



East Ayrshire Council
Annual Report to Council Members 2003/04
October 2004



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25 October 2004

Our ref: CDR/MT/LM

Ladies and Gentlemen

Annual Report to Council Members 2003/04

We have completed our audit of East Ayrshire Council (the “Council”) and its financial statements for the year ended 31 March 2004 and are pleased to enclose our Annual Report to Council Members.

The Annual Report is primarily designed to direct your attention to matters of significance that have arisen out of the 2003/04 audit process and to confirm what action (Appendix 1) is planned by management to address the more significant matters identified for improvement.

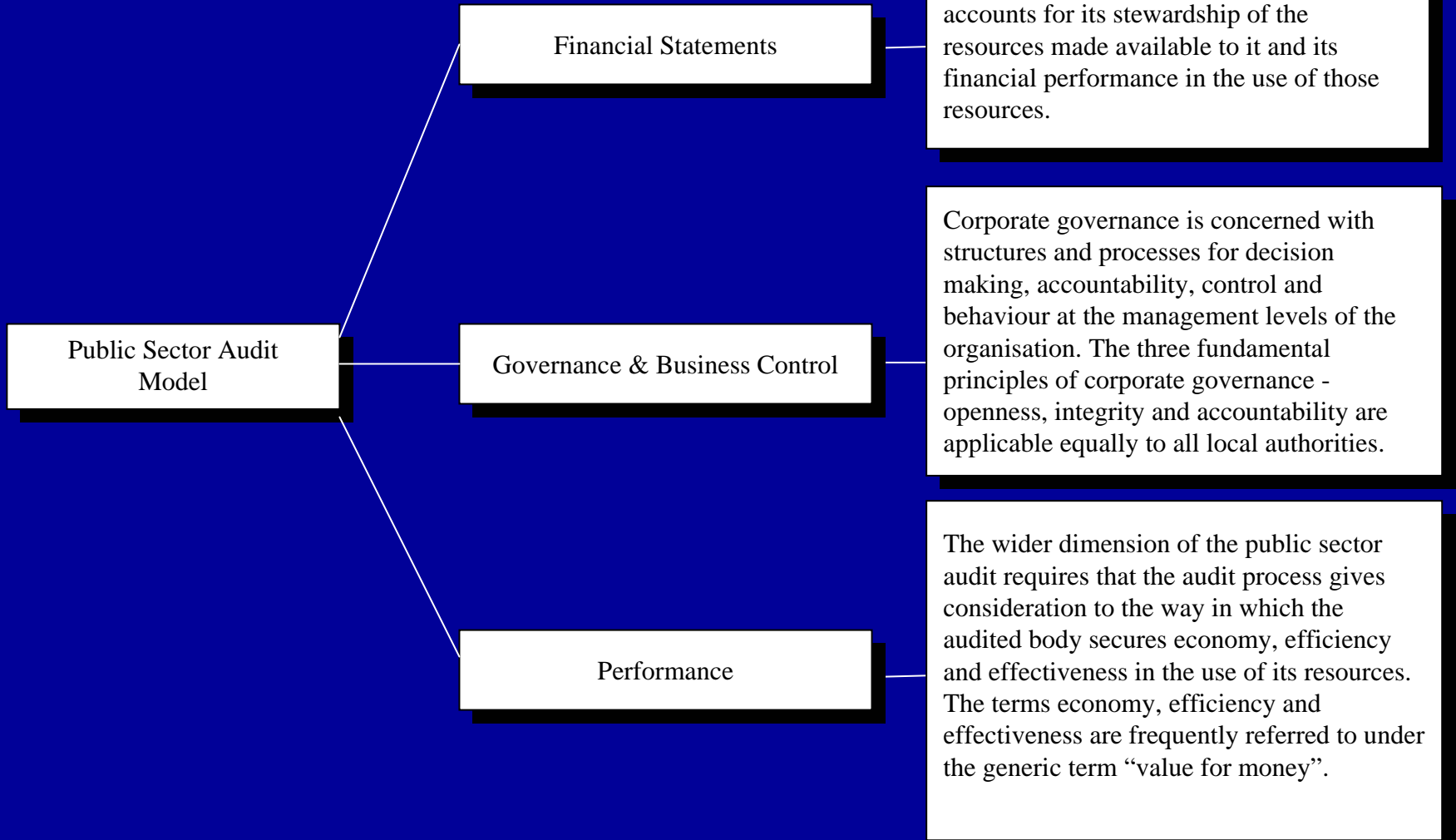
We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

