget setting arrangements to ensure that resources are being targeted efficiently and in line with the council priorities set out in their plan. This review is now complete and the findings will be used to re-direct resources to council priorities as part of the 2009/10 budget setting exercise.

In common with many other Scottish councils, North Ayrshire Council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer payments to specific groups of employees as part of a compensation package. The provision of £2.911 million which was recognised in the 2006/07 financial statements for the estimated one-off cost of these payments was increased to £4.555 million in 2007/08 in light of more specific information available to the council. The implementation of the



single status agreement in July 2007 sought to address pay equalities and restrict any further claims arising for the period following implementation. There are however challenges over when entitlement to compensation arises under equal pay, which until resolved, leaves the council uncertain as to the extent of their future liability.

The council implemented the single status agreement with effect from 28th July 2007 following unsuccessful negotiations with the Unions. It is estimated that appeals have been lodged by 1,006 staff who are appealing the assessment of their grading under job evaluation. The true cost of single status will not be known until all of the appeals have been considered and resolved.

Governance

The council had corporate governance systems in place during 2007/08 that generally operated within a sound control environment. We issued a report on our findings from the review of main financial systems in September 2008, which highlighted some control weaknesses for consideration by the council and there is an agreed action plan in place to address these. We also reported on our review of tendering arrangements which identified a number of risk areas. These key risks are included in appendix A to this report.

Following the 2007 elections, the council revised its decision making structure, replacing the traditional committee style structure with a cabinet style model, led by the council executive. The council set a timetable for a review of the effectiveness of the structure which was scheduled for June 2008. This review has now been completed and the results were reported to the council in June. The review concluded that the arrangements were working effectively and that the model adopted met the needs of the council.

Performance

During 2007/08 the council opened all of the schools being rebuilt under their PPP scheme which also meant that this was the first year where accounting in the financial statements was required. The council have accounted for the PPP scheme in accordance with current accounting requirements by including the unitary payment charge in the education services line of the income and expenditure account and also reflecting a long term debtor in the balance sheet which will build to the value of the schools when they transfer to council ownership after the 30 year contract. We will continue to monitor compliance with accounting requirements for the PPP.

The council has continued to work towards its 30 year plan for the improvement of its housing stock which should enable it to meet the required standard by 2015.



The council are continuing with the implementation of a new asset management system, ARMS, which when fully operational will provide the council with a comprehensive basis on which to record, assess and monitor their assets.

Outlook for future audits

The council have had to revise their capital plan to reflect the current economic climate which is likely to have a significant impact on the budgeted level of capital receipts. Elected members have been advised that capital receipts are essential to fund the council's capital plan and as a result of market conditions, only priority capital expenditure can be included in the plans. Members have however been advised that the plan is flexible enough to bring projects forward if economic conditions improve.

As with all other councils, North Ayrshire Council is exposed to financial risk in the current economic climate because of its investments held in banks. The council will have to keep themselves up to date with developments in the financial markets to safeguard their investments and protect themselves against the rising costs of and uncertainties around borrowing. The council currently has investments in Glitnir and Landsbanki amounting to £15 million, which are now at risk due to the financial state of these banks.

The co-operation and assistance given to us by the North Ayrshire Council councillors and staff during the year is gratefully acknowledged.



October 2008



Introduction

1. This report summarises the findings from our 2007/08 audit of North Ayrshire Council, the second year of a five year appointment. Findings are set out in four sections: financial statements; financial position; governance and performance. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the council going forward.
2. The scope of the audit is set out in our annual audit plan (AAP), which was submitted to the council in March 2008. The AAP summarises the specific governance and other risks that could affect the council's financial statements. It describes the work we planned to carry out in response to these risks.
3. As part of the planned work we also submitted a strategic audit risk analysis (SARA) to the council in March 2008. Under the following strategic themes, the SARA set out our views on the key business risks facing the council and described the work we planned to carry out as part of the annual audit:
 - Managing performance to achieve best value.
 - Ensuring the future affordability and sustainability of services.
 - Good governance and real accountability.
 - Community planning and effective partnership working.
 - Securing the efficient use of resources.
4. Overall conclusions about the council's management of key risks are discussed throughout this report. Appendix A sets out the key risks highlighted in this report which we wish to draw to the attention of members and the action planned by management to address them.



Financial statements

Introduction

5. In this section we summarise key outcomes from our audit of the council's financial statements for 2007/08. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.
6. We audit the financial statements and give an opinion on:
 - whether they present fairly the financial position of the council and its expenditure and income for the year
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - we also review the statement on the system of internal financial control by considering the adequacy of the process put in place by the council to obtain assurances on systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the council.

Overall conclusion

7. We have given an **unqualified** opinion on the financial statements of North Ayrshire Council for 2007/08 and concluded that the "Annual Accounts" present fairly the financial position for the period to 31 March 2008.
8. The council's unaudited financial statements were submitted to the controller of audit prior to the deadline of 30 June 2008. Final accounts preparation processes and working papers were good which enabled the audit to progress smoothly. All officers in the finance department were very knowledgeable and extremely helpful throughout the audit process. Audited accounts were finalised prior to the target date of 30 September 2008 and are now available for presentation to the council and publication. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.



Accounting practice

9. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice* (the 'SORP'). The 2007 SORP required a number of significant changes to be made to the 2007/08 financial statements to make them more consistent with the accounts of other public and private sector entities. The major changes include:
- accounting for financial instruments based on Financial Reporting Standard (FRS) 25, FRS 26 and FRS 29
 - replacement of the fixed asset restatement account and capital financing account by a revaluation reserve and capital adjustment account
 - provision for penalties under the landfill allowance schemes.
10. Overall, we were satisfied that the council had prepared the accounts in accordance with the revised SORP. Major changes noted above resulted in a prior period adjustment in respect of the offsetting of debtor and creditor balances at 31 March 2007. The replacement reserves had no effect on total net worth.
11. The council made some adjustments to the financial statements to reflect our audit findings. As is normal practice, immaterial unadjusted errors have been reported to the assistant chief executive (finance) and the scrutiny committee via our report issued in line with international standard on auditing 260 (ISA 260) *communication of audit matters with those charged with governance*. Details of significant accounting issues arising in the course of our audit are summarised below.

Financial Position

12. The council's net operating expenditure of £304.562 million exceeded its total income from government grants and local taxation of £275.263 million resulting in a deficit of £29.299 million as at 31 March 2008. After the necessary accounting adjustments were made, the balance on the general fund to be carried forward at 31 March 2008 is a surplus of £16.877 million. This accumulated balance comprises £10.154 million of unallocated funds and £6.723 in earmarked funds. While the council have a substantial accumulated surplus, financial pressures will require them to make significant savings in future years. In 2008/09 the council's budget reflected the need for £6.5m in efficiencies and savings and it is estimated that further efficiencies and savings of a minimum of £10.8 million will be required between 2009/10 and 2010/11. Budget pressures are likely to increase further by rising inflation, increasing energy costs and employee related issues. Officers advised that the



unallocated balance has been reported to the executive and will be reviewed as part of the budget strategy 2009/10 to 2011/12.

Key risk area 1

13. In response to the increasing budget pressures being faced, the council conducted a detailed review of their budgets. The review is now complete and has reported on where efficiencies could be achieved to enable the council to re-direct resources to meet their priorities. The outcome of the review will form part of the deliberations for setting the 2009/2010 budget. As set out earlier, the council will continue to face significant financial pressures, particularly in 2009/10 and 2010/11 and will require to make difficult decisions in order to achieve financial stability.

Capital Expenditure

14. The current system of capital accounting is defined by the code of practice on local authority accounting in the United Kingdom: A statement of recommended practice (the SORP). The 2007 SORP governs the approach to preparing the 2007/08 financial statements. The 2007 SORP states that replacement programmes such as those for replacing bathrooms and kitchens etc in council dwellings can only be capitalised where the authority has adopted component accounting, which ensures that assets are individually recognised and depreciated based on their individual useful lives. In 2007/08 the council separately identified expenditure amounting to £15.447m which was capitalised and depreciated separately from council dwellings in accordance with the SORP. However our understanding was that the council planned to revalue the dwellings and component parts as a single unit from 1 April 2008 which means that the components would no longer be shown as a separate asset within the asset register. Given that the SORP only permits capitalisation of such expenditure where component accounting has been adopted, we would expect these assets to continue to be shown and depreciated separately within the asset register. The council have agreed to continue with component accounting for the capitalised expenditure in future years by separately identifying components which have been capitalised.

Intangible assets

15. During 2007/08 the council transferred all of their intangible assets to tangible assets on the understanding that the assets included within the category did not meet the SORP definition of intangible assets. Our review identified that a number of the assets transferred included purchased software which appears to meet the criteria of an intangible asset. The council have agreed to review their assets in 2008/09 and ensure that all purchased software is included as intangible assets.



Significant trading operations

16. The council suspended reporting on all but one of their trading operations in 2006/07 on the basis that the schedule of rates on which charges were based was out of date and that the council believed they did not meet the criteria set for identifying trading accounts, based on materiality. Service level agreements have now been drawn up for catering and cleaning although these have not yet been formally agreed and a draft report has been prepared which recommends that the council only have 1 trading account, building services. While no decision has been taken on this issue to date, no documentation has been provided to us to support the view that the council do not have any other significant trading operations. The council have agreed to finalise the position by 31 March 2009.

