

North Ayrshire Council

**Report to Members and the Controller of Audit
on the 2009/10 Audit**

October 2010



 **AUDIT SCOTLAND**



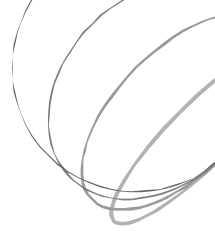
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Key Messages

During 2009/10 we have audited the financial statements and reviewed the council's financial position and governance arrangements. This report sets out our main findings, summarising key outcomes from our 2009/10 audit and the outlook for the period ahead. Audit Scotland is in the process of undertaking a best value 2 (BV2) audit at North Ayrshire Council and are to report in early 2011. As a result of this ongoing audit, we have not reported on some aspects of the council's corporate arrangements or the council's 2009/10 performance reports in this report.

Financial statements

We have given an unqualified opinion that the financial statements of North Ayrshire Council for 2009/10 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

Financial position

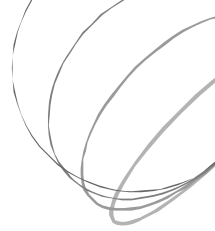
The council's net operating expenditure of £356.4 million exceeded its total income from government grants and local taxation of £326.9 million, resulting in a deficit of £29.6 million as at 31 March 2010. However, after the necessary accounting adjustments were made, the balance on the general fund to be carried forward at 31 March 2010 is a surplus of £18.9 million.

Governance

Governance and accountability issues are likely to be prominent as the council's operating environment and economic position becomes more difficult and the development of working in partnership with others increases.

There are a number of areas in which improvement could be made to the council's governance arrangements. A breakdown in governance and internal control procedures within social services, as well as non-compliance by officers with standing orders relating to contracts, financial regulations and the accounting code of practice, resulted in £0.5 million of expenditure being charged to the wrong year. This was identified and corrected by the council in-year.

We also have concerns over the accuracy and timing of information provided to members regarding the procurement of a roads vehicle tracking system. The council also need to consider the wider risks relating to partnership working, and need to ensure that members are presented with all relevant information in order to enable them to make informed decisions.



The council is planning a review of the services it provides and how these services are delivered and funded. This change programme will set a vision for the council for tackling the ongoing economic crisis and reduction in funding.

Performance

The 2008 Statutory Performance Indicator (SPI) direction required councils to develop their own performance indicators '*to drive continuous improvement in services, and for reporting on those aspects of performance that are of most importance to local communities, to service users and to citizens*'.

The council publish over fifty different sets of information to stakeholders in a variety of ways at different times of the year. However it did not publish any local performance indicators alongside the core SPIs to demonstrate improvement across its range of services as required by the 2008 SPI direction. The council recognises that it needs to develop a suite of performance indicators which are focused on the key aspects of service delivery in North Ayrshire, and are meaningful and relevant to the local population.

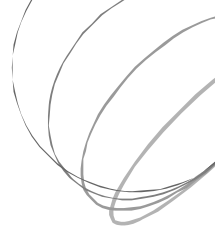
Outlook

The most significant challenge the council faces is a reduction in funding in the years 2011 to 2014. Although the exact size of central government funding reductions will not be known until later in the year, the council needs to take action now to anticipate significant cuts in its budget. The council has recognised the risks to its existing forecasts.

Although the council does have a 3 year budget for revenue and capital (with indicative figures for years 2 and 3), a policy on reserves, and presents regular budgetary control reports to council, there is no overarching financial strategy and no medium or long term financial plans for general services revenue. This could make it difficult to assess the overall impact of reduced funding across the organisation.

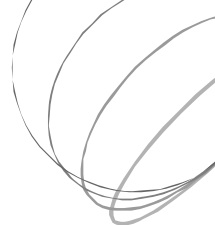
In this challenging environment members need to continue to support clear and consistent strategic decisions against a background of good governance, scrutiny and strong financial management. In common with other councils, the likely scale of the reductions means the council faces the risk of poor morale and motivation amongst staff, as well as dissatisfaction amongst service users. North Ayrshire Council has plans in place to mitigate these risks.

The co-operation and assistance given to us by North Ayrshire Council members, officers and staff is gratefully acknowledged.



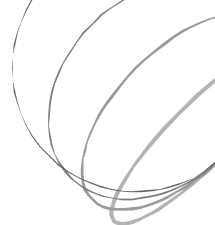
Introduction

1. This report is the summary of our findings arising from the 2009/10 audit of North Ayrshire Council (the council) and other relevant work carried out by Audit Scotland. A number of detailed reports have already been issued in the course of the year in which we make recommendations for improvements (see Appendix A). We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our review of the management of strategic risks.
2. The report generally uses the headings of the corporate assessment framework, which we and the other scrutiny bodies used as the structure for the recent shared risk assessment and assurance and improvement plan (AIP). The AIP was reported to the council on 30 June 2010. The risks identified through this process led to the best value 2 (BV2) audit which is currently being undertaken. The report from the BV2 audit will be issued in early 2011.
3. As part of the BV2 process a number of areas in the corporate assessment framework have been reviewed in detail, and findings relating to areas including performance management and reporting, workforce management, shared services, community engagement, partnership working and roles & relationships will be reported in the BV2 report. Due to this ongoing audit we have not reported on these areas, or on some aspects of the council's 2009/10 performance reports in this report.
4. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are:
 - Making an impact – overview of best value audits 2004 -09.
 - Scotland's public finances – preparing for the future.
 - Protecting and improving Scotland's environment.
 - The national fraud initiative in Scotland 2008/09.
 - Overview of local government in Scotland 2009.
 - Improving public sector efficiency.
 - Getting it right for children in residential care.
 - National scrutiny plan for local government 2010/11.
 - How councils work: an improvement series for councillors and officers - Roles and working relationships: are you getting it right?
5. All of these reports have been sent to the council for consideration and we do not consider them in this report. They are available on our website www.audit-scotland.gov.uk.



6. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *planned management action*. We do not expect all risks to be eliminated or even minimised. What we are expecting to see is that the council understands its risks and has in place mechanisms to manage them. Members should ensure that they are satisfied with the proposed management actions and have a mechanism in place to be duly assured that the proposed actions have been implemented.

7. This report is addressed to members and the controller of audit. It will be published on our website after consideration by the council. The controller of audit may use the information in this report for his annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and it is also presented to the local government and communities committee of the Scottish Parliament.



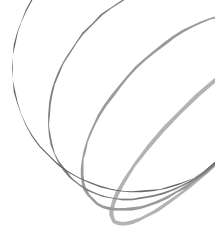
Financial statements

Introduction

8. 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. In this section we summarise key outcomes from our audit of the council's financial statements for 2009/10, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

Audit opinion

9. We have given an unqualified opinion that the financial statements of North Ayrshire Council for 2009/10 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
10. The council's unaudited financial statements were submitted to the controller of audit prior to the deadline of 30 June 2010. Final accounts preparation processes and working papers were satisfactory, which enabled the audit to progress smoothly. All officers in the finance department were knowledgeable and helpful throughout the audit process.
11. In August we received an objection to the financial statements under section 101(2) (a) of the local government (Scotland) act 1973. We heard the views of the objector and investigated the issues raised, which primarily related to the common good and trust funds. We concluded that the issues raised were not material to the opinion on the financial statements and did not merit delay of the completion of the audit. However a small number of amendments were made to the accounts as a result of the investigations. Our conclusions have now been reported to the objector and copied to the council.
12. Audited accounts were finalised prior to the target date of 30 September 2010 and are now available for presentation to the council and publication.