Yours faithfully

PricewaterhouseCoopers LLP

East Ayrshire Council
Annual Report to Council Members 2003/04
Overview of Our Report

Our Report covers the 3 principal areas examined under the Public Sector Audit Model



East Ayrshire Council
Annual Report to Council Members 2003/04
Overview of Our Report

The contents of our report are summarised below:

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1. Action Plan
2. Other formal reports submitted during the 2003/04 process
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5. Audit Opinion

Audit Opinion

The Local Government (Scotland) Act 1973 requires that, following the completion of an audit, the auditors shall place on the abstract of accounts a certificate which sets out the basis on which they have formed their audit opinion. Our opinion on the accounts states:

- that the audit has been conducted in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Code of Audit Practice;
- the respective responsibility of management and auditors in relation to the accounts; and
- whether, in the auditors opinion, the accounts present fairly the financial position of the Council as at 31 March 2004.

Our audit certificate for the year ended 31 March 2004, which is in the format prescribed by the Accounts Commission, is **unqualified**.

Our opinion is set out in full in Appendix 5.

Financial Performance in the Year

The Council reported an overall surplus on the General Fund of £4.606 million against a forecasted breakeven position for the year ended 31 March 2004. The key reasons for this improved outturn have been presented to and considered by Members. The table below provides a high level overview of the budget to actual position:

	£m
Increased Government Grant	8.610
Increased Trading Account Surplus	0.622
Reduction in debt charges	0.547
Increased departmental expenditure	(5.173)
Surplus	<u>4.606</u>

The Council's reported surplus of £4.606 million results in an overall accumulated surplus of £7.910 million being carried forward to 2004/05. The Council has stated that £3.577 million of this surplus represents committed funds for ring fenced projects and departmental savings earmarked for future committed projects.

The remaining accumulated surplus of £4.333 million does not appear excessive.

Capital Programme 2003/04

During 2003/04, the Council delivered a total capital investment programme of £27 million, which was financed through a combination of capital receipts, borrowings, direct revenue contributions (CFRCR), and capital grants. The Council's capital budget for 2003/04 was set at £29 million. The under spend related to flood prevention work and the North West Neighbourhood Service Centre where the funding was not secured until the final quarter of the financial year. Therefore expenditure was committed as opposed to incurred during 2003/04.

Pension Fund

In accordance with the SORP, the 2003/04 financial statements are in full compliance with the requirements of FRS 17 – Accounting for Retirement Benefits. FRS 17 requires that the financial statements include the value of pension liability for all employees at the balance sheet date. This enables readers of the financial statements to understand the extent to which benefits earned to date have already been funded.

For the purpose of FRS 17 disclosure, a report was produced by the Fund Actuary of Strathclyde's Pension Fund as at 31 March 2004. This report represents a snapshot of the pension fund as at the balance sheet date and indicated that the Council's pension fund was in deficit by £34 million. However, the three year detailed Actuarial review carried out by the Fund Actuary in March 2002 indicated that the Council's contributions to the pension fund were sufficient in the long term to match the current and future liabilities.

The Council, in conjunction with the appointed Actuary should continue to monitor closely the pension fund ensuring any deficits can be addressed

Action Point 1

Financial Forecast 2004/05

The budgeted out-turn position for the year ended 31 March 2005 is an overall breakeven position. Since setting the budget a number of additional pressures have come to light which could adversely affect the breakeven projections:

- Projected social services non-recurring savings may not be sustainable in the longer term.
- The outcome of negotiations for the new property maintenance contracts.
- Negotiated settlement in respect of the nursery nurse pay dispute (£0.45 million).

The Council should continue to monitor revenue expenditure against budget, taking corrective action where required. In particular a long term financial sustainability plan should be produced for Social Services.

Action Point 2

Audit Process

The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of the working papers provided and internal review processes undertaken by management were of a high standard. Overall we believe an effective audit process was achieved for the financial statements audit, and an effective working relationship exists with your officers.

Audit Adjustments

A number of adjustments to the format of and figures within the financial statements have been made following the conclusion of our audit work. These have been agreed and processed by the Executive Head of Finance in the final accounts.