Key risk area 2

Objection to the accounts

17. We have received an objection to the accounts from one elector who has raised a number of issues, the majority of which were raised in previous years. The objector has met with us in accordance with Section 101 of the Local Government (Scotland) Act 1973 and we have no significant issues to report at this time. The council will continue to monitor the position and respond to any new issues as they arise.

Affordable housing strategy

18. From 1 April 2005 the council tax (discount for unoccupied dwellings)(Scotland) Regulations 2005 enabled the council to replace the scheme where a 50% discount was awarded to unoccupied properties with a discount of between 10% and 50%. The council opted to reduce the discount available to 10%. Under the terms of the schedule, the difference of 40% was to be used to fund the provision of new-build affordable housing. The scheme generated an additional £0.839m in 2007/08, bringing the total earmarked in the general fund to £2.310m. To date none of the money has been spent. We have been informed that the council have been advised of the balance available to support the development of an affordable housing strategy and of progress being made towards interim affordable housing policies. Projects will be reported for consideration as part of these policies.

Key risk area 3

Credit balances on the council tax system

19. Our audit identified credit balances of £705,702 within the council tax system. In 2006/07 there were credit balances of £740,000. Officers advised that these credit balances are likely to be partly due to council tax payers settling their liability at the start of the financial year as well as payments towards arrears for earlier years. We have been advised that the council will undertake a rolling review of these credits as part of the accounts process.

Key risk area 4



Debtors and creditors balances

20. Our review identified a number of both debtor and creditor invoices which had been either wrongly included or omitted from the accounts. Officers have taken steps to remind all processing staff of the need to ensure invoices are processed in the correct financial year. The council have advised that processing staff have been reminded of the need to ensure that invoices are processed in the year to which they relate.

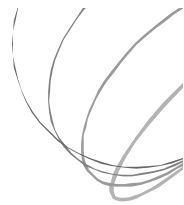
Capital Slippage

21. There has been continued slippage against the capital programme during 2007/08. General services capital expenditure amounted to £29.465m against a plan of £38.960m (actual spend at only 75.6% of the planned expenditure for the year). Housing capital outturn was £17.399m against a budget of £20.089m. Officers advised that members are aware that slippage is built into the capital programme and that there is likely to be increased slippage in future years due to the reduction in capital receipts due to current economic conditions.

Key risk area 5

Legality

22. Each year we request written confirmation from the assistant chief executive (finance) that the council's financial transactions accord with relevant legislation and regulations. Significant legality requirements are also included in audit programmes. The assistant chief executive (finance) has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with the relevant legislation and regulations governing its activities.
23. We reported last year that local authorities with registered charitable bodies (i.e. registered trust funds) are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund, although the date of full implementation has been deferred by the Scottish Charity Regulator. The Office of the Scottish Charities Regulator (OSCR) has indicated that the interim measures introduced in 2006/07, can again be used in 2007/08 and reliance placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.
24. There are no additional legality issues arising from our audit which require to be brought to members' attention.



Financial reporting outlook

IFRS adoption

25. Central government and NHS bodies are to move from UK generally accepted accounting principles to international financial reporting standards (IFRS) with effect from 2009/10. The government also announced its intention to publish whole of government accounts on an IFRS basis from 2009/10. The intention is that local government will adopt IFRS for 2010/11, although there is a possibility that early adoption may be required in some areas and this might include PPP.



Financial position

Introduction

26. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2008, providing an outlook on future financial prospects, including our views on potential financial risks. Our findings and key messages are set out in this section, highlighting the significant challenges being faced by the council in managing ongoing financial pressures in funding existing service delivery and future improvement.

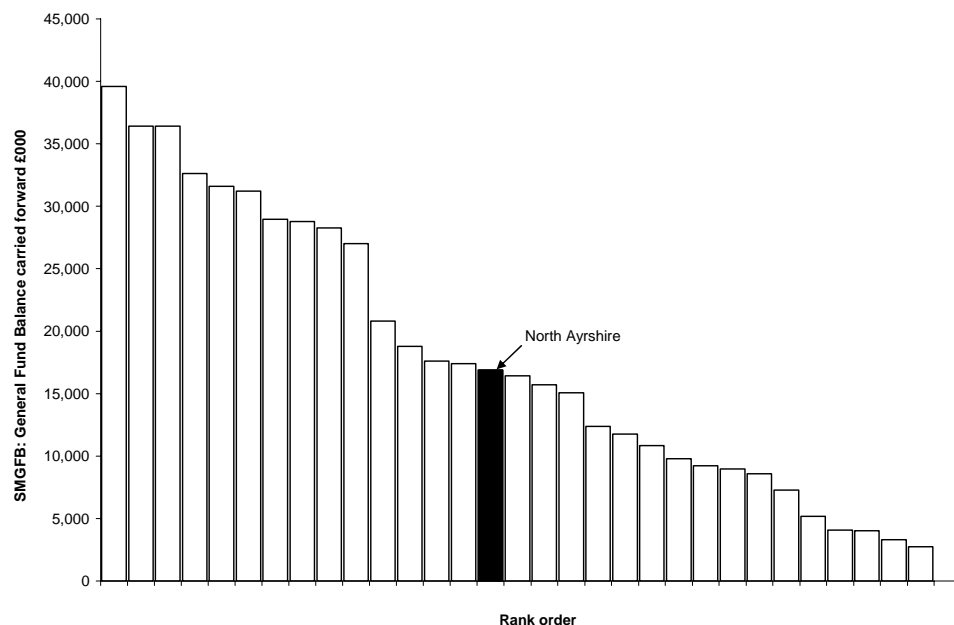
Council tax and the general fund

Operating performance 2007/08

27. Paragraph 12 of this report set out the council's income and expenditure for the year. The budget set for 2007/08 was based on a Band D council tax level of £1,152. Following completion of the accounting adjustments to the income and expenditure account deficit which are set out in the statement of movement on the general fund balance, the council made a surplus on the general fund for the year of £4.782 million. When added to the £12.095 million general fund surplus brought forward from 2006/07 this results in a closing general fund balance of £16.877 million at 31 March 2008. This equates to 5.5% of the council's net annual expenditure. The following graph shows how the council compares to other Scottish authorities in terms of their general fund balance.



Exhibit 1 Scottish Local Authority General Fund Balances as at 31 March 2008



Source : Audit Scotland's unaudited accounts database

28. Within his explanatory foreword, the assistant chief executive (finance) reported that the council achieved an underspend of £5.641 million against budget. This underspend arose from a number of areas including overprovision for the impact of job evaluation due to the delay in implementation (£2.044 million), a surplus within building services trading operation (£1.422 million) and savings and efficiencies produced from service activities (£2.175 million).

Housing revenue account

29. 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. The budget set for 2007/08 was based on an average weekly rent level of £47.28, an increase of 7% on the previous year. The council embarked on a 30 year housing business plan which resulted in rent increases of 7% each year for the first 5 years. 2007/08 was the third year of these increases.
30. Expenditure on the housing revenue account exceeded income by £2.045million after a refund of £0.776 million from the building services trading operation surplus to the client. When this deficit is added to the surplus brought forward on the housing revenue account, it shows an accumulated surplus of £1.923 million at 31 March 2008. The council are confident that this balance is within the limits of the business plan developed to ensure that the council meet housing quality standards by 2015.



Funds and balances

31. Table 1 shows the balance in the council's funds at 31 March 2008 compared to the previous year. At 31 March 2008, the council had total cash backed funds of £31.751 million, a decrease of £2.186 million on the previous year.

Table 1: Funds and balances

Description	31 March 2008 £ Million	31 March 2007 £ Million
General fund	16.877	12.095
Housing revenue account	1.923	3.968
Repair and renewal fund	3.208	4.864
Capital fund	6.491	9.061
Insurance fund	3.252	3.949
Total	£31.751m	£33.937m

32. The council aims to maintain a minimum uncommitted general fund balance of 3% of the annual budget. At 31 March 2008, the council had an uncommitted balance of £10.154 million, representing 3.3% of the net general fund expenditure. This balance was built up through a number of one-off gains, including through the revision of the bad debt provisions in 2006/07 and reduced costs as a result of the delay in the implementation of single status so the council will need to monitor the position to ensure that they continue to operate within their reserves strategy.
33. In addition to the uncommitted balance detailed above, the council also hold a further £6.723 million in earmarked funds. These include £2.310 million for the provision of affordable housing, £1.297 million for the education capital items replacement, £2.641 million earmarked grants and £0.475 million for devolved education management balances held by individual schools.

Group balances and going concern

34. The widening diversity of service delivery vehicles used by local authorities means that group accounts are required to present fairly all the activities of councils. The overall effect of inclusion of all of the council's subsidiaries, associates and joint ventures on the group balance sheet is to reduce net assets by £177.450 million, substantially as a result of pension liabilities. All group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.

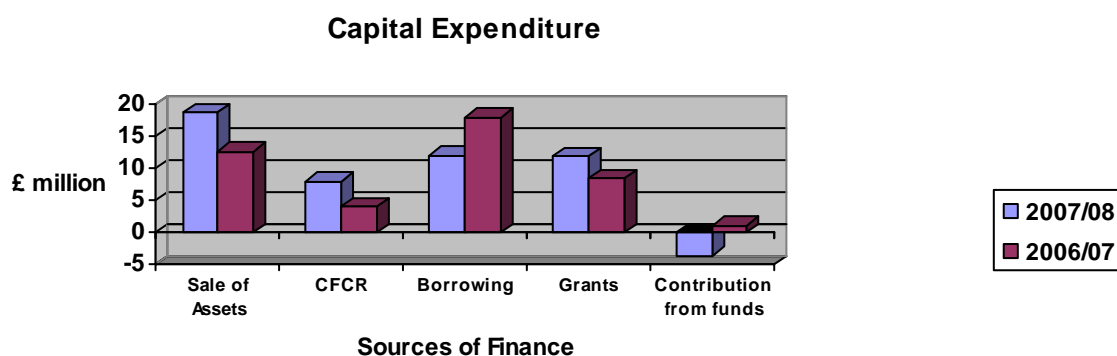
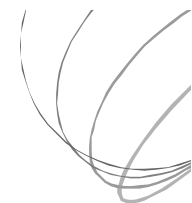


35. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. Strathclyde Police Joint Board and Strathclyde Fire and Rescue had an excess of liabilities over assets at 31 March 2008 due to the accrual of pension liabilities. In total these deficits amounted to £3,538 million, with the council's group share being £192 million.