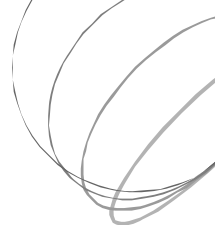
Accounting issues

13. 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). With effect from 2010/11, local government will move from UK generally accepted accounting principles to international financial reporting standards (IFRS). Since local government has already adopted some aspects of IFRS, we expect the transition to be fairly smooth, but there are still significant issues to be addressed. The Chartered Institute of Public Finance and Accountancy (CIPFA) and PricewaterhouseCoopers (PWC) are assisting North Ayrshire Council in the implementation of IFRS and progress is currently rated as 'fine'.
14. For 2009/10 councils had to account for private finance initiative (PFI) projects on an IFRS basis. North Ayrshire Council used the CIPFA/PWC model to determine the prior year reversals and current year transactions required and we are satisfied with the disclosures made in the financial statements. We are further satisfied that the council prepared the accounts in accordance with the 2009 SORP.
15. The council has adjusted the financial statements to reflect our findings. As is normal practice, immaterial unadjusted errors have been reported to the corporate director (finance & infrastructure) and the scrutiny committee. Details of significant accounting issues arising in the course of our audit are summarised below.

Ordering and certification of goods and services and the processing of creditor invoices

16. Since the unaudited financial statements were issued the council identified £0.5 million of expenditure by social services that was incorrectly charged to the 2009/10 financial year. This was as a result of both internal control weaknesses within the ordering and certification process, and non-compliance with standing orders relating to contracts, financial regulations and the code of accounting practice by officers in social services. The corporate director (finance & infrastructure) has provided assurances that this issue was restricted to social services. Internal audit have recently issued a report on this matter entitled 'advance payments by social services & health'.
17. In addition, internal control weaknesses relating to the payment of suppliers have been highlighted in our annual review of the main financial systems, while internal audit also highlighted weaknesses following transactions testing of creditors in February 2010. Council officers have agreed actions to address the issues identified, and we would expect the council to monitor the effectiveness of the proposed actions in due course.

Risk Area 1



Authorisation and certification of members' expenses

18. In September 2010 internal audit reported that the processes for the authorisation and certification of members' expenses were 'inadequate and would not stand up to external scrutiny'. Council officers have emphasised that no ineligible claims have been paid to members. However the failure to implement an effective system resulted in weaknesses in the internal controls system during the 2009/10 financial year. In our opinion, this exposed both members and the council to reputational risk and the weaknesses should have been disclosed in the statement on the system of internal financial control (SSIFC). The council did not concur with this view. From 1 October 2010 the verification of all members' expense claims are being carried out by the committee services manager prior to being passed to payroll.

Provision for staff costs

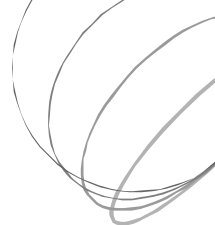
19. On 8th December 2009 the executive of North Ayrshire Council agreed to implement the recommendations of a report on community services which sought '*approval.....for a reorganisation of the current arrangements to deliver community service functions within educational services*'. To reflect this decision, the unaudited financial statements were amended to include a provision of £0.9 million to cover the costs of these staffing changes.

Audit testing

20. As part of our work, we took assurance from key controls within the council's financial systems. The results of our review of the main financial systems were reported to council officers in August 2010. In considering our findings on key controls we relied on aspects of internal audit work. We continue to work together to improve this process further and to avoid any potential duplication of audit resource. The key findings of this work are discussed in the governance and accountability section of this report. None of the issues identified had a material impact on the accuracy and completeness of the financial statements.

Prevention and detection of fraud and irregularities

21. At a corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include an anti-fraud and corruption policy and response plan, a whistle blowing policy, codes of conduct for elected members and staff, and defined remits for relevant committees.

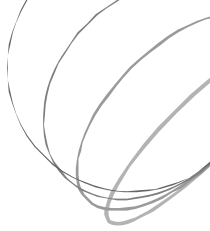


NFI in Scotland

22. The national fraud initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant outcomes for Scottish public bodies (£21 million during the 2008/09 NFI cycle and £58 million cumulatively up to end March 2010). If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.
23. The most recent data matching exercise collected data from participants in October 2008 and the national findings were published by Audit Scotland in May 2010. The council took part in that exercise and made good progress in addressing the matches. It has concentrated on the recommended and high priority matches allowing it to report the discovery of a total of 34 frauds and 393 errors giving an annual saving of £0.2 million.
24. The council has also undertaken initiatives outwith the NFI exercise. It did not use the matches available for creditors as it had already undertaken a broadly similar exercise. The council also supplemented the NFI data on single person council (SPD) tax discounts with work undertaken by Experian, a credit reference agency. The NFI exercise reported 1 fraud and 353 errors giving potential SPD savings of £0.1 million.
25. Instructions for the 2010/11 NFI exercise were issued by Audit Scotland in June 2010 and participants should be preparing to provide the requested data by early October. The national report published in May 2010 included a self-appraisal checklist that all participants were recommended to use prior to NFI 2010/11. The council has made preparations for this tranche and has used the checklist to monitor its progress in these preparations. As in the previous tranche, the council will focus on the high priority groups of matches.

Housing benefit

26. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2010. Our specialist team are carrying out a programme of risk assessments of benefits services in all councils over a two year period.
27. The risks to North Ayrshire Council benefits service are currently being assessed as part of this process and a detailed report is expected to be issued in December 2010.