Overall Asset Management Arrangements

As in previous years the Council continues to operate four different asset registers with each containing different levels of information/detail on the assets recorded within them. In undertaking our audit of the Council's fixed assets, including compliance with the requirement of the Capital Accounting Manual, we have again encountered problems due to the relatively poor standard and inconsistent levels of information available to support the disclosures within the Council's financial statements.

As a result, a number of detailed recommendations have been reported in our Final Management Letter. However, as an overall issue, the Council needs to produce an Asset Management Plan supported by a single, up to date and detailed asset register, as a matter of urgency. This is essential to ensuring that the Council's fixed assets of £442 million are managed effectively.

A full review should be undertaken of the Council's asset management arrangements, in order to ensure that the Council is fully compliant with the requirements of the prudential framework and the Capital Accounting Manual for 2004/05. This should include a formal Asset Management Plan supported by a single up to date and detailed asset register.

Action Point 3

Capital Expenditure

At the end of the financial year the Capital Programme and detailed capital expenditure listing was reviewed by finance officers and decisions were taken as to whether the specific items of expenditure were either creating an asset or were capital enhancing in nature. In accordance with the requirements of the Capital Accounting Manual Guidelines decisions of this nature should be made RICS qualified professional staff, in consultation with finance officers. The Council should ensure that all significant capital expenditure incurred during the financial year is reviewed by a professional valuer, to establish if a new asset has been created or an existing asset has been enhanced.

Action Point 4

Determination of Asset Useful Lives

The estimated remaining useful lives of property assets owned by the Council have been assessed by the Treasury Services Manager. However the Capital Accounting Manual states:

“For buildings it would be sensible for the valuer or other professional to make a technical assessment of how long the useful life of the asset”

As a result recorded property lives may not reflect the same period to which the Council will receive an economic benefit from these assets. The Council should ensure all asset lives are valued in accordance with the requirements of the Capital Accounting Manual, namely by a professional valuer.

Action Point 5

Trading Account Surpluses

Under the requirements of the Local Government (Scotland) Act 2003, trading operations are required to break even over a three year rolling period. All of the Council’s trading accounts reported surpluses in 2003/04.

Servitor System – Building and Works

A number of billing disputes have arisen during 2003/04 due to the incompatibility between the system used by Building and Works (Servitor) to estimate the cost of jobs and the system used by their client departments (Orchard) to monitor the work undertaken by Building and Works. This problem has resulted in a number of works orders being rejected by the client department, which has impacted on Building and Works cashflow during the year. This incompatibility should be investigated and resolved by the Council.

Action Point 6

Group Accounts

In recent years there has been a significant expansion in interaction with the private sector and other public services. However, only a small number of authorities have actually produced group accounts to accompany their own financial statements. In addition, developments in accounting now place great emphasis on concept of control rather than ownership. As a result substantial revisions have been made to the 2004 SORP that:

- will require a greater number of authorities to enhance their statement of accounts with information about their interest in subsidiaries, associates and joint ventures in a set of group accounts; and
- provide more comprehensive accounting requirements for consolidation of the transactions and balances of subsidiaries and of interests in associates and joint ventures that will make group accounts more informative about particular aspects of the authority's control over other entities

The 2004 SORP requirements for group accounts are based on the provisions of FRS 2 Accounting for Subsidiary Undertakings and FRS 9 Associates and Joint Ventures. Where material interests in subsidiaries, associates and/or joint ventures are identified, group accounts will require to be produced alongside the authority's own financial statements, to include:

- group income and expenditure account;
- group balance sheet;
- group cash flow statement; and
- group statement of total movements on reserves.

In order to determine the related organisations to which these provisions will apply, the Council will need to reconsider the nature and extent of involvement with companies, voluntary organisations and other public bodies, for example, the Galleon Centre. The 2006/07 financial year will be the first time that the new rules on group accounts will specifically be applicable. The Council should undertake a review of any potential subsidiary undertakings associates or joint ventures such as the Galleon Centre to establish if there is a requirement to produce Group Accounts

Action Point 7

Fraud and Corruption Reviews

As part of our rotational plan to review the key mechanisms for the prevention and detection of fraud and corruption, we have reviewed in detail the Council's overall fraud and corruption arrangements. In addition specific arrangements and controls over payroll, expenses, car loans, cash collection and contracts were reviewed. Two lower risk issues were identified and reported in our Interim Management Letter. The Council has agreed to address these issues and we will follow up progress as part of our 2004/05 audit.