Spending on assets and long-term borrowing

Capital performance 2007/08

36. Since the introduction of the prudential code in April 2004, the council can decide locally on a capital investment strategy which meets best value requirements as well as being affordable. The council's prudential indicators for 2007/08 were approved by the council in February 2007.
37. General services capital expenditure in 2007/08 totalled £29.465 million, rising from £24.936 million in 2006/07. There was a significant slippage (24%) on the general services capital programme for 2007/08 against the original approved 2007/08 general services capital programme of £38.960 million. Slippage on the plan related to a number of projects including the replacement of Dalry primary school and Shewalton landfill as well as a number of smaller projects.
38. The housing capital investment programme also suffered significant slippage (13%) during 2007/08. Actual expenditure amounted to £17.399 million against a budget of £20.089 million. The £2.690 million slippage is spread across a number of housing projects.
39. Capital investment in the last two years was funded as shown in the graph below. The council has increased its capital spending in 2007/08 but has managed to reduce the amount of expenditure funded by borrowing. There has been a sharp increase in expenditure funded by capital receipts in 2007/08 however the council have advised that this is unsustainable given the current economic conditions. Revisions to the capital plan for 2008/09 and beyond have been reported to the executive of North Ayrshire Council in light of the downturn in capital receipts.



Borrowing and temporary investments

40. In recent years, some councils have held significant amounts of cash and temporary investments to take advantage of favourable interest rates for planned capital programmes. In these circumstances, the early borrowing must be justified in its own right as representing the best time for borrowing the amount required. This should be assessed without regard to temporary investment possibilities, otherwise the action may be judged to be unlawful or to have subjected public money to unnecessary speculation risk.
41. As at 31 March 2008, North Ayrshire Council held cash and temporary investments totalling £46.247 million. We have requested and received a specific representation from the assistant chief executive (finance) that all borrowing in advance of immediate requirements has been made for a legitimate purpose in accordance with legislation and has been on-lent in the interests of prudent cash management. In the assistant chief executive (finance)'s assessment any early borrowing is justified in its own right as representing the best time for borrowing the amounts required, without regard to temporary investment possibilities and the 'profit' that might arise from these.
42. Almost 96% of long-term borrowing at the year-end matures after more than 10 years. The council have actively managed its exposure to variable interest rate movements with minimum debt exposed to variable rate risk.

Debt restructuring

43. In 2007/08 the council borrowed £16.521 million of which £5.974 million was to part fund capital projects and £10.547 million was used to replace maturing debt. The council also restructured £6.437 million of PWLB debt during 2007/08 when market conditions allowed for the repayment of higher rate loans without attracting any costs (premiums) to do so. A further £4.085 million was repaid in 2007/08. This repayment incurred a premium of £1.659 million.



Significant trading operations

44. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period.
45. In 2005/06 the council had 5 STO's but in 2006/07 the decision was taken to suspend all trading accounts with the exception of building services. This decision was made on the basis that the contracts on which transactions were based were out of date and that the financial information was not reflective of the true cost of providing the service. The council undertook to employ consultants to develop service level agreements (SLA's) for the STO's to ensure that they were charging based on more accurate information. The council appointed consultants to review the catering and cleaning STO's in September 2007, with a view to having SLA's in place for 1 April 2008.
46. In 2007/08 the council continued to show building services as their only trading operation. Service level agreements have been drawn up for catering and cleaning services and while these are being used as the basis of charging, they have not yet been formally agreed.
47. The council advised that no decision had yet been undertaken as to whether to re-instate reporting on the remaining former trading operations as they are of the view that they are not material to the council. Agreement was sought and received from the assistant chief executive (finance) that the decision would be finalised and auditable by 31 March 2009. We will review the position again in 2008/09.

Financial outlook

48. The council is party to the concordat between the Scottish government and COSLA. The financial features of this include an agreement to freeze council tax levels, initially for the first of three years in return for some additional funding and the removal of some ring-fencing. Consequently, the 2008/09 budget assumes efficiency measures of £6 million. These savings are in addition to £4.941 million savings in 2007/08. In addition, the council estimate that further savings of at least £11 million are required between 2009/10 and 2010/11 if the council accept the terms of the agreement for these two years. Difficult decisions will be required to achieve these levels of savings especially as significant cuts have already been made. There is a real risk that council services are adversely affected as opportunities for savings without service cuts become more difficult.



49. The housing revenue account budget for 2007/08 was based on an average weekly rent of £47.28 which represented an increase of 7% from 2006/07. As set out earlier in this report, the council require to impose significant rent increases to ensure that they are able to meet the requirements of the Scottish housing quality standard. Indicative rent levels for 2008/09 and 2009/10 based on a 7% increase per annum have also been set, resulting in the average rents being £50.59 per week and £54.13 per week respectively.
50. As with all other councils, North Ayrshire Council is exposed to financial risk in the current financial climate because of its investments held in banks. The council will have to keep themselves up to date with developments in the financial markets to safeguard their investments and protect themselves against the rising costs of and uncertainties around borrowing. The council currently has investments in Glitnir and Landsbanki amounting to £15 million, which are now at risk due to the financial state of these banks. The council should continue in their actions to secure full repayment of these investments.

Efficient government

51. The Scottish government expect public sector organisations to apply the principles of the efficient government initiative in their day-to day operations. The principles of the efficient government initiative encourage the delivery of services for lower unit cost without compromising the quality of the service provided.
52. During 2006, councils across Scotland recognised that as part of their partnership arrangements with the Scottish government, they had a responsibility to report efficiencies on the five key operational themes as set out in the Government's "Building a Better Scotland" (procurement, absence management, asset management, shared service and streamlining bureaucracy).
53. Elected members in North Ayrshire support the efficient government initiative and the council has developed strategies and plans to ensure that services can identify and deliver efficiencies. In 2007/08 the council developed a number of initiatives which contributed to the total efficiencies achieved shown in the table below. These efficiencies included entering collaborative contracts with East and South Ayrshire Councils for media advertising, personal protective equipment, occupational health and transport spares, joint training , sharing of internal audit expertise with neighbouring councils and progression of projects to identify opportunities to share accommodation with NHS Ayrshire and Arran.



54. The corporate performance management group meets regularly to monitor all aspects of performance related activity across the council including improvement initiatives. The efficiency agenda features highly on the work programme of the group showing a determination by the council to identify and deliver efficiencies to ensure the best use of their limited resources.
55. The council's efficiency statement for 2007/08 has been submitted to COSLA. Efficiency savings of £4.017 million have been reported. This is an improvement on the £3.445 million of efficiencies achieved in 2006/07. The 2007/08 efficiencies are summarised in table 3 below:

2007/08 efficiency savings

Efficient Government theme	Cashable efficiency £ million	Non cashable efficiency £ million	Total efficiencies £ million
Procurement	0.237	0	0.237
Streamlining bureaucracy	0.188	0.243	0.431
Workforce planning	2.300	0	2.300
Shared Services	0.197	0	0.197
Other	0.852	0	0.852
TOTAL	3.774	0.243	4.017

Equal pay

56. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an employment tribunal. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2005/06.
57. As mentioned in our 2006/07 report, the council offered compensation to specific groups of employees to try to limit its exposure to the financial risk associated with equal pay claims. Compensation payments made to employees up to 31 March 2008 amounted to £7.111 million. In 2006/07, the council included a provision in the financial statements of £2.911 in respect of those employees who had not accepted offers of compensation. In 2007/08 this provision was increased to £4.555 million in response to an increasing number of claims and more specific information available to the council. The adequacy of this provision cannot be fully assessed until a number of tribunals have been heard and compensation claims settled. This risk was highlighted in our 2007/08 SARA.

Key risk area 6



58. Since the implementation of single status, there has been a small increase in the number of equal pay claims against the council from employees who received a pay increase through single status. The council has not yet considered the potential impact of these additional claims, which may require an increase in the existing provision mentioned above.

Single status

59. In 1999 a single status agreement was reached between Scottish local authorities and trade unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). There was a presumption that single status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.
60. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004.
61. The council implemented the pay and grading elements of single status in July 2007 and the terms and conditions element in April 2008, following lengthy discussions with unions. There are currently appeals by 1,006 employees against the outcome of their job evaluation. The true cost of implementing single status will not be known until these appeals are resolved.
62. Until single status is fully implemented, with all appeals heard and resolved, the initial and continuing costs to the council cannot be reliably estimated. This represents some financial risk to the council. Evidence from other councils is that variation in the level of potential costs can be up to 10% of the current pay-bill on a continuing basis. In implementing the agreement, the council needs to maximise the value for money from its investment in staff.