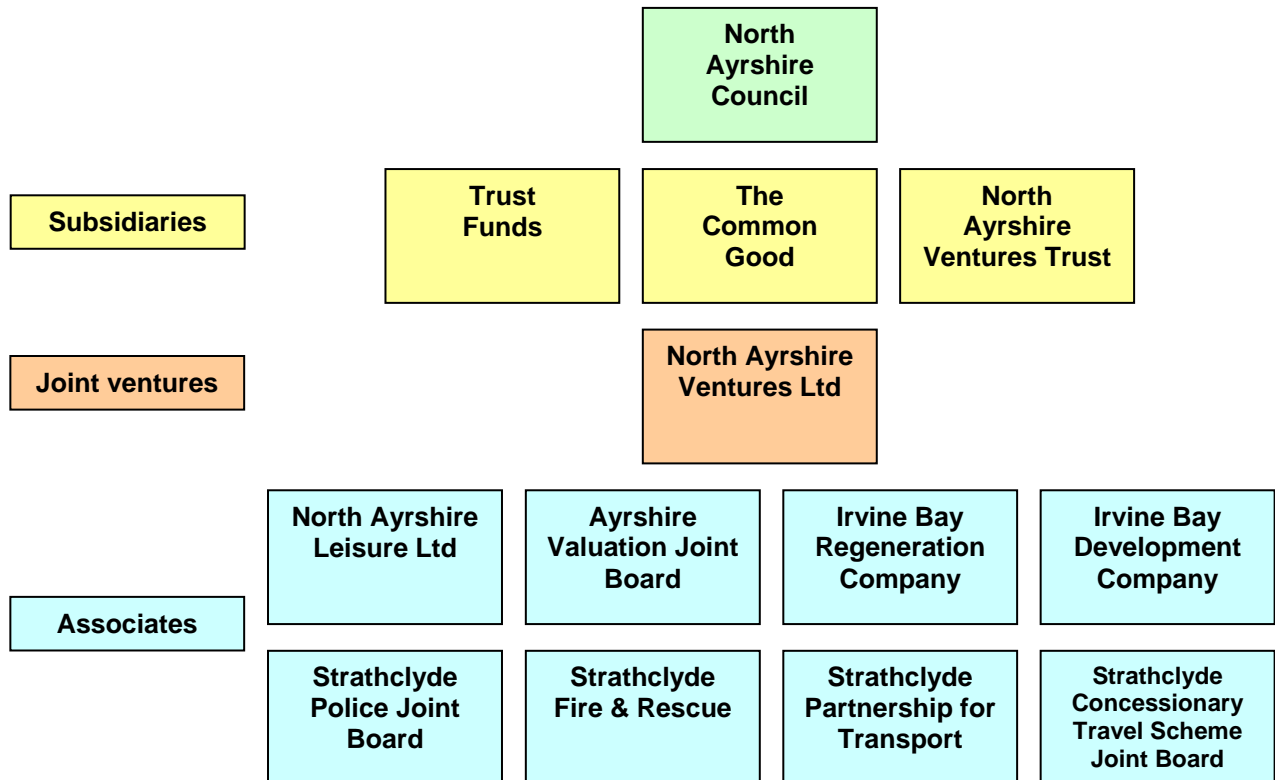


Group accounts

28. The council has interests in three subsidiaries, one joint venture and eight associates. These bodies have been included in group accounts in accordance with the SORP (Exhibit 1).

Exhibit 1

Joint ventures and companies

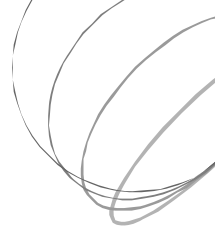


29. We would like to highlight the following:

- all bodies within the group received unqualified audit opinions from their external auditors
- in accordance with recommended accounting practice, key policies for component bodies such as pension costs and the valuation of fixed assets at market value have been aligned with the council.

Trust funds

30. Local authorities with registered charitable bodies 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. However the Office of the Scottish Charities Regulator (OSCR) has deferred the date of full implementation until 2010/11. This means that reliance can be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.



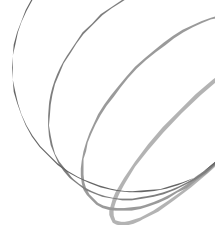
31. In a letter dated 13 April 2010, OSCR rated the council 'average' in terms of information submitted for 2008/09. Of the 30 local authorities with charities, 10 were rated above average, 12 were rated as average and 8 were below average. The council should consider whether current arrangements for reporting on charitable trust funds are appropriate.

Common good fund

32. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The guidance requires the common good fund to be disclosed within the financial statements and a separate common good asset register to be in place by March 2009.
33. The guidance note says that local authorities should take reasonable steps to ensure that common good fixed asset registers support the assets shown in the common good balance sheet. An asset register has been prepared by the council that agrees with the values in the common good balance sheet at this time.
34. In our 2009 members report, a risk area was identified that the council may not have identified all common good assets. In response to this the council stated that '*consideration was being given to a more comprehensive examination of all title deeds for those former burghs where common goods exist*'. Having considered the resource requirements, and in light of the current economic climate, officers have decided not to undertake such an examination. Instead, when an asset is identified for disposal, the title deeds will be checked to see if they indicate whether or not it is a common good asset.
35. The view of officers is that reviewing the title deeds at point of sale represents '*reasonable steps*' for maintaining the fixed asset register. A title deeds search of all council assets would be time consuming and prohibitively expensive, and therefore may not represent best value to the council. In view of the pressures on council resources it is our opinion that the council's approach is reasonable.

Pension fund

36. North Ayrshire Council is a member of the Strathclyde pension fund. A full actuarial valuation was undertaken as at 31 March 2008 and the actuary's final report was presented in early 2009. This recommends the employer contribution rates required for 2009/10 to 2011/12 in order to ensure that sufficient funds are available to pay future benefits. As at 31 March 2008 the pension fund had a funding level of 95% and the actuary recommended for the council an employer contribution rate of 17.3% of payroll costs for 2009/10, rising to 18.2% in 2010/11 and 19.3% in 2011/12. The aim is to bring the funding level back to 100% over an eleven year period. The next full actuarial valuation will be as at 31 March 2011.



37. The council's net pension liability has risen from £47.0 million at 31 March 2009 to £160.5 million at 31 March 2010. The reason for this is mainly changes in actuarial assumptions, principally in the assumed real discount rate, and the value of invested assets actually rose in the period by £124.9 million.

Legality

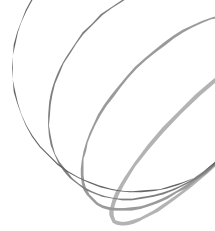
38. Through our planned audit work we consider the legality of the council's financial transactions. In addition the corporate director (finance & infrastructure) advised that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with relevant legislation and regulations.
39. An internal audit investigation into the tendering processes for the contract for a roads vehicle tracking system has identified significant weaknesses. It is internal audit's view that there is a risk that the council could be subject to litigation claims. This is discussed further in paragraphs 84 to 106.

Financial reporting outlook

40. A number of changes to financial reporting are expected to apply from 2010/11:
- **Full compliance with IFRS.** The council has been working to prepare a shadow set of IFRS-compliant statements, in preparation for full implementation in the 2010/11 financial statements. Overall the council's progress in this area has been satisfactory. We will discuss the remaining timetable for preparing a shadow full set of 2009/10 IFRS-compliant statements with council officers.

Risk area 2

- **Pension funds.** The Scottish Government is consulting on the requirement for a separate pension fund audit in place of the existing arrangements where it is carried out as part of the administering council's audit. Audit Scotland have already started to separate the internal and external planning for the pension fund from the administering authority and we will refine our approach following the outcome of the consultation.
- **Carbon trading.** From April 2010 a new and complex system for charging for carbon emissions was introduced. The council is required to purchase and account for carbon credits to cover all of its non-transport related energy usage. Incentives and penalties will be built into the system to encourage a reduction in carbon emissions. The council has made progress in meeting its commitments in the climate change declaration, and has a carbon management strategy and implementation plan which aims to reduce the council's overall carbon emissions. The council registered for the carbon reduction commitment (CRC) scheme within the required deadlines, and it is expected that the council will have to purchase allowances to cover 18,688 tonnes of CO₂, at a financial cost of around £0.2 million in April 2011.