Fraud Guidance

We have reviewed the fraud and irregularities guidance issued by Audit Scotland during 2003/04 (Technical Bulletins 2003/1, 2003/2, 2004/1 and 2004/2 and relevant Urgent Issues Notes), and undertaken work accordingly. There are no specific matters to report to the Council from this work.

Fraud Submission

A return has been made to Audit Scotland of all the reported frauds that have occurred within the Council during the year. A significant number of Housing Benefit/Council Tax Claimant frauds were reported by the Council during 2003/04, of which 14 were in excess of £2000 each.

Legality Work

We plan and perform our audit procedures recognising that non-compliance by the Council with statute or regulations may materially affect the financial statements. In addition, as part of our normal audit process we consider the Council's assessment of the legality of certain significant transactions and events with a financial consequence.

In considering the arrangements put in place by the Council with reference to legality, we have focused our attention on the Council's own areas of decision making or courses of action which could potentially lead to loss or deficiency of a significant nature. Our work has not highlighted any matters which we require to bring to your attention.

Electors Objections

We have received no objections to the Council's annual accounts from electors.

Post Balance Sheet Events

No significant post balance sheet events were identified or brought to our attention.

Corporate Governance

The Council adopted its first Local Code of Corporate Governance in June 2002, in accordance with the CIPFA/SOLACE framework for Corporate Governance in Local Authorities. This code was subsequently reviewed in April 2003 and again in May 2004 which resulted in the approval of a revised Local Code of Corporate Governance and an improved action plan.

The Council recognise the need to continually monitor and review Corporate Governance on an annual basis, and therefore to facilitate this a Corporate Governance Officer Working Group has been established. In line with CIPFA/SOLACE requirements each Service Director is required to make an annual statement confirming that the governance arrangements in his/her Service area are adequate and operating effectively. These Service statements inform the Corporate Governance Assurance Statement within the Annual Financial Statements.

Statement on the System of Internal Financial Control

The “Code of Practice on Local Authority Accounting in Great Britain, a Statement of Recommended Practice” (the “SORP” for 2002) introduced the requirement from 2002/03 onwards for local authorities to include a statement on the system of internal financial control (SSIFC) within their financial statements.

Our responsibility is to provide an external audit view, as opposed to an audit opinion, on whether:

- the SSIFC complies with the requirements of the SORP; and
- the information contained therein is consistent with our knowledge of the Council.

We are able to confirm that the Council’s disclosures contained in the Statement on the System of Internal Financial Control are consistent with the knowledge gained from our normal audit procedures and complies with the SORP.

Internal Audit's Report on the Council's Internal Controls

As part of our audit work we plan to place reliance on certain of the work performed by Internal Audit. During the year we undertook a review of Internal Audit and considered that the work undertaken was satisfactory. Co-operation between Internal and External Audit has resulted in a more efficient use of overall audit resources during the year.

We are pleased to report that for external audit purposes, we have been able to place reliance on work performed by Internal Audit in the areas of: debtors, creditors, cash receipting, attendance at stock counts, and work performed in connection with Performance Indicators.

The extract of the Internal Auditor's opinion for 2003/04, as included within the Annual Report presented to the Corporate Governance Committee, is reproduced below:

"Overall Internal Audit is of the opinion that reasonable assurance can be placed upon the systems of internal control in operation"; and

"The Council continues to develop its risk management arrangements under the local Code of Corporate Governance; and Internal Audit is satisfied that there is management commitment to act where control improvement opportunities are identified, and that staff understand and accept the need for systems to be robust and reliable"

A Value for Money review of the Internal Audit Service was undertaken during the year (see section 9 of this report for more details).

Audit Committee Principles

CIPFA published in 2004 its Audit Committee guidance note entitled “Audit Committee Principles in Local Authorities in Scotland”. This guidance note sets out the key Audit Committee Principles for Local Authorities:

- Independent assurance of the adequacy of the risk management framework and the associated control environment within the Council;
- Independent scrutiny of the Authority’s financial and non-financial performance; and
- Assurance that any issues arising from the process of drawing up, auditing and certifying the Authority’s annual accounts are properly dealt with.