Future capital programme

63. In July 2008 the executive of North Ayrshire Council were presented with a revised capital plan for 2008/09 and 2009/10 which focussed on priority projects as a result of the downturn in the housing market. The executive were advised that the council is dependent on capital receipts from the sale of surplus assets to fund its capital plans and that the current economic climate was impacting on the council's ability to deliver its capital plan. The executive agreed to a revision of the capital plan with the comfort that plans are flexible to allow projects to be brought forward if conditions improve.



64. The revised 2008/09 capital plan shows estimated expenditure of £35.874 million, £14.700 million of which will be financed by borrowing, £13.039 million from capital receipts and £4.631 million from brought forward balances. The balance of £3.104 million will arise from slippage in 2008/09.

EC landfill directive

65. The EC landfill directive sets limits on the disposal of biodegradable waste to landfill and requires the pre-treatment of waste prior to landfill. There are technical and financial challenges facing the council in delivering solutions and the implications of landfill penalties could be significant. The Scottish minister for the environment has the power to waive penalties in certain circumstances, and he has advised COSLA that he may be prepared to do this, for local authorities who have made genuine efforts to maximise landfill diversion, and had not met targets due to circumstances outwith their control. From 2008/09 onwards, Scottish councils will be allowed to trade landfill allowances. If one council performs better than its targets, it can sell its excess allowances to other councils.
66. While the council are confident that they will meet the targets for 2009, they do not anticipate meeting the targets set for subsequent years. There is a risk that these penalties could put further strain on resources if action is not taken to minimise these penalties. In addition to this point, internal audit conducted a review of recycling targets during 2007/08 and found that, in a few cases, not all source documentation was being retained to support the council's figures. The absence of documentation could leave the council exposed to higher than anticipated penalties if they are not able to demonstrate their recycling achievements fully. We have been informed that action was taken in July 2007 to rectify this problem.
67. The council has been performing well on recycling and landfill performance indicators with year on year improvements on the percentage of waste sent to landfill sites.

Pension liabilities

68. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. In accounting for pensions, financial reporting standard 17 (retirement benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement can result in very large future liabilities being recognised in the annual accounts.



69. The council's estimated pension assets at 31 March 2008 exceeded its share of the liabilities in the Strathclyde Pension Fund by £9.072 million. In 2006/07 the council's estimated pension liabilities exceeded its share of the assets by £39.142 million.
70. The employers' contribution rate is determined by the pension fund's actuary based upon triennial actuarial valuations which determine whether employers are contributing sufficiently to maintain the fund's solvency. Budgeted contributions rose from 270% of employee contributions in 2007/08 to 280% in 2008/09. The most recent formal valuation was carried out as at 31 March 2008 and revisions to these rates are awaited.
71. Recent changes to the local government pension scheme regulations are expected to release some future financial benefits, while providing additional flexibility to future pensioners. The 2008 actuarial valuation includes the financial impact of the assumption that 25% of pension fund members retiring after 31 March 2008 will elect to take an additional tax-free lump sum in lieu of part their pension.
72. The changes to the pension scheme mentioned above include the introduction of tiered employee contributions with effect from 1 April 2009. This will require the council payroll system to be able to accurately calculate different pension contribution rates depending on employee earnings. The council's Chris payroll system cannot currently apply different pension contribution rates to individual members of staff. The council is currently in discussions with the software provider in order to resolve this issue.

Key risk area 7



Governance

Introduction

73. In this section we comment on key aspects of the council's governance arrangements during 2007/08. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2007/08

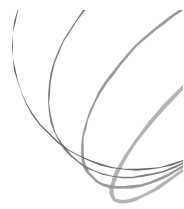
74. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on the work undertaken, we concluded that the council had systems in place that operated well within a sound control environment.

Political governance

75. The political context for councils changed significantly in 2007, with a new Scottish government and a shift to more coalition and minority administrations in local government. Nearly half of the councillors elected in May 2007 were new to local government. Since the May 2007 elections, North Ayrshire Council has had a Labour minority administration.
76. The creation of multi-member wards has required new ways of working to support efficient representation and sharing of the workload. The introduction of multi-member wards following the 2007 elections appears to be working well. However, multi-member wards are still fairly new in Scotland and the practical issues will become clearer as the new arrangements mature.

Audit Committee

77. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda. Prior to the May elections, the council had an audit & standards committee whose role included monitoring the annual work programme of internal audit as well as to consider matters arising from external audit and ensure that effective controls were in place within services. Overall the audit & standards committee was effective in its role although it was not chaired by a member of the opposition.



78. The new scrutiny committee was established following the May 2007 elections, following the council's move to a cabinet style approach. The scrutiny committee consists of 10 members of the council, excluding any members of the executive, and comprises of three members appointed by the Labour group, three members appointed by the SNP, one member appointed by the Conservative group, two members appointed from the Independents and one member from the Lib / Dem group. The chair of the committee is a member of the opposition.
79. The 2007 elections resulted in fourteen new members on the council out of thirty. Member training is essential under these circumstances to ensure that members are equipped with the right knowledge to enable them to fulfil their roles and responsibilities effectively. Best practice suggests that members should have their training needs and competencies assessed to identify any areas for development to assist them in their role. The council delivered comprehensive induction training to all members following the election and further training was also given to members with portfolio on specific areas. We reported in our SARA that the council were planning to meet new members to identify training needs and competencies with a view to providing training as required and that the process would roll out to returning members over time. We are advised that all members have since been invited to have a training needs assessment and to date 12 have accepted and met with officers. personal development plans are now in place for each of these members.

Internal Audit

80. Internal audit provides an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the council's internal audit arrangements against CIPFA's revised code of practice for internal audit in local government 2006.
81. We carried out an annual review of the council's internal audit arrangements and found that the function is operating in accordance with the code. We reviewed the progress of internal audit against their annual plan and found that they had completed 94% by their year end.
82. As part of our review we also look at the planned audit work in compiling our own plan in order to identify areas where reliance on internal audit is possible. The following areas were specifically identified as areas where reliance could be placed:
- An agreed selection of statutory performance indicators.
 - National fraud initiative (NFI).
 - Annual fraud returns.
 - Procurement – progress against recommendations made in McLelland report.



83. The internal audit section continues to deliver quality work with sound documentation of conclusions reached. This has allowed us to place reliance upon the above aspects of internal audit work. All work on which we planned to place reliance was satisfactorily completed and the relevant assurances obtained.

Systems of internal control

84. A statement on the system of internal financial control for the council and its group was included within the financial statements. In accordance with the code of practice on local authority accounting, the statement reflects the internal control environment for the group position. Following receipt of a range of assurances from the work of managers within the council, and the work of internal and external audit, the assistant chief executive (finance) concluded that he was satisfied that reasonable assurance could be placed on the adequacy and effectiveness of the systems of internal financial control operated by the council and its group.
85. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the council's main financial systems. We assessed the key controls operating in all the financial systems within the council and found these controls to be generally operating to a satisfactory level. We did however identify some specific weaknesses in the payroll and creditors systems which were reported to management in our "Review of Main Systems" report issued on 3 September 2008.
86. We selected a sample of 30 new starts to ensure that they were supported by an authorised CHRIS input form. Our testing revealed 1 case where the CHRIS form had not been signed, 4 cases including the aforementioned where the CHRIS form had not been countersigned and 1 case where there was no CHRIS form on file. A further 2 cases were identified where no file could be provided for the employee. Given that employee costs are the highest area of expenditure for the council, it is essential that tight controls are in place to ensure that only valid employees are being paid. The inconsistent application of these controls leaves the system exposed to fraud and error.

Key risk area 8

87. Our testing on 30 payroll leavers to ensure that they were timeously removed from the payroll revealed 5 cases where there was no completed CHRIS form on file. No explanation was provided for the absence of these forms.

Key risk area 8



88. A sample of 30 invoices were tested to ensure that the prescribed invoice checks had been carried out. Our testing revealed 1 case where the invoice had been stamped but not initialled by the officer conducting the checks and a further 4 cases where there was no evidence of prescribed checks having been carried out. It is important that checks on invoices are evidenced as they are an essential internal control for ensuring that only valid invoices are paid and that they are correctly recorded within the creditors system.

Key risk area 9

89. We were advised that historically, rent levels for similar sized properties vary as a result of rents brought forward from former authorities with rent increases being applied as a percentage of current rent. Our review has identified that there has not been a universal exercise to reassess current rents. We were also advised that housing services have incorporated into their service plan a proposal to review rents.

Key risk area 10

Review of tendering arrangements

90. As well as conducting high level reviews on all main financial systems, we undertook a review of the council's arrangements for tendering. The review included the arrangements for authorisation to invite tenders, the process for inviting tenders, the opening, assessing and acceptance of tenders together with contract signing. We also reviewed both lowest price and best value methods of tendering, together with compliance with European Union legislation for public sector procurement. A number of significant issues and risks were identified, which were reported to management in September 2008.

91. Our review identified one instance where a contract worth £709,800 was unnecessarily single sourced which contravened European Legislation. The legislation requires advertising to allow prospective suppliers to express an interest, demonstration of best value and the publishing of a notice in the OJEU within 48 days of the contract award. While single sourcing is acceptable in appropriate circumstances, none of the EU requirements for single sourcing were met, nor was approval from the Executive obtained as set out in the council's procurement standing orders.

Key risk area 11

92. The council standing orders relating to contract procedure rules require council departments to ensure that best value is achieved when procuring supplies, services and works. To do this the council can award contracts based on either lowest price or price and quality. Our review identified that in almost all cases, contracts are being awarded based entirely on cost. The exception to this were two



contracts where following completion of phase 1, executive approval was granted to award the contract for phase 2 to the original contractors for phase 1. There was no documentation to demonstrate that the rates had been negotiated or appropriate quality assessments had been carried out to achieve best value. Given that the original tenders were for phase 1 only, the council have left themselves exposed to legal action from other potential suppliers for these contracts.