Use of resources

Financial results

41. In 2009/10, North Ayrshire Council spent £472.4 million on the provision of public services and £38.9 million on capital projects. The council's net operating expenditure of £356.4 million exceeded its total income from government grants and local taxation of £326.9 million, resulting in a deficit of £29.6 million as at 31 March 2010. After the necessary accounting adjustments were made, the balance on the general fund to be carried forward at 31 March 2010 is a surplus of £18.9 million.
42. In 2009/10 the council budgeted for a deficit of £0.2 million to be met from balances. After exceptional items were considered an in-year surplus of £8.8 million was reported. This variance was mainly as a result of inflation and non-pay items including a repayment of VAT to the council, the capitalisation of equal pay claims and borrowing costs being lower than budget.
43. While the council has a substantial accumulated surplus, financial pressures will require them to make significant savings in future years. In 2010/11 the council's budget reflected the need for £9.2 million in efficiencies and savings, and it is forecast that efficiency savings in excess of 18%, approximately £64 million, will be required over the 3 years from 2011/12. Exhibit 2 on page 14 provides some information about the council's financial position compared to other Scottish councils.
44. These ratios indicate the liquidity and financing position of the council. In making comparisons between councils, there are a number of factors which affect the indicators. These include the council's group structure, asset management arrangements (e.g. housing stock transfers) and financial strategies. We have compiled this information for the first time this year and it establishes a starting point to enable the council's financial stability to be monitored in the future. The council should consider whether the ratios indicate any areas for further consideration within the context of its financial strategies.

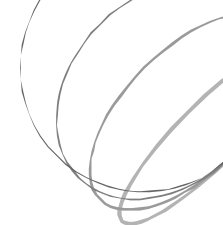


Exhibit 2

Financial ratios

Ratio	Description	North Ayrshire Council		Range for all Scottish councils
		2008/09	2009/10	2009/10
Working capital (Current assets as a ratio of current liabilities)	This is an indicator of the council's ability to pay its current liabilities in the short term	0.78	0.54	0.33 to 2.48
Useable reserves as a percentage of general revenue expenditure	This shows the proportion of revenue expenditure that could be met from reserves	9.99%	12.43%	3.65% to 230.36%
Long term borrowing compared to tax revenue	This ratio illustrates the proportion of a council's tax related income that would be needed to pay off long term debt	2.42	2.38	0 to 6.79
Long term assets as a ratio of long term borrowing	This gives an indication of the ability to borrow to replace or repair assets	3.32	3.66	1.78 to 38.12

Reserves and balances

45. Exhibit 3 on page 15 shows the balance in the council's funds at 31 March 2010 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets. At 31 March 2010, the council had total funds of £44.3 million (including the housing revenue account (HRA)), an increase of £10.8 million on the previous year.
46. The general fund increased by £2.8 million during the year to a balance of £18.9 million which equates to 5.3% of the council's net annual expenditure. Of this balance £14.4 million has been earmarked for specific purposes including affordable housing, equal pay, the change programme and the potential shortfall from deposits in Icelandic banks. This leaves an unallocated balance of £4.5 million, which is in line with the council's revised policy to maintain reserves at 1.5% of net expenditure. The council should continue to review its policy on the level of unallocated reserves to ensure it remains adequate for the council's future needs.

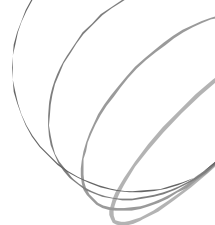


Exhibit 3

Reserves

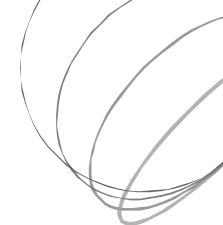
Description	31 March 2009 £ million	31 March 2010 £ million
General fund	16.1	18.9
Housing revenue account	1.7	3.7
Repairs and renewals fund	3.2	8.3
Insurance fund	3.2	3.5
Capital fund	9.3	9.9
	33.5	44.3

Group balances and going concern

47. The overall effect of inclusion of all of the council's subsidiary and associates on the group balance sheet is to reduce net assets by £287.4 million, mainly because of pension liabilities. However, 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.
48. 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, Strathclyde Fire and Rescue, Strathclyde Partnership for Transport, Strathclyde Concessionary Travel Scheme Joint Board and Ayrshire Valuation Joint Board*). The council's share of the net liabilities of associates for the year ended 31 March 2010 was £305.9 million (2008/09 – £196.0 million).

Capital performance 2009/10

49. Gross capital expenditure in 2009/10 totalled £38.9 million, of which £18.6 million related to the general fund and £20.3 million to the housing revenue account (exhibit 4). By the year end, actual expenditure related to general services was £4.7 million below the revised budget, while capital expenditure related to the housing revenue account was £0.4 million below the revised budget.



50. While the slow down in the land and property market has impacted on capital receipts, the council continues to underperform in the delivery of its planned general services capital programme. To address this a capital working group, which is attended by senior officers from each service as well as the chief executive and corporate director (finance & infrastructure), has been set up. The purpose of the group is to identify slippage and select projects that can be brought forward. It is not yet possible to assess the effectiveness of this group.

Risk area 3

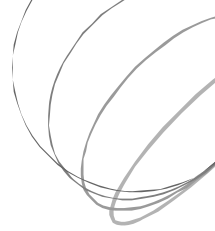
Exhibit 4

Sources of finance for capital expenditure 2005/10

	2005/06 Actual £m	2006/07 Actual £m	2007/08 Actual £m	2008/09 Actual £m	2009/10 Actual £m	2009/10 Budget £m
Borrowing	17.1	17.8	12.0	25.2	22.8	15.3
Fixed Asset Disposal	13.9	12.2	18.7	5.2	2.3	2.5
Government Grants/Other	13.7	14.2	16.2	14.1	13.8	25.8
Total	44.7	44.2	46.9	44.5	38.9	43.6

Treasury management

51. As at 31 March 2010 the council had no temporary investments but held cash balances of £10.1 million. This is a significant reduction on the cash and temporary investments balance of £49.4 million as at 31 March 2009. Interest and investment income also reduced by £0.6 million in year, with a balance for the year ended 31 March 2010 of £0.3 million. The current economic climate means that interest rates on investments are low, and the council took a decision in-year to use existing resources to fund capital projects. This resulted in a reduction in both short-term investments and short-term borrowing.
52. Officers agreed to reclassify deposits in Icelandic banks in line with accounting guidance. Current forecasts from CIPFA/LASAAC advise that the council cannot expect to receive any money from either bank until June 2011 at the earliest, and as a result deposits in both Glitnir and Landsbanki were reclassified as long term investments.



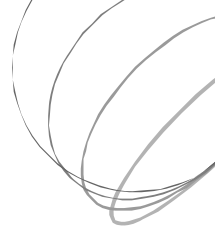
53. North Ayrshire Council had deposits of £10m with Glitnir and £5m with Landsbanki when the Icelandic banking system collapsed in October 2008. All monies within the various Icelandic banks are subject to administration and receivership processes administered under Icelandic law. Recovery of the council's funds is subject to various risks including confirmation that the council's deposits are preferential creditors. This is being tested through the Icelandic courts. There are also exchange rate risks associated with the value of assets recovered by the resolution committee.
54. The financial statements assumed a recovery rate with Landsbanki of 94.85% spread over 8 years to October 2018, as detailed in LAAP bulletin 82. The assumed recovery rate is based on local authorities maintaining their status as priority creditors. For Glitnir the estimated recovery rate for priority creditors remains at 100%, and guidance suggests that the earliest date by which payment could be made is the end of June 2011.
55. The total impairment loss for the two deposits is currently estimated to be £2.2 million. However failure to secure preferential creditor status would have a significant impact upon the recovery of the council's deposits and would result in a larger impairment having to be recognised in the council's accounts.