Previously audit committee principles were included within the Policy and Resources Committee; these terms of reference were revised during 2003/04 and incorporated in the remit of the Corporate Governance Committee.

However there remains a number of aspects where the Corporate Governance Committee is still not fully compliant with Audit Committee Principles and best practice arrangements.

Council Members and Officers should review committee arrangements against the key Audit Committee Principles to ensure that they are meeting all requirements of the best practice guidance note.

Action Point 8

Follow Up Report on previous control matters

Our follow up report on our 2002/03 Interim Management Letter and Final Report to Members was issued to the Council in April 2004. Of the 27 agreed recommendations made in our 2002/03 Interim Management Letter and Annual Report to Council Members, 15 had been fully implemented, 4 had been partially implemented, 4 were no longer applicable at the time of our review and 4 recommendations that had not been implemented. The Council should ensure that 4 outstanding recommendations which relate mainly to Asset Management Strategy are implemented as a matter of priority.

Action Point 9

Financial Systems and our 2003/04 Interim Management Letter

An Interim Management Letter was issued to the Council in May 2004. The Council has completed an action plan detailing the individuals responsible for implementing our recommendations and the timetable for completion. There were 12 recommendations raised in our report, 4 related to control weaknesses and 8 related to business issues. None of the matters identified were considered critical.

Action Points 10

Termination Packages

Eight settlements were made for senior officers during the year, resulting in a cost of £108,000. Seven of these settlement related to internal restructuring of departments which resulted in a reduction in the number of establishment posts. Our audit work included testing a sample of these settlements; we did not identify any matters which we require to bring to your attention.

PPP/PFI

The Council initially submitted an Outline Business Case to the Scottish Executive in December 2001, proposing to undertake a PPP project to build three new schools and refurbish a fourth:

- New build for St Joseph's Academy;
- New build for Grange Academy;
- New build, non-denominational community primary school in Shortlees; and
- Refurbishment and extension of Mauchline Primary School.

The Scottish Executive has now reviewed the Business Case, and the Council received a formal letter of acceptance in June 2004 stating revenue support of £4.3 million will be provided per annum for thirty years.

In July 2004 the Council advertised the PPP project, within the Official Journal of the European Union (OJEU) and 4 responses were received. An initial review of these submissions was undertaken in August 2004.

The next key stages in the process are:

- the Scottish Executive are to carry out a key stage review, considering the bidders selected;
- the Council will draw up an Invitation to Negotiate, once approval has been gained from the Scottish Executive;
- the selected bidders will have four months to design the schools and provide a full costing; and
- the Council will then evaluate design plans and costing calculations and select a successful bidder.

As at September 2004 the Council is anticipating that work on the schools will commence by October 2005.

Action Point 11

Trading Accounts

In response to the requirements contained in the Local Government in Scotland Act 2003 (“the Act”) the Council’s trading operations are required to:

- achieve Best Value;
- maintain statutory trading accounts for significant trading operations;
- disclose summary results of significant trading operations as part of its public performance report;
- to achieve break-even over a three year period; and
- publish statutory trading accounts as part of its statement of accounts.

The Council established a working group to review the position and identify potential trading organisations on a departmental basis. These potential operations were then “tested” against CIPFA/LASAAC guidance and key criteria devised by the Council including:

- Is the service provided within a competitive environment;
- Is the service provided on a basis other than straightforward recharge of cost;
- Is the services gross expenditure greater than 2.5% of the Council’s gross expenditure

This exercise resulted in the Council disclosing ten trading accounts in its 2003/04 financial statements; this was consistent with previously disclosed and reported DLO/DSO operations.

Trading operations are also to be included within the Council’s departmental Best Value Service Review.

Prudential Code

The Prudential Code is a new system of controls on local authority capital investment in Scotland. This new system replaces the current complex regulatory frameworks governing local authority capital expenditure. The basic principle of the new system is that local authorities will not be constrained by a set limit for capital expenditure. Instead a local authority will need to demonstrate that its capital spending plans are affordable, prudent and sustainable.

The earliest date for implementation is for the financial year 2004/05. In practice this meant that the requirements of the Code had to be taken into account in the process for setting the 2004/05 budget, i.e. during the 2003/04 financial year.