Key risk area 12

93. The contracts register is updated by individual services every three months however when requested for audit we found the information in the register to be incomplete. The contract register should be available for public reference so it is essential that it is kept up to date.

Key risk area 13

Prevention and detection of fraud and irregularities

94. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include a whistle blowing policy, codes of conduct for elected members and staff, and defined remits for relevant scrutiny panels.

NFI in Scotland

95. During 2007/08, we continued to monitor the council's participation in the 2006/07 national fraud initiative (NFI). This exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£9.7 million from the 2006/07 exercise and £37 million including previous exercises). Where fraud or overpayments are not identified in a body, assurances can usually be taken about internal arrangements for preventing and detecting fraud.
96. In our 2006/07 report to members, we reported that the council had made significant progress towards following up referrals although it had concentrated on high priority matches. Some lower priority risk-assessed matches, where the returns were likely to be small in relation to the effort required, had not been examined. The council did not intend to follow up matches in areas where previous work had given adequate assurance.



97. The council have now checked the vast majority on the high priority matches and a significant proportion of the other matches. Areas where savings have been achieved have been checked in full by the council. Twenty-four frauds have been uncovered and £181K has been identified as savings.
98. In May 2008, Audit Scotland issued a report on the progress of the 2006/07 NFI exercise (National Fraud Initiative in Scotland 2006/07). There is no criticism of North Ayrshire Council in that report.
99. One of the key messages of this report is that savings are less than the earlier exercise in 2004/05 possibly demonstrating that the initiative has a deterrent effect.
100. There will be a further exercise in 2008/09 with a mixture of mandatory and risk-assessed matches to be pursued. The council has considered how to take this forward by assessing the risk and deciding which risk-assessed matches that it will wish to pursue. It has decided to pursue the majority of these matches. We will continue to take an interest in progress.
101. Between the 2006/07 and 2008/09 exercises, councils have had the opportunity to pursue an interim set of matches concentrating on information available from the electoral register and the council tax systems (e.g. addresses with two or more registered voters where a single person council tax discount is allowed). Due to legal concerns expressed by the assessor, the council have not yet participated in this exercise. These concerns have now been alleviated and the council will now undertake the examination of these matches.

Housing and council tax benefit

102. From April 2008, Audit Scotland took over responsibility for inspecting housing and council tax benefit functions from the department for work and pensions. We are carrying out risk based inspections on a cyclical basis and all councils will be inspected during an 18 month period. North Ayrshire Council volunteered to pilot the risk assessment phase of the revised approach.
103. In March 2008, we looked at your benefits service's self-assessment and supporting evidence, and analysed information from a number of other sources including meeting with senior managers. Our work focused on the following 4 key areas:
 - Aims of the benefits service.
 - Meeting the needs of the user and community.
 - Delivering outcomes.
 - Providing value for money.

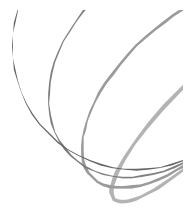


104. The council provided a thorough self-assessment, demonstrated awareness of a number of the issues raised during the risk assessment and readily accepted the areas we identified as issues to be resolved. The authority has a track record of delivering improvements in benefits processing and a strong management team and therefore we have confidence that it has the ability and leadership to manage the risks identified in our report.

105. We concluded that the council's benefits service is clear about what it is aiming to do and generally provides value for money, however we did identify some risks to the continuous improvement of its performance in meeting the needs of service users and the community and delivering outcomes. These risks were highlighted in our report issued in April 2008 and the action taken by the council to address these will be considered against available resources.

106. Some of the risks identified include:

- The council has limited liaison arrangements in place with its private landlord community and has not consulted with its customers, or the wider community, on the level and type of service they need.
- Although a number of activities in the plan had been completed, there is no audit trail to demonstrate the systematic monitoring of progress against the plan.
- A local target was set for 2007/08 to process changes of circumstances within 19 days. However, this was not challenging when compared with the 2006/07 performance of 13 days.
- The suspension of daily checks of new claims and changes of circumstances reduces the assurance the council has on the security and accuracy of its caseload.
- Before the suspension in June 2007, the daily audit checks showed an accuracy rate of between 85.33% and 93.75%. However this performance was not reported to senior managers with the result that it was not taken into account to identify or address the overall level of error in the caseload.
- There is no audit trail from the daily checks detailing:
 - the percentage of decisions checked
 - the reason for and types of errors found
 - identified trends.
- There is no audit trail detailing the number of overpayment decisions checked or the number and type of errors found.



- A key objective in the Financial Services Plan is to improve the recovery of overpayments. While the amounts collected are routinely no targets have been set for overpayment recovery performance compared to the total HB debt.
- In its overpayment recovery policy the council commits to quality checking ongoing recovery cases. Although this is carried out, there is no audit trail to demonstrate the number checked, the frequency of the checks, or the outcomes.
- There is limited management information on the number of and reasons for appeals and requests for reconsiderations.

Key risk area 14

Data handling and security

107. Data handling and security has received increased public and media attention recently as a result of a number of national incidents relating to lost data. The council shares data with a number of organisations such as the department for work and pensions and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil and criminal litigation. The council are taking steps to ensure the security of information by running a series of security awareness sessions for staff and developing an information asset register detailing the main applications run by the council. While a formal system for classifying information has recently been introduced, there was little evidence of it being used. In addition, although a draft Records Management Strategy has been developed by SOCITM, this is still being updated and has not yet been endorsed by the council nor does it record all information that is transferred routinely as well as informally to third parties regardless of the types of media involved. These issues should be addressed to improve the council's data handling procedures. A detailed report was issued to management in September 2008 which included an action plan to address identified weaknesses.

Payment card standards

108. The payment card industry data security standard (PCI/DSS) was developed by major credit card companies as a guideline to assist organisations that process card payments to prevent credit card fraud, hacking and various other security threats. Any organisation processing, storing or transmitting payment card data must be PCI/DSS compliant or risk losing their ability to process credit card payments. The council does not currently comply with this standard, however are working towards compliance.



Governance outlook

Single outcome agreements

109. The concordat between the Scottish government and COSLA sets out the terms of a new relationship between the Scottish government and local government. It underpins the funding to be provided to local government over the period 2008/09 to 2010/11. Central to the concordat is the single outcome agreement (SOA) between each council and the government. The SOA sets out the council's contribution to the government's 15 key national outcomes as set out in the concordat. It also reflects established corporate and community planning commitments. In this way progress at a national level is supported by outcomes at a local level.
110. The SOA was developed by a team from chief executive's department and involved liaison with other council services and partner organisations where appropriate. The basis of the SOA was the 2008-2011 Council Plan which was built up from underlying service plans for 2008-2011 and the 2006-2016 community plan. The SOA includes the same 34 North Ayrshire outcomes as are included within the council plan. These are supported by a number of performance indicators.
111. The short timescale between the publication of the concordat and the requirement to submit draft SOA's meant that it was difficult to fully involve partners in the development of the SOA, however the council have included a "Statement of Intent" from their community planning partners that endorses the SOA to date and commits to further engagement over the coming year in the development of a wider SOA between the CPP and Scottish government by April 2009. The council are of the opinion that, while the SOA has not been signed by the CPP, the CPP have been involved in the process and have bought into the values stated in the SOA
112. The council are committed to producing an annual public report which measures how they have performed against the SOA. In addition to this, they are investigating the potential for a "North Ayrshire Performs" portal on the web-site, similar to the "Scotland Performs" area on the Scottish government web-site. Performance against the council plan and community plan which underpin the SOA, will continue to be monitored on a quarterly basis.



Performance

Introduction

113. In this section we summarise key aspects of the council's reported performance during 2007/08 and provide an outlook on future performance. We also comment on the findings of Audit Scotland's national performance studies, relating them to the council's situation.

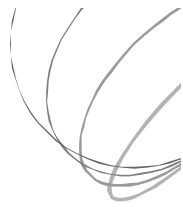
Corporate objectives and priorities

114. The council plan for 2008 – 2011 sets out the key goals and priorities for the council until 2011 and explains how it planned to achieve these. The plan was set out in twelve themes, which cut across a variety of services:

- Getting people into work.
- Increasing educational achievement.
- Improving travel & transport links.
- Providing a cleaner, greener & more attractive environment.
- Delivering decent, affordable housing.
- Improving roads & footways.
- Promoting healthier & more active communities.
- Making our communities safer, stronger & better protected.
- Reducing disadvantage & promoting equal opportunities.
- Improving our customer service.
- Using our resources more efficiently & effectively.
- Attracting, retaining & developing our employees.

115. A total of 133 priorities are established across these themes. These priorities include the following pledges by the council's administration:

- Implement an economic development strategy to secure new investment, jobs, training in the area.



- Promote higher levels of attainment and achievement in schools and in the wider learning community.
- Lobby the Scottish government to upgrade road links.
- Implement the Ayrshire, Dumfries and Galloway Area Waste Plan, promoting a culture of “reduce, re-use and recycle” in relation to waste.
- Ensure all social housing stock meets the Scottish housing quality standard by 2015.
- Invest sufficient funding in road and footway resurfacing to improve conditions on all public roads maintained by the council.
- Develop the council's capacity as a health improvement organisation.
- Develop community based services to enable older people to be supported within their own homes and reduce the need for institutional care.
- Reduce poverty and over-indebtedness and improve financial capability.
- Review, implement and report annually on the council's communications strategy.
- Negotiate, monitor and update annually a single outcome agreement with the Scottish government.
- Maintain an equitable pay and grading structure and harmonised terms and conditions of service for local government employees.