Risk area 4

56. It should be noted that the Glitnir winding-up board has expressed the view that local authority deposits do not have priority status. This is in contrast to the view of Landsbanki winding-up board that local authority deposits do have priority status. There is no evidence that Glitnir and Landsbanki accepted deposits on different terms, and it is expected that the Icelandic courts will come to the same conclusion in both cases. Legal advice provided to local authorities remains that deposits do have priority status under Icelandic law, and as such disclosures in the financial statements of North Ayrshire Council are based on priority status being acknowledged by both banks.

Financial planning

57. The council continues to face difficult financial pressures in 2010/11. The economic climate has resulted in a decrease in income from a range of sources, for example lower capital receipts, lower planning fee income and a decline in investment income due to low interest rates. The council is party to the concordat with the Scottish Government which means that council tax will not be increased in the current year. This means that the council has had to look at other sources of income and reductions in expenditure to achieve budget savings.
58. The UK government published their spending review on 20 October 2010, and it is widely anticipated that local authorities will have to achieve savings of between 18% and 25% over the 4 year period to 2014/15. This means that councils need to plan now for a future where there is a reduction in funding.



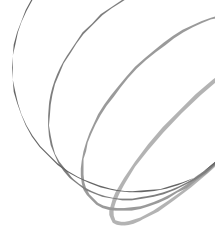
59. Although the council does have a 3 year budget for revenue and capital (with indicative figures for years 2 and 3), a policy on reserves, and presents regular budgetary control reports to council, there is no over-arching financial strategy and no medium or long term financial plans for general services revenue. This could make it difficult to assess the overall impact of reduced funding across the organisation.

Risk Area 5

60. The council is undertaking a change programme, which is focusing on service development and improvement. This reinforces the need to explore different resource scenarios to help the council decide its priorities at a time when resources are constrained.
61. Steps have been taken to reduce costs through a voluntary early release arrangement. 403 employees have expressed an interest in this scheme and the council is assessing the costs and benefits.
62. The council recognises the need to take immediate action to reduce costs for future years and key decisions are imminent. Savings take time to accrue and the council needs to take action now to be sure of achieving savings in the future.

Asset management

63. Effective management of council assets helps the council achieve its objectives and get best value from its investment in property and other assets. The current economic situation has implications for the management of the council's property assets. The value of surplus property assets reduced by £5.6 million (17.7%) over the financial year, reducing the council's ability to fund its capital programme from receipts.
64. Asset management is an area which has shown little improvement in recent years. In our report to members on the 2009/10 audit action plan, the council agreed to submit an asset management plan for corporate approval by June 2010. The council failed to achieve this.
65. There have been recent developments, however, with the council establishing a working group ('our future working environment') which aims to create an asset strategy '*which will maximise the efficient and effective use of the council's assets whilst continuing to deliver services*'. The working group also aims to provide '*a plan to rationalise the property portfolio, thus reducing running costs and obtaining capital receipts for the council*'.
66. The tribal asset management system has also been installed and a full conditions survey has been completed for 79.5% of the council's domestic properties.

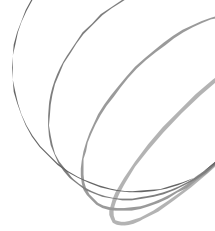


67. After failing to demonstrate progress over a number of years the council does appear to be implementing processes and work streams which will develop their asset management procedures. The council need to ensure that progress is managed effectively so as desired outcomes can be achieved. Audit Scotland will continue to monitor developments in this area.

Risk area 6

Procurement

68. The public procurement reform programme aims to drive continuous improvement in public sector procurement and to deliver value for money and increased efficiency. In 2009, the Scottish Government promoted the use of an annual procurement capability assessment (PCA) to assess performance in all public sector bodies and as a basis for the sharing of best practice and continuous improvement. Results are summarised as non-conformance, conformance, improved performance and superior performance.
69. All councils have been assessed by Scotland Excel and most scored as non-conformant. This means that councils are not achieving best value across their procurement activities. In response, in December 2009, councils agreed to participate in a national procurement improvement programme. The programme addresses the following areas:
- the role of procurement in the organisation: the key issue facing most procurement functions is lack of influence across the organisation
 - getting the right people doing the right things: there is a need to be clear on the structure of procurement across the organisation and its accountability to the procurement leader
 - adoption of a strategic approach to sourcing: this means making money out of all aspects of the contract life cycle, not just by getting the best price
 - embedding new systems and processes
 - conformance: councils with the lowest scores can access an experienced procurement professional to help work with their procurement leader on the improvement plan for their council.



70. North Ayrshire Council scored 17% in the PCA which is a low score and classified as non conformance. This level of score suggests that the organisation is open to risk of legal challenges due to the lack of visibility and control over procurement across the organisation. A follow-up review is scheduled for autumn 2010 and the corporate procurement manager is hopeful of seeing progress across a number of areas.

Risk area 7

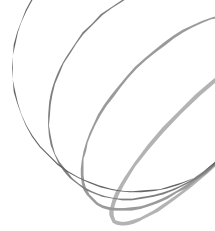
71. For 2010/11 the council identified £0.5 million of savings from procurement as part of the budget setting process, and in year to date have identified a further £0.9 million. This has been achieved through savings as a result of national contracts, as well as efficiencies identified by the council's corporate procurement unit.

Shared services

72. North Ayrshire Council is working with South Ayrshire Council and East Ayrshire Council to explore the possibility of putting in place a shared service model for the regulatory service functions of environmental health, building standards and trading standards. The establishment of joint services is anticipated to achieve financial benefits, and in the longer term the councils are considering setting up a 'shared services joint board' to facilitate the increased sharing of services.

Information and communication technology (ICT)

73. The corporate management team agreed to a strategic service review process for ICT in February 2010. The process will ensure that the council's ICT systems and infrastructure support the current and future operational needs by ensuring clear links to the council's priorities and the business plans of services and through engagement of key stakeholders at council-wide and service-specific levels and is scheduled for completion in the late autumn. During the year the council has developed an information management strategy which aims to protect and improve the information handling processes within the council.
74. The council has been an active participant in the customer first programme and it has taken advantage of the various national projects. At the end of last year, the council implemented the lagan customer relationship management (CRM) system on time and within budget. The system is integrated with the council's revenues and benefits system and it also interfaces with the local gazetteer. Further work is underway to integrate on-line transactions with the lagan CRM system as part of the council's multi-channel approach to improving customer service. The council also participated in a pilot project to measure customer satisfaction (with the improvement service), and it is implementing the customer service professional accreditation. The national entitlement card is used by over 48,000 people in North Ayrshire for concessionary travel, cashless catering in schools and public library membership.

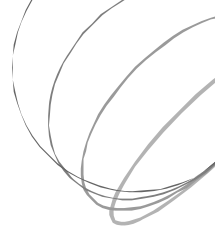


Data handling and security

75. 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, HM revenue and customs, 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. It should be noted that from April 2010 the information commissioner's office has been able to fine organisations up to £0.5 million for serious data protection breaches.
76. Our review of data management noted that the council has started to put in place operational processes to improve data management. The council also recognise the need to encrypt laptops and any other appropriate devices (e.g. USB memory sticks and smart phones) to protect the data held on these devices.
77. IT and customer services continue to run regular information awareness sessions. The council took part in a second 'your business@risk survey', 12 months following their first survey. In general the results demonstrate an improved awareness of information security, which suggest that the information awareness sessions are effective.