After considering the Council's Treasury Strategy and the revenue budget, the Council set the maximum level of capital expenditure to be supported by borrowing for 2004/05 to 2006/07 as £11.25 million, £11.5 million and £12 million respectively. Total capital expenditure for 2004/05 is budgeted at £30.469 million, with £17.124 million to be met through grants and partnership funding, £11.25 million met from borrowing and the remaining £2.095 million being funded from other sources.

In order to fully comply with the Prudential Code all Council projects require to undergo an option appraisal exercise, and must qualify as capital expenditure under the new regulations. In February 2004, the Council agreed prudential indicators which will form the basis of in year monitoring and reporting.

Members should seek regular updates on the Council's progress in implementing an option appraisal mechanism as part of its Asset management Strategy to assess all new capital projects as required by the Prudential Code.

Action Point 12

National Waste Strategy

The delivery of the aims and objectives of the Government's National Waste Strategy for Scotland are being driven by the development and implementation of Area Waste Plans for each of eleven Waste Strategy Areas. The Council is part the Waste Strategy Area for Ayrshire and Dumfries & Galloway ("WSAG"), and participates in the Ayrshire Waste Management Advisory Group along with North and South Ayrshire Councils. This group has developed an Area Waste Plan, in partnership with the Scottish Environment Protection Agency.

The Council currently has a contract with a private provider (until 2006) for waste disposal. The Council is currently involved in undertaking a procurement process to secure a 20 year contract that will meet the Council's needs in order to continue to address those targets laid out within the National Waste Strategy.

One of the main issues driving the development of a National Waste Strategy is the Landfill Directive. The Directive requires that Councils reduce the levels of biodegradable waste being sent to landfill sites. The Directive sets out target dates of 2010, 2013 and 2020 for stepped reductions in the level of waste.

As part of the Council's strategy a three bin recycling programme was introduced during 2003/04 which provides residents with different coloured bins to enable the separation of different types of household waste. The Council has reported that it is currently on target to meet the 2010 target.

Single Status

The Single Status Agreement relates to the Local Government Employees pay award body, which encompasses the former APT&C and Manual workers groups. The agreement aims to harmonise pay and conditions of service arrangements for local government Employees to ensure equality of treatment in pay and grading matters.

To support the development of local pay and grading structures to integrate former APT&C and Manual employees the Council is using a job evaluation scheme developed by the Scottish Joint Council (SJC). The job evaluation process focuses on the tasks and responsibilities within the job, not the performance of the staff member undertaking the job.

The Council has not implemented the agreement by the revised implementation date of 1 April 2004. The principal reasons for the delay in implementation are:

- changes to the job evaluation scheme at a national level; and
- ongoing discussions with trade unions on the impact of job evaluation and harmonisation of conditions of service.
- underestimation of the logistics involved in information gathering, assessment, verification and review of 4,000 jobs

The Council's Job Evaluation Team has almost finalised its information gathering exercise to obtain job related information and as at 31 March 2004 had met with approximately 850 job holders. Proposals for the package of harmonised terms and conditions of service and pay and reward strategy have also been discussed with the Trade Unions. Management should set and agree a revised deadline with the trade Unions and ensure that this is met.

Action Point 13

Partnership Working

Partnership working is defined as a range of partners in the public and voluntary sectors working together to better plan, resource and deliver quality services that meet the needs of the people living within that Local Authority area.

The Council has produced a Community Plan entitled, East Ayrshire Community Plan 2003 – 2015. The aim of the plan is to set out a shared vision of the priorities facing East Ayrshire and the contributions to be made by the Council and its partners in the public, private and voluntary sectors to attain that vision.

The Community Plan forms the basis of the Council's Corporate Plan. Although spanning twelve years the whole plan is to be updated every 4 years to reflect changing needs and priorities, and the detailed action plan of priorities is reviewed on a regular basis and updated every two years.

There are six key themes highlighted within the Plan:

- Promoting Community Learning
- Improving Opportunities
- Improving Community Safety
- Improving Health
- Eliminating Poverty
- Improving the Environment

These six themes are then translated into specific actions and a series of tasks. Each task is assigned a nominated officer who is responsible for monitoring key actions against set implementation dates.