116. Following the May 2007 elections, the labour group, being the largest single party, formed a minority administration. Membership of the council is made up of 12 Labour, 8 SNP, 5 Independent, 3 Conservative and 2 Liberal Democrat councillors. The executive approved the council plan 2008-2011 on 1 April 2008, and the decision has been taken to roll the plan forward annually so that the council are always working to a revised three year plan.

Overview of performance in 2007/08

Performance reporting

117. It is vital for members, management and stakeholders to be able to assess the council against corporate priorities and to be able to easily identify if service outcomes are improving or declining. The Scottish government sees this being of prime importance. Single outcome agreements have been put in place for councils across Scotland. North Ayrshire Council finalised their first single outcome agreement at the end of June 2008. Performance monitoring systems which measure and monitor outcomes therefore require to be in place.



118. The council's main method of reporting its performance continues to be its own award winning newspaper, "North Ayrshire Now". This is published three times per year and is distributed to all households in North Ayrshire. The newspaper is a comprehensive document which gives a clear insight into the council's priorities and what action has been taken to meet the council plan, as well as a summary of the council's financial performance. The paper is signed by both the leader of the council and the chief executive, which endorses the content and makes a firm commitment to continue to strive to meet and develop the council plan.
119. In addition to the newspaper, each service reports its performance using a number of methods including newsletters and the council web-site. Statutory performance indicators (SPIs) are also produced annually and published on the web-site. While "North Ayrshire Now" includes mainly success stories, a more balanced picture of the council's performance can be seen using the SPIs.
120. Performance against the priorities in the council plan is monitored on a quarterly basis using the council plan performance monitoring system which was developed by the information technology department. This system maintains a record of each priority and uses a traffic light system to track progress against the actions which underpin the corporate priority. Monitoring progress against actions falls under the remit of the scrutiny committee.
121. SPIs are monitored throughout the year with remedial action taken where necessary. A balanced scorecard mechanism is in place to report service performance. This information is presented to members with the service context, budget and how the indicators supports the corporate priorities outlined. In addition, the reports show the highs and lows of service performance as well as any action plans arising from the performance information. Local performance indicators are reported twice yearly to members. The council are clearly taking a pro-active approach both in trying to improve service performance but also in ensuring that members are fully aware of how well services are doing to enable corrective action to be taken where necessary.

Statutory performance indicators

122. One of the ways of measuring a council's performance is through the SPIs. The SPIs allow councils to measure comparative performance against both the previous year's performance and the performance of other Scottish local authorities.
123. In 2007/08, a total of 57 SPIs were required. These were published by 30 September 2008. Overall, performance against the SPI's improved in 2007/08, however there were also a number of areas where performance declined. These areas are set out in the following paragraphs. As set out earlier in this report, the council continually monitor their performance against both statutory performance indicators and local indicators and take remedial action where problems are identified.



124. Significant improvement (15% or more) was reported in the following indicators:

- Total number of homecare hours per 1,000 population aged 65+.
- Number and percentage of homecare clients aged 65+ receiving either a service during the evening / overnight or at weekends.
- Total daytime respite hours provided for people aged 18-64.
- Number and percentage of people aged 18-64 receiving daytime respite not in a day centre.
- Average number of hours per week to complete community orders.
- Average time to process changes in circumstances in benefits administration.
- Amount and percentage of housing benefit overpayments written off.
- Number of litigation claims per 10,000 population.
- Cost of collecting council tax per dwelling.
- Proportion of GIA (Gross Internal Floor Area) that is in satisfactory condition.
- Library additions.
- Schools occupancy.
- Number of looked after children away from home attaining at least one SCQF level 3 (any subject).
- Total overnight respite nights provided for children aged 0-17 with disabilities.
- Percentage of rent due in the year that was lost to voids.
- Number of days and average time low demand houses been unlet at year end.
- Percentage of homelessness cases reassessed.
- Percentage of waste composted or recycled.
- Number and proportion of abandoned vehicles removed within 14 days.

125. Performance has declined by 15% or more since 2006/07 in the following SPIs:

- The number of single rooms expressed as a percentage of all residential care places for other adults within the voluntary sector.
- Rooms with en-suite facilities for older people in the voluntary sector.
- Number of visits to/ usages of council funded or part funded museums expressed per 1,000 population.



- Number of looked after children away from home attaining at least SCQF level 3 in English and Maths.
- Average time to re-let low demand houses.
- Average time to deal with homelessness cases.
- Number of refuse collection complaints per 1,000 households.

126. Each year we review the reliability of the council's arrangements to prepare SPIs. The council have a co-ordinated approach to producing and reviewing performance against SPIs and have sound procedures in place for generating SPIs and supporting documentation. Internal audit were also involved in the review of the SPIs to the extent that we were able to place reliance on their work. None of the indicators produced were considered to be unreliable.

Performance outlook – opportunities and risks

Introduction

127. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of best value based on a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.

128. The best value audit of North Ayrshire Council was carried out in December 2004 and the findings published in February 2005. In response, the council approved a best value improvement plan setting out the 50 improvement agenda items from the report together with the planned actions and timescales for implementation.

129. Since this time, the improvement plan has been incorporated into the council plan, which is monitored quarterly within the council.

130. In the course of our audit work we identified some of the strategic risks facing North Ayrshire Council in the delivery of its stated objectives and priorities for the years ahead. These risks were set out in our strategic audit risk analysis (SARA) and grouped into five risk themes. In the following paragraphs, we comment on the progress made by the council during the year and the current position in addressing these key risks.



131. Risk exists in all organisations which are committed to continuous improvements and, inevitably, is higher in those undergoing significant change. The objective is to be 'risk aware', and have sound processes of risk management, rather than 'risk averse'. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.

Managing performance to achieve best value

132. In order to achieve council priorities and objectives, corporate strategies supported by service, asset, workforce, information and communications technology (ICT) and financial plans require to be in place. In addition a robust performance management system is required to monitor and report on performance to allow appropriate actions to be taken. The council must be able to demonstrate whether performance has improved, been maintained or deteriorated and also whether efficiencies have been achieved. With the development of the SOA, the council must also be able to effectively measure and monitor outcomes.

133. The Scottish government introduced a single outcome agreement approach to the funding for all Scottish councils, required all councils to have at least a high level outcome agreement in place by April 2008. The council were been proactive in following guidance issued and a draft outcome agreement was prepared within set timescales. We highlighted that outcome agreements would require to be further developed in line with guidance issued to councils and that an expanded and more robust outcome agreement would be required by April 2009. The council successfully delivered their first SOA by 30 June 2008, as required.

134. Best value requires councils to demonstrate the sound use of resources, find a balance between quality and cost in decisions relating to the use of assets, and develop a sustainable long-term approach to asset management. We highlighted that the council were currently progressing phase 1 of a 4 phase plan to implement an asset resource management system (ARMS). Phase 1 was on target for completion by 1 August 2008 and focused on populating the system with the details of all assets held by the council. However at the time of our review there were no plans in place for how the project will be taken forward upon completion of phase 1. We highlighted that there was a risk that the asset management project could lose momentum without clear plans in place as to how the council would use the information collated. We are advised that the ARMS system is now fully populated with drawings, maintenance histories and condition surveys for all non-housing properties and that progress is being made in integrating the system with corporate financial systems. We will continue to monitor progress to ensure that the ARMS system is meeting the council's needs for developing and integrating sound asset management.



135. A sound suite of corporate statements are an essential element in ensuring that local people understand the role and objectives of their council. The council set out their priorities in the council plan which is supported by the financial plan and service plans. The council have strategic service statements which set out the role of the service, their 3 year strategic assessment and their priorities. While these documents give a clear indication of the role of the service, we found that it was not always clear how their priorities linked into the council plan and the financial implications of meeting the priorities. We highlighted the risk, that without clear linkage to the council plan, services could be delivering services which are not in accordance with the strategic vision of the council. However, officers advised that strategic service statements, linked to the council plan form the basis of budget considerations.

136. The Scottish government introduced a strategic housing investment framework whereby all local authorities were required to produce a strategic housing investment plan (SHIP) linked to their respective local housing strategy. The council submitted its SHIP in November 2007 for year 2008/09. The first year was deemed as a pilot but future plans will influence the level of housing development funding provided to the council. We highlighted that future plans would require careful consideration prior to submission to the Scottish government.

Ensuring the future affordability and sustainability of services

137. During 2007/08 the council opened four new schools which were built under the public private partnership (PPP). In entering the PPP contract the council have agreed to meet contractual obligations for the next 30 years. While the new schools will allow the council to deliver education in a modern and tailored environment, this commitment will be an increasing strain on budget resources. The council have advised that they will consider how the costs of the PPP will be met as part of the normal 3 year budget setting process.

138. The council have agreed a 30 year business plan to achieve and maintain standards for their housing stock set by the Scottish housing quality standard by the year 2015. The modernisation programme is to be funded by increasing rents at a rate of RPI plus 4.5% for the initial 5 years of the plan. Thereafter, rent increases are proposed at RPI plus 1%. We raised concerns in our SARA that such significant rent increases could lead to lower levels of rent collection however statutory performance indicators for the council show and improved rent collection performance in recent years.