Outlook

78. Clearly we are in a period of reduced economic growth with significant implications for the council's resources and the demand for services. At the same time as the council tries to support its local economy and provide best value services, it is likely to face a severe reduction in resources. The council needs to plan for reduced resources over the medium term. It needs to make decisions soon to be able to deliver cost reductions in a managed way.
79. Although the council's use of resources shows elements of good practice, it still has scope for improvement. In particular, we would suggest that there is scope for greater progress on both procurement and asset management to deliver best value. However, the council has developed five work-streams, including the use of assets, as part of the change programme and will report on these as part of the budget process.



Governance and accountability

Introduction

80. Corporate governance is about direction and control of organisations. Councils are large complex organisations and good governance is critically important. The council has assessed its own arrangements against the CIPFA/SOLACE guidance: *delivering good governance in local government*. The assessment has identified a number of areas for improvement, but overall, the results suggest that the council has a sound governance framework.

Scrutiny

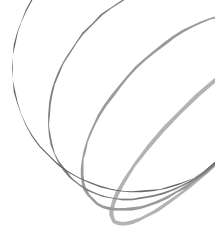
81. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. The scrutiny committee is responsible for monitoring the financial performance of the council, the performance of audit and inspection and for promoting the observance by councillors of high standards of conduct. The scrutiny committee is chaired by an independent councillor, is well attended, and:

- is a formally constituted committee with clear terms of reference which reports directly to the executive of North Ayrshire Council and meets in public
- membership is in line with the political balance of the council and there is regular attendance by appropriate senior officers of the council
- considers internal and external audit plans and respective reports
- reviews the audit certificate and considers matters arising from the audit of the annual accounts.

82. The golden thread health-check, published in February 2010, identified that the volume of detail presented in current service performance reports is 'significant and far beyond what councillors require'. However, some members have raised concern with regards the depth of data and analysis which is presented to them, while the golden thread health-check also identified that 'reports are not presented consistently against what is in the plans' and found 'examples of conflicting evidence'. Officers therefore need to ensure that members are presented with a good standard of data and analysis, as well as all relevant information, in order to enable informed decisions to be made.

83. There is a risk that members are unable to identify significant matters raised by internal and external audit. Officers are examining how internal audit reports can best be made available to members, and have agreed to present all external audit reports to the scrutiny committee.

Risk area 8



Governance arrangements and internal controls

Contract for roads vehicle tracking system

Introduction

84. As part of the normal external audit process we reviewed the reports produced by the council's own internal audit section. One of these reports covering the procurement of a 'vehicle tracking system' for roads services highlighted two key issues that should be given further consideration by members:

- the internal audit review of the procurement process
- the governance arrangements including the report submitted to the executive committee of North Ayrshire Council.

85. There are two documents relevant to the issues which we have considered:

- 'report on contract for roads services vehicle tracking system' by internal audit at North Ayrshire Council issued 1 April 2010'
- a report to the council's executive committee on 9 March 2010: 'item 11 – contract for vehicle tracking system'.

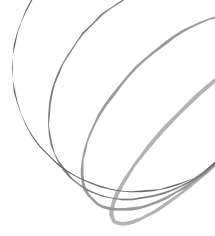
Background

86. In 2008 North Ayrshire Council and South Ayrshire Council verbally agreed to enter into a collaborative arrangement to procure a vehicle tracking system for their roads services vehicles, including the winter maintenance fleet. A formal tendering procedure was conducted during 2009 and in July 2009, approval was given to accept a tender for the lease of equipment from Exactrak Ltd.

87. In September 2009, South Ayrshire Council's internal audit section requested information in relation to the tender evaluation process conducted by North Ayrshire Council. This triggered investigations by both councils internal audit sections.

88. The procurement of the vehicle tracking system is also included in South Ayrshire Council's report to members¹, which is available on both the South Ayrshire Council and Audit Scotland websites.

¹ South Ayrshire Council – Report to Members and the Controller of Audit on the 2009/10 Audit
www.audit-scotland.gov.uk/work/local_audit.php?year=2009



Internal audit review of the procurement process

89. Internal audit at North Ayrshire Council conducted a review of the procurement process during the period October 2009 to March 2010. The aim of this review was to provide assurance that the contract procurement processes were in accordance with the council's standing orders relating to contracts and contract procedure rules, thereby ensuring that the resultant contract provided best value. The review covered the:
- business case for procuring the vehicle tracking system
 - tender process (invitation, receipt, evaluation, and acceptance of tenders)
 - contract bulletins
 - subsequent events.
90. The report was issued on 1 April 2010, and the chief internal auditor provided an overall opinion as shown at exhibit 5.

Exhibit 5

North Ayrshire Council internal audit opinion

Overall opinion

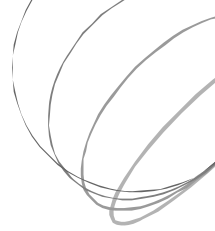
South Ayrshire Council has taken a hands-off approach throughout the procurement process and the resultant commitments have not been reached on a collaborative basis.

There has been a lack of adherence to North Ayrshire Council's standing orders relating to contracts and related contract procedure rules and advice provided by corporate procurement staff has been ignored.

The tender evaluation process has been seriously flawed and all tenderers have not been treated equally.

The council's exposure to the risk of legal challenge has been increased and they have been committed to unplanned expenditure.

Source: Report by the internal audit section on the contract for a roads services vehicle tracking system March 2010 – available at www.north-ayrshire.gov.uk committee reports and agendas for 6 April 2010 <http://www.north-ayrshire.gov.uk/ChiefExec/CommRA07.nsf/e9ee67f48fbb9003802569d700533758/b69d17fc8cd0b0ef802576ef00429001?OpenDocument> (page 49)



91. The tender evaluation process was seriously flawed as the council's officers did not adhere to the evaluation methodology set out in the invitation to tender. If the evaluation criteria were considered to be unsuitable, the contract should have been retendered.
92. We were informed that management have carried out an investigation in accordance with the council's disciplinary procedures and that disciplinary action was taken against a council employee.
93. Following the submission of a report to the executive of North Ayrshire Council (the executive) by the solicitor to the council on 9 March 2010, officers entered into negotiations with Exactrak Ltd and have now purchased the system at a cost of £0.1 million.
94. Given that senior management have accepted that the tender evaluation process was seriously flawed, it is not possible to demonstrate that best value has been obtained. An additional concern is that the lack of adherence to the council's standing orders has also had a serious impact on South Ayrshire Council's procurement. At a time when councils are being encouraged to develop shared services, this failed collaborative arrangement to procure a vehicle tracking system is particularly unfortunate and may have damaged the reputation of North Ayrshire Council.

Governance of the procurement process

95. In addition to our concern about the procurement process, we are also concerned about the governance arrangements relating to the management action taken to regularise the procurement, and especially with the timing and provision of information given to members by council officers.
96. During the period from December 2009 to April 2010 there were two interconnected but separate work streams being undertaken in connection with the vehicle tracking contract:
 - agreeing the internal audit report and action plan with senior management
 - management action to regularise the procurement process.
97. Senior management received the draft internal audit report on 16 December 2009 and were therefore briefed on the serious nature of internal audit's findings in relation to the vehicle tracking contract.
98. Management action to regularise the procurement process included the solicitor to the council providing advice to the chief executive on 7 January 2010, suggesting the need to clarify the council's position and the possibility of negotiating a new arrangement with Exactrak Ltd. Details of these and other key events are shown at exhibit 6.