E-Government and E-Procurement

The Council is keen to improve the delivery of its services and recognises that Government initiatives such as 'E Government' can help improve service delivery to its' customers/ constituents.

The Council produced a Corporate E-government Strategy in June 2001, which is only now being incorporated into the overall Council IT Strategy. In addition, a number of development action plans have been devised in order to assist website development, E-Procurement and E-Payments.

The Council has 5 main overarching ICT objectives they are seeking to address through their E-Government Strategy:

- improve infrastructure;
- increase access;
- develop skills;
- deliver on-line; and
- share information.

One of the main innovations that continues to be improved is the Council's website. In addition, as at 31 March 2004 the Council operated an on-line payments system in respect of Council Tax, with online payments for other services to be further developed during 2004/05.

The Council have appointed a Freedom of Information Officer of the Freedom of Information Act (2000) who is tasked with liaising with the legal department to consider the implications and communicate actions to all service departments.

Action Point 14

Performance Indicators

It is the responsibility of the Council to ensure that, as far as practicable, the information which is published is complete and accurate.

There are 64 Performance Indicators (“PIs”) in total, all of which have to be graded as either ‘A’, ‘X’, or ‘FTR’, as follows:

- A** The data appears to be reliable in material respects.
- X** The lack of available systems, and/or reliable data, and/or decision rules has resulted in the Council producing information which, in the auditor’s view is unreliable.
- FTR** The Council has not returned any figures for the indicator as no accurate inventory is maintained. This is classified as a ‘Failure To Report’.

All performance indicators for 2003/04 were graded ‘A’

Overall, the quality of systems used for data collection and analysis, and supporting documentation provided to us was of a good standard, for which Council management should be commended.

Value for Money

As part of our responsibilities under the Local Government (Scotland) Act 1973, we consider the overall arrangements that have been made by the Council for securing value for money (i.e. Economy, Efficiency, and Effectiveness). In terms of this responsibility, we have completed and reported our findings in relation to the following studies:

- Internal Audit Follow Up VFM;
- Follow Up of PMP Recommendations; and
- Best Value – Review of Transitional Arrangements

Separate reports and agreed management action plans have been issued for these reviews. Detailed below is a summary of our key findings:

<u>Review</u>	<u>Number of recommendations</u>
Internal Audit Follow Up	Overall the Council were placed in Band 1 – “almost fully compliant”. There were five recommendations made where the Council did not fully comply with Best Practice.
Follow Up of PMP Recommendations	Based on our previous reports there were 24 outstanding recommendations, 23 of the recommendations had been fully implemented , with only 1 recommendation that requires further monitoring.
Best Value Transitional Arrangements	Overall the Council had made good progress in implementing the new Best Value audit arrangements. Four Recommendations were made where further work is still required.

Value for Money Overall Recommendations

Members and Officers should seek regular updates to ensure that Council management undertake the required action to complete all recommendations made in 2003/04.

Action Point 15

Appendix 1 – Action Plan

Report Reference	Recommendation	Agreed Action	Responsible for Implementation	Due Date
Action Point 1	The Council, in conjunction with the appointed Actuary should continue to monitor closely the pension fund ensuring any deficits can be addressed	Any concerns or actions proposed by the actuaries will be appropriately highlighted to Members as they arise	Executive Head of Finance	Ongoing
Action Point 2	The Council should continue to monitor revenue expenditure against budget, taking corrective action where required. In particular a long term financial sustainability plan should be produced for Social Services.	This is done on a regular basis by the Budget Scrutiny Group, service committees and the Policy and Resources Committee. The Social Services service plan will be aligned with resources made available by the Council for the period 2005/06 to 2007/08	Executive Head of Finance Executive Director Education and Social Services	Ongoing April 2005
Action Point 3	A full review should be undertaken of the Council's asset management arrangements, in order to ensure that the Council is fully compliant with the requirements of the prudential framework and the Capital Accounting Manual for 2004/05. This should include a formal Asset Management Plan supported by a single up to date and detailed asset register.	An Asset Management Strategy will be prepared for approval by the Council and a corporate Asset Register will be procured.	Executive Director of Development and Property Services	March 2005

Appendix 1 – Action Plan (continued)

Report Reference	Recommendation	Agreed Action	Responsible for Implementation	Due Date
Action Point 4	The Council should ensure that all significant capital expenditure incurred during