Good governance and real accountability

139. As mentioned in paragraph 25, local government bodies will be required to prepare the financial statements on an IFRS basis from 2010/11. It is anticipated that the preparation of accounts on an IFRS basis will require a significant amount of resources to be applied to areas such as employee



benefits, leases, fixed assets as well as PFI contracts. IFRS require a significant amount of additional disclosure in the financial statements. Organisations already adopting IFRS have seen financial statements documents increasing in size by up to 50%. The preparation of the financial statements on an IFRS basis will therefore require that additional resources are allocated to the preparation of the financial statements to ensure deadlines are met. The council have advised that they are not yet fully aware of the implications of IFRS but they will be reviewing resource requirements as more information becomes available. Staff from financial services attend the west of Scotland directors forum which shares best practice as accounting procedures develop. Staff will also attend training events for the introduction of IFRS as these become available.

Community planning and effective partnership working

140. Councils have always planned and delivered many of their services in partnership with other public, private and voluntary organisations. Community planning is intended to provide the strategic framework for partnership working within each council area. Partnership working is about how councils work with public, private, business and voluntary organisations, and with their local communities, to identify and solve local problems, improve local services and share resources.

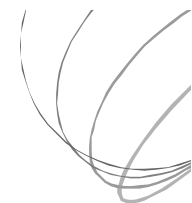
141. Our SARA highlighted that joint governance and accountability arrangements between the council and its partners were not fully in place. We have now been advised that the governance review is nearing completion, with an initial set of recommendations considered by the CPP Board in September 2008 with plans in place to fine tune proposals and implement these in January 2009.

Securing the efficient use of resources

142. The efficient use of resources is essential for all councils in the current climate of restricted resources. It is also central to the achievement of best value and to addressing the efficient government programme.

143. The council's financial position and efficiency savings are covered earlier in this report along with revenue and capital planning and monitoring.

144. The council recognises that its reputation is shaped by the perceptions of people who engage with its employees and to this end has developed a workforce strategy which aims to ensure that employees are appropriately trained to support them in their role. Within this context, departments were asked to undertake a skills audit to compare the current position with that required in the future. Meetings have recently been held with each service to ensure that any hard to fill positions and/or positions that may become vacant as a result of the current jobholder retiring within the next five year period are planned for on an ongoing basis. See also point 146 below.



145. The council has a personal development review (PDR) process in place which identifies training needs of employees. Until recently, its application across the council was sporadic. The workforce strategy has set out a requirement for all employees to have had a PDR by 31 March 2009. Plans are also in place to develop a performance appraisal element to the PDR process, which would be rolled out during 2010. There is a risk that the council fail to implement transparent and measurable targets for the performance review which makes identifying areas of poor performance more judgemental. We are advised that the roll out of PDR's for all staff is progressing in line with set timetables.
146. The key resource of the council is its staff. The council have a number of managers in post who may retire within the next three to five years including those at director and head of service level. It has a growing population of aging employees and has in the past experienced recruitment difficulty in particular sectors. Our SARA highlighted that it is essential that the council examine its age profile and career intentions of senior officers and other employees where recruitment difficulties may be anticipated, and use the data to inform future succession planning and workforce management. We have been advised that management are considering the implications of succession planning.
147. The council introduced the corporate procurement unit to drive the council in securing best use of resources through identifying corporate procurement opportunities. The unit has been successful in raising their profile and role within the council to the extent that their has been a significant increase in the value of orders placed through PECOS and increased consultation with the unit prior to entering into procurement contracts. While it is likely that savings have been made through improved procurement practices, at the date of our SARA, no progress had been made on calculating the value of efficiency savings, which meant that savings were being absorbed within departmental budgets rather than used to revise budget requirements and re-direct surplus resources. We are advised that progress has now been made in quantifying savings from improved procurement practices and that identified savings will be stripped from service budgets and re-allocated to meet council priorities from 2009/10 onwards.

National studies

148. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are described below. Further information on these studies and copies of the reports can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk



Sustainable waste management

149. Collecting household waste is a vital and universal service. In recent years significant new investment has been made to reduce the amount of waste sent to landfill. Our national report on sustainable waste management, published in September 2007, highlighted that:

- Significant progress has been made in meeting interim recycling targets, but the rate varies considerably between councils. The percentage of municipal waste recycled and composted increased from 7% in 2001/2 to 25% in 2005/06. Co-mingled collections appear to achieve higher recycling rates.
- There has been slow progress in developing facilities to treat residual waste and there is a significant risk that EC landfill directive targets might not be met.
- Increased recycling has led to increased costs for councils.
- All parties need to work more effectively together to make progress in waste minimisation, recycling and waste treatment.

150. North Ayrshire Council has been making progress with recycling in terms of the percentage of waste being sent to landfill. The council reported that 74.2% of waste was sent to landfill in 2006/07 but only 68.9% in 2007/08. The percentage of waste being composted or recycled has risen from 25.7% in 2006/07 to 31.3% in 2007/08.

Free personal and nursing care

151. Since July 2002, all councils have had systems in place to deliver free personal and nursing care (FPNC). People of all ages living in care homes are entitled to free nursing care and people over 65, living in any setting, are entitled to free personal and nursing care. Our national report about the financial implications of FPNC, published in September 2007, found that:

- Councils have interpreted the legislation and guidance relating to food preparation differently across Scotland.
- Councils should improve their information systems to enable them to collect comprehensive and accurate information on FPNC and other aspects of care and support services.
- Councils should provide clear information to older people on what is covered by FPNC.
- Councils should work with local health partners to evaluate the longer term consequences of reducing domestic homecare services.



152. North Ayrshire Council initially interpreted the legislation regarding food preparation to mean that the council should charge for food preparation assistance. This interpretation was reversed in November 2006 and any charges incurred since that have been refunded to clients.

153. The national study revealed that in 2002/03 North Ayrshire had 663 older people receiving personal care at home however by 2006/07 this had increased to 1,004, an increase of 51.4%.

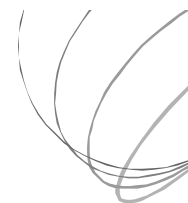
154. North Ayrshire Council has consequently seen a rise in the number of homecare hours being required for those aged over 65. A total of 8380 hours of care was provided in 2006/07 but this has risen to 10,599 hours in 2007/08.

Scotland's school estate

155. A major programme of school building renewal started at the end of the 1990s and is continuing. The programme aims to create a school estate that achieves the government's vision for 21st century schools that are well designed, well built and well managed. Our national study reviewed what has been achieved so far, how much it is costing, how effective the improvements are and how well the Scottish government and councils are working together to manage improvements to the schools estate. One of the main conclusions of our report, published in March 2008, is that the current rate of progress will take up to 20 years to remove all schools from poor or bad condition. The report recommends actions for the Scottish government and councils to help improve arrangements and support future achievements. These include:

- Better planning by councils and the Scottish government to set specific, measurable and meaningful targets for the school estate strategy.
- Greater use of the Scottish Government guidance by councils to make sure future school design strikes a good balance for the comfort of everyone who uses the building.
- Making environmental sustainability a key element of school design.
- Doing more to identify and share good (and bad) practice in school design and estate management.
- Estimating pupil rolls for at least ten years ahead with a minimum annual review.

156. In 2005/06 the council signed a contract with First Class Consortium for the construction and future maintenance and management of four new school buildings in North Ayrshire. The four schools were completed and handed over to the council in 2007/08 and are all fully operational and delivering education for the 21st century in a modern and welcoming environment.



Overview of sport in Scotland

157. Public bodies spend on average £558 million a year on sport in Scotland. Councils are responsible for 90% of this expenditure. Most of the money is spent on providing and maintaining facilities as well as programmes to encourage participation and support individual athletes. Our national report, published in April 2008, found that:

- The provision of sports facilities and other services is fragmented, with no clear links between the government's national strategy for sport and councils' investment. The development of single outcome agreements is an opportunity to clarify and align the links between national and local strategies.
- The level of participation and funding in sport has been declining and participation by younger people falls short of targets.
- Sportscotland estimates that an additional £110 million a year is needed for the next 25 years to bring sports facilities up to an acceptable standard.
- Arrangements to deliver the 2014 Commonwealth Games are still being developed. These will be critical in ensuring the success of the games and safeguarding the large sums of public money that will be invested.

158. The council's 2008/09 single outcome agreement includes a number of indicators under national outcome 6, "We live longer, healthier lives". These indicators include the percentage of primary schools providing 2 hours of physical education (PE) per week, the number of secondary schools providing 2 hours of PE per week, as well as the SPI's for the number of attendances per 1000 population at local authority supported pools and indoor sports and leisure facilities. The SPI information on the usage levels of swimming pools showed a decrease of 5.5% in attendances per 1,000 population between 2006/07 and 2007/08. A smaller decrease of 0.9% was identified for attendances at indoor sports complex's per 1,000 population between 2006/07 and 2007/08.

Other Inspectorates

159. The council were subject to various inspections on its services. The Social Work Inspection Agency (SWIA) issued Ayrshire wide reports on services for people with learning disabilities and criminal justice services. Action plans were agreed with SWIA who will carry out follow up visits to ensure appropriate action has been taken.