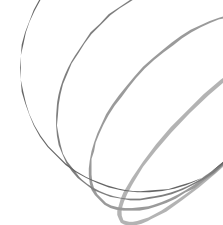


Exhibit 6

Governance of the procurement process: key events

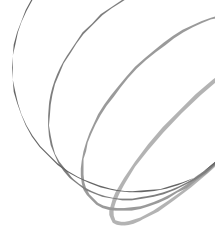
Date	Key event
5 November 2009:	The chief internal auditor briefs the chief executive and corporate director (finance & infrastructure) on audit findings to date.
16 December 2009:	Draft internal audit report on the vehicle tracking contract issued to corporate director (finance & Infrastructure), solicitor to the council and the chief executive
7 January 2010	The solicitor to the council provides advice to the chief executive and suggests the need to clarify the council's position and the possibility of negotiating a new arrangement with Exactrak Ltd.
9 March 2010	The solicitor to the council submits a report to the executive seeking approval to enter into negotiations for the extension of the contract for the supply of a vehicle tracking system in terms of paragraph 7.6 of the council's standing orders relating to contracts. Duly authorised by the executive.
11 March 2010	The chief internal auditor expresses his concern to the corporate director (finance & infrastructure) about the content of the solicitor to the council's report to the executive committee on the vehicle tracking contract.
22 March 2010:	Management respond to the draft internal audit report on the contract for a roads services vehicle tracking system and submit the action plan with all recommendations accepted.
1 April 2010:	Final internal audit report on the contract for a roads services vehicle tracking system issued to senior management (dated March 2010).
6 April 2010:	Scrutiny committee considers the executive summary and action plan of the report on the contract for a roads services vehicle tracking system as part of the normal internal audit update report.

Source: Timeline provided by North Ayrshire Council internal audit and as agreed by chief executive

99. The solicitor to the council submitted a report to the executive on the contract for the vehicle tracking system on 9 March 2010². The minutes of the meeting record that the report was submitted by the corporate director (finance & infrastructure)³.

² The executive of North Ayrshire Council, agenda item 11, 9 March 2010: contract for vehicle tracking system <http://www.north-ayrshire.gov.uk/ChiefExec/CommRA07.nsf/dc4b40f1f645107e802570b200373679/f63455c7e3cbc5f2802576cf003ef37a?OpenDocument>

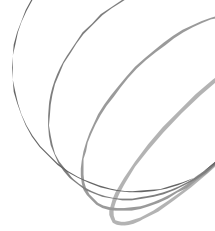
³ North Ayrshire Council committee minutes <http://www.north-ayrshire.gov.uk/ChiefExec/minutes.nsf/6878f745b37e98ec802572dd0046d888/dbb01b97e6fc867f802576e0003e32f6?OpenDocument>



100. The report states that 'the company has supplied and fitted 10 basic tracking systems to 6 vans and 4 other vehicles for the council's roads fleet and this has proved beneficial particularly during the recent winter weather. The head of infrastructure & design services has confirmed that the equipment has performed to a highly satisfactory standard and would be of benefit to the council to extend the number of units operating this equipment'. We were informed that whilst the hardware had been fitted to the vehicles, the software had not been installed and the system was not operational prior to 9 March 2010.
101. In our view, the report to the executive was factually inaccurate and misleading in claiming that the system 'has proved beneficial particularly during the recent winter weather' and that 'the equipment has performed to a highly satisfactory standard'. This is misleading if the system was not operational prior to 9 March 2010.
102. We were also concerned that the report makes no reference to the internal audit investigation or the emerging findings as outlined in the draft audit report. On 9 March 2010, the executive were being asked to authorise negotiations for the extension of the contract for the supply of a vehicle tracking system without being given the facts that the original procurement exercise was seriously flawed, and without any reference to internal audit's findings.
103. In our view, it was appropriate that officers sought to regularise the procurement of the vehicle tracking system. We appreciate that this required the approval of the executive under the terms of the council's 'standing orders related to contracts' if the procurement for the vehicle tracking system was to move from a 'competitive tendering' to a 'negotiated tendering' process. However, the omission from the report to the executive of the circumstances surrounding the flawed procurement process and the emerging internal audit findings did not meet the expected standards of governance in local government. The report to the executive did not provide members with sufficient relevant information to enable them to take an informed and transparent decision.

Next Steps

104. Given that the intention was to work with South Ayrshire Council on a collaborative arrangement to procure a vehicle tracking system, Audit Scotland have suggested the full exchange of information with South Ayrshire Council including the internal audit reports from each council, so that the lessons learnt can improve future collaborative procurement exercises.
105. Audit Scotland has discussed North Ayrshire Council's internal audit report and the earlier report to the executive with the chief executive; corporate director (finance & infrastructure); solicitor to the council; and chief internal auditor.



106. In discussing the governance issue with the chief executive, we recognised the scope for the scrutiny committee to give consideration to the full internal audit report on the contract for a roads services vehicle tracking system and the earlier report to the executive committee. The scrutiny committee should also consider requesting the attendance of the key officers involved in these matters to enable them to examine this matter further.

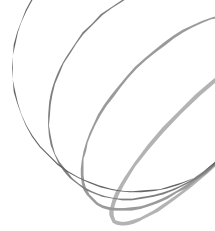
Risk Area 9

Internal control weaknesses

107. As part of our work we took assurance from key controls within the council's financial systems. With the exception of the following all key internal controls identified were found to be working in a satisfactory manner:

- the system for the ordering and certification of goods and services varies across services and there is limited evidence of proper segregation of duties being adhered to or control checks conducted prior to invoices being passed to the creditors department for payment
- there is limited evidence of second officer checks in a number of systems including cash & bank; accounts payable; accounts receivable; non domestic rates and housing rents
- testing of payroll highlighted occasions where departments are late in notifying payroll when staff leave the organisation which can result in overpayments which need to be reclaimed from the relevant party. A number of such overpayments arise due to monthly staff within the council being paid in advance
- testing highlighted one instance where social services were working under a contract which had not been formally agreed or signed, and other instances where officers were unable to provide evidence of contracts in place. This increases the risk of disputes and disruptions to service;
- testing highlighted a lack of controls and checks in place within services to ensure that invoices are raised when goods and services are provided
- there is no formal policy for monitoring aged debtors across the organisation, with decisions on whether to continue providing goods or services taken at service level. The council have advised that services will be consulted on whether goods or services can be withdrawn if there is an outstanding debt for the customer, and that the sundry debtor policy will be updated if agreement can be reached.

108. The council is to monitor improvement actions in these controls.



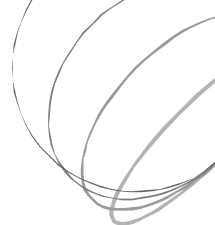
Performance management

109. As outlined previously, a detailed assessment of the council's performance management arrangements will be included within the BV2 report. However, one of the ways of measuring council performance is through the statutory performance indicators (SPIs), and the council's approach to managing these is covered within this report.
110. The Accounts Commission changed the SPI direction for 2009/10, and the new approach introduced a significant shift in how councils are required to monitor and report on their performance. This has brought SPI requirements closer in line with BV duties under the 2003 local government in Scotland act, and significantly reduced the number of indicators councils are required to report. As well as reporting the reduced number of SPIs, the direction requires councils to publish their own performance indicators *'to drive continuous improvement in services, and for reporting on those aspects of performance that are of most importance to local communities, to service users and to citizens'*.
111. The council publish over fifty different sets of information to stakeholders in a variety of ways at different times of the year. However it did not publish any local performance indicators alongside the core SPIs to demonstrate improvement across its range of services as required by the SPI direction. The council acknowledges that it needs to develop a suite of performance indicators which are focused on the key aspects of service delivery in North Ayrshire, and which are meaningful and relevant to the local population.
112. The council has undertaken a golden thread health-check of its performance management arrangements and has agreed actions to address the recommendations from this review. In response to these actions the council has identified that it *'reports over fifty different sets of information to stakeholders in a variety of ways at different times of the year.....that would rise to well over one-hundred if performance reports to national regulatory bodies were included'*.

Risk area 10

Outlook

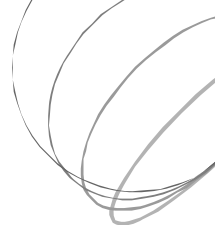
113. Governance and accountability issues are likely to be prominent as the council's operating environment and economic position becomes more difficult and the development of working in partnership with others increases.



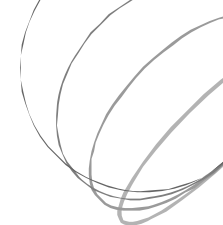
Appendix A

External audit reports and audit opinions issued for 2009/10

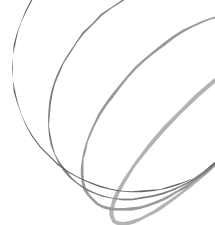
Title of report or opinion	Date of issue	Date presented to Scrutiny Committee
Annual audit plan	February 2010	19 April 2010
Internal audit assurance letter	January 2010	Not presented
Shared Risk Assessment/ Assurance and Improvement Plan	June 2010	Presented to council 30 June 2010
Review of main financial systems	August 2010	Not presented
'Your business @risk' security questionnaire	March 2010	Not presented
Follow-up of data management audit	September 2010	Not presented
Report to those charged with governance on the 2009/10 audit	September 2010	27 September 2010
Independent auditor's report on the financial statements	September 2010	27 September 2010
Audit opinion on the whole of government accounts	October 2010	Not presented



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	50	<p>Capital performance</p> <p>The council failed to deliver its planned general services capital programme in 2009/10.</p> <p><i>There is a risk of continued slippage which may adversely impact on service provision.</i></p>	<p>The council recognised that the capital programme has again not met its target. As a result, a strategic working group of senior officers has been established to monitor spend and recommend actions to deliver its programme on time and to budget.</p>	<p>Corporate Director (Finance & Infrastructure) / Heads of Service</p>	Ongoing
4	55	<p>Icelandic banks</p> <p>The council may fail to recover expected amounts from deposits in Icelandic banks.</p> <p><i>There will be increased pressure on council budgets should these funds not be recovered.</i></p>	<p>The position will continue to be monitored. Provision has already been made for £2m in the annual accounts and future provisions will be made as the process develops if necessary.</p>	<p>Head of Finance</p>	Ongoing
5	59	<p>Financial planning</p> <p>The council does not have an over-arching financial strategy and has not produced medium or long term financial plans for general services revenue.</p> <p><i>There is a risk that the council are unable to assess the overall full impact of reduced funding and are unable to achieve sufficient savings in future.</i></p>	<p>Although there is no single document reflecting the council's full financial position, this is covered in a series of presentations and committee reports. These include –</p> <ul style="list-style-type: none"> ▪ Early indication of 3 year budget scenario (based on limited government information). ▪ Revenue and capital budget projections (3 years). ▪ Budgetary control reports to Committee. ▪ Agreed treasury management strategies. ▪ Policies on reserves, etc. <p>The council will consider preparing an over-arching financial strategy.</p>	<p>Head of Finance</p>	June 2011



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
6	67	<p>Asset management</p> <p>The council do not have a robust asset management plan in place.</p> <p><i>The council may be unable to effectively manage the asset management strategy resulting in poor value for money for taxpayers.</i></p>	<p>Educational Services has agreed an interim plan for rationalisation of the school estate.</p> <p>The council has also appointed a new head of infrastructure who will be responsible for the development of a strategy.</p> <p>In addition, as part of its "change programme" a full review of all office accommodation is already underway.</p>	Head of Infrastructure	June 2011
7	70	<p>Procurement</p> <p>The council received a score of 17% in their annual procurement capability assessment which is rated as non-conformance.</p> <p><i>The council may be open to the risk of legal challenge due to the lack of visibility and control over procurement across the organisation.</i></p>	<p>The council's target is to achieve 25% which is rated as conformance. The next assessment is carried out in November.</p> <p>There is no guarantee, however, that a high score in the procurement capability assessment will prevent legal challenges on procurement related activities.</p>	Procurement Manager	December 2010
8	83	<p>Scrutiny</p> <p>Information presented to members may not provide the level of data and analysis required in order to make informed decisions.</p> <p><i>There is a risk that members are presented with insufficient data and information resulting in decisions being taken without all relevant facts being considered.</i></p>	<p>As reported to the Executive on 1 June and to Scrutiny Committee on 14 June, the content and format of performance reports will be reviewed and revised in line with good practice identified by SOLACE Enterprises through the golden thread health-check.</p> <p>It has been agreed that reports from external audit will, in future, be presented to the scrutiny committee.</p> <p>The chief executive has also agreed to review how full reports from internal audit can be made available to members of the committee.</p>	<p>General Manager, Policy & Service Reform</p> <p>Chief Executive / Corporate Director (Finance & Infrastructure)</p>	<p>September 2010</p> <p>November 2010</p> <p>April 2011</p>



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
9	106	<p>Contract for roads vehicle tracking system</p> <p>The executive of North Ayrshire Council made a decision to authorise officers to enter into negotiations to purchase a roads vehicle tracking system without being presented with all relevant information.</p> <p>Members are invited to consider the full internal audit report 'contract for roads vehicle tracking system' and reconsider the report to the executive on 9 March 2010. In consideration members may wish to examine this matter further in accordance with the council's policies and procedures.</p>	<p>Officers acknowledge that there were serious flaws in the procurement process and the governance arrangements fell below the expected standards in the public sector. However, there was no intention to mislead members and officers actions were intended to be in the best interests of the council.</p> <p>This report will be submitted to the executive of North Ayrshire Council on 2 November 2010, and the scrutiny committee on 8 November 2010. Elected members will be supported in whatever action they deem necessary.</p>	Chief Executive	November 2010
10	112	<p>Performance management</p> <p>The council has not developed a suite of performance indicators to demonstrate progress in areas of most importance to the local population.</p> <p><i>There is a risk that the council is unable to demonstrate performance levels across services due to a lack of appropriate performance indicators.</i></p>	<p>The need for more performance information is acknowledged, in spirit of continuous improvement.</p> <p>As reported to The Executive on 10 August 2010, we will further develop public performance reporting generally, and specifically will:</p> <ul style="list-style-type: none"> a) launch the "North Ayrshire Performs" area on the website using the covalent system b) prepare an annual, web-based performance report against the new council plan 2010-13. 	General Manager, Policy & Service Reform	<p>Ongoing</p> <p>October 2010</p> <p>September 2010</p>