160. The Scottish housing regulator undertook a review of the council's housing service under section 72 of the Housing (Scotland) Act 2001, on behalf of Scottish Ministers. The purpose of the review was to provide an independent external assessment of the effectiveness of housing services delivery and make recommendations to help improve services. Grades were awarded for housing management, asset management and delivery of repairs and homelessness services with an A being excellent performance, B being good, C being fair and D being poor.
161. The inspection took place between April and May 2008 and the findings were reported in August 2008. The council achieved an A for housing management, a C for asset management and a B for services to homeless people. The council are preparing an improvement plan to address the weaknesses identified in this report. The council should continue to monitor progress in this area.
162. In September 2008, the council were advised that they would be subject to an HMle inspection in October and November 2008. The local external audit team will be involved in this review. Any findings arising from the review will be considered when we plan our 2008/09 audit of the council.



Final Remarks

163. We have raised a number of risks in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate.
164. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issues and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks.
165. Appropriate mechanisms should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2007/08 audit.
166. The co-operation and assistance given to us by North Ayrshire Council members and staff is gratefully acknowledged.



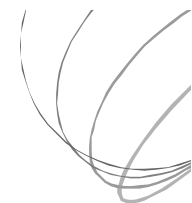
Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Key risk	Para	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	12	<p>Financial position</p> <p>While the council held a general fund surplus at 31 March 2008 in line with its agreed policy, financial pressures will need to be addressed via a range of measures to achieve savings in the region of £17million over the period to March 2011 which could significantly erode this balance.</p> <p>Risk: the council is unable to maintain its target of uncommitted balances of 3% of net expenditure and may need to make service cuts to obtain the efficiencies required to meet their budget pressures in the coming years.</p>	<p>Directorates are already reviewing current service provision to identify where efficiencies can be achieved. Corporate efficiencies are being identified as part of this exercise. A package of measures will be brought before the council for approval as part of the budget strategy for 2009/10 to 2010/11. With another spending review planned for 2009, further action will be identified at that time, if necessary.</p>	Assistant Chief Executive (Finance)	March 2009
2.	16	<p>Significant trading operations</p> <p>The council are continuing to report on only one trading operation following their decision to suspend reporting in 2006/07. The council advised that it is unlikely that they will resume reporting on the remaining services on the basis that the value of trading is not material. The council have agreed to reach a decision which is auditable by 31 March 2009.</p> <p>Risk: the council may be failing to report on activities which fall under the definition of significant trading operations.</p>	<p>It is for the council to agree what is significant and recommendations will be put to the council before the end of the financial year.</p> <p><i>(Refer to action plan point 6 in the 2006/07 report to members and the controller of audit.)</i></p> <p><i>(Refer to strategic audit risk analysis (SARA), Managing performance to achieve best value, risk 1)</i></p>	Assistant Chief Executive (Finance)	March 2009



Key risk	Para	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3.	18	<p>Affordable housing</p> <p>The council have built up a fund of £2.310 million over the last 3 years however to date there are no plans in place as to how this money will be spent. Given the current economic conditions, it is essential that the council make good use of this money to deliver affordable housing options for the people of North Ayrshire.</p> <p>Risk: If the council do not identify a service provider to utilise this fund, it will continue to grow and the council will be failing to deliver on its council plan priority of delivering affordable housing.</p>	<p>The council were advised of the balance available to support the development of an affordable housing strategy (in July 2008) and of progress being made towards interim affordable housing policies. Projects will be reported for consideration as part of these policies.</p> <p><i>(Refer to action plan point 11 in the 2006/07 report to members and the controller of audit.)</i></p>	Head of Housing and Building Services	October 2009
4.	19	<p>Credit balances</p> <p>The council had credit balances of £705,702 showing on the council tax system at 31 March 2008. The council were unable to explain how these balances had built up, however, plans are in place to investigate these.</p> <p>Risk : the council are understating their debtors figure by netting off credit balances and they are retaining money which should be repaid to council tax payers.</p>	<p>To identify the reasons for these balances and take remedial action is a labour intensive operation. The council is currently in the process of reviewing how this can be achieved but several different methods will be used, beginning immediately.</p>	Head of Revenues	March 2010



Key risk	Para	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5.	21	<p>Capital slippage</p> <p>There was significant slippage on the non-housing capital programme in the year and the current economic climate has led to the capital programme being set based on unrealistic capital receipts.</p> <p>Risk : the council may not be able deliver its capital projects within set timescales.</p>	<p>Timescales for the delivery of projects will always be determined by the affordability criteria in line with the revenue budget. The recent downturn in capital receipts necessitates a delay in starting dates over the next two years. In addition, slippage has been incorporated as a normal process, again, as part of the affordability criteria.</p> <p><i>(Refer to action plan point 13 in the 2006/07 report to members and the controller of audit.)</i></p>	Assistant Chief Executive (Finance)	Action already in place
6.	57	<p>Equal pay</p> <p>The council have made a provision of £4.555 million to settle compromise payments at tribunal. To date no cases have yet been heard at tribunal so there is no case history to benchmark the level of provision against.</p> <p>Risk: the level of provision is insufficient to meet cost of claims settled at tribunal.</p>	<p>The position will be monitored, particularly as claims begin to be heard by the tribunal. At that time, results will be used to update the council provision.</p> <p><i>(Refer to SARA, ensuring the affordability and sustainability of services, risk 1.)</i></p>	Assistant Chief Executive (Finance) / Assistant Chief Executive (Personnel)	Ongoing
7.	72	<p>Pension changes</p> <p>Recent changes to the local government pension scheme includes the introduction of tiered employee contributions from April 2009. At present the council's payroll system is unable to apply different contribution rates to individual employees.</p> <p>Risk : pension deductions are incorrectly calculated.</p>	<p>The supplier of the council's payroll software has already attended a meeting with pension fund officers who outlined the changes that are about to be implemented. The supplier has also had meetings with the council and is satisfied that software changes will be in place by the date of the change (1 April 2009)</p>	Assistant Chief Executive (Finance)	April 2009



Key risk	Para	Risk Identified	Planned Management Action	Responsible Officer	Target Date
8.	86	<p>Payroll - new starts & leavers</p> <p>CHRIS forms were not being fully completed and authorised in accordance with council procedures.</p> <p>Risk : That inaccurate or fraudulent information could be put on the payroll system if controls are not operating as intended.</p>	<p>All staff, in both the Payroll and Personnel offices have been reminded of the importance of properly authorising forms.</p> <p><i>(Refer to 2007/08 review of main financial systems risk 3.)</i></p>	Payroll Manager	Already complete
9.	88	<p>Creditors - prescribed invoice checks</p> <p>Our testing revealed 5 cases where the prescribed invoice checks had not been carried out.</p> <p>Risk : There is a risk that inaccurate or fraudulent invoices could be being paid if checks are not being undertaken to verify them.</p>	<p>A communication has been sent to all staff reminding them of the relevant code of financial practice.</p> <p><i>(Refer to 2007/08 review of main financial systems risk 6.)</i></p>	Finance Manager (Development, Best Value & Systems)	Already complete
10.	89	<p>Rent accounting - universal rent levels</p> <p>Our testing highlighted that the council has not modernised its rent structure.</p> <p>Risk : There is a lack of transparency in how rents are calculated.</p>	<p>Proposals on rent restructuring require to be submitted to the Council for approval. These will take account of not only the size of the property but also other factors that add to / detract from the general amenity of the property e.g common close, flat etc.</p> <p>This is a substantial exercise that can only be achieved over a fairly lengthy period of time, possibly linked to the work being carried out on house condition surveys.</p> <p><i>(Refer to 2007/08 review of main financial systems risk 12.)</i></p>	Head of Housing and Building Services	Begin September 2010



Key risk	Para	Risk Identified	Planned Management Action	Responsible Officer	Target Date
11.	91	<p>Tendering arrangements</p> <p>Our review identified one instance where a contract had been single sourced without the application of EC tendering requirements having been met.</p> <p>Risk: Legal action by prospective suppliers of the service.</p>	A meeting is to be held between the service concerned and the Corporate Procurement Manager to discuss the tendering process and EU Procurement Legislation.	Head of Service (Educational Services)	October 2008
12.	92	<p>Tendering arrangements</p> <p>Our review identified 2 instances where contracts were automatically awarded to contractors who had previously worked on the project without the work having been put out to tender.</p> <p>Risk: the council may be unable to demonstrate the achievement of best value and there is the potential for complaints from prospective suppliers of the phase 2 work.</p>	Any service using the Negotiated Procurement process must demonstrate that Best Value was achieved. This issue will be pursued through the Procurement Steering Group within the council.	Corporate Procurement Manager	February 2009
13.	93	<p>Contracts register</p> <p>The contracts register is updated by individual services every 3 months however when requested for audit, we found the information in the register to be incomplete.</p> <p>Risk: Lack of control of contracts and adverse publicity as the contract register is available for public reference.</p>	A revised process for completing the Contract Register to be implemented. In future all services will have individual registers listed on a shared network, to be updated as contracts are awarded or expire. The Corporate Procurement Unit will monitor this to ensure all fields are complete.	Corporate Procurement Manager	December 2008



Key risk	Para	Risk Identified	Planned Management Action	Responsible Officer	Target Date
14.	106	<p>Benefits inspection</p> <p>The council underwent a benefits inspection in March 2008 which highlighted a number of weaknesses. These mainly centred around a lack of audit trail and monitoring of checks to ensure the accuracy of information processed on the benefits system.</p> <p>Risk : inaccuracies in processing may not be dealt with timeously or effectively due to the lack of audit trail and monitoring arrangements.</p>	<p>An action plan has been devised to address each of the risks identified in the audit report. The action plan was approved by Audit Scotland as part of the Housing Benefit audit pilot exercise</p>	<p>Head of Revenues</p>	<p>March 2009, with one exception – the achievement of Chartermark which has been set for March 2010.</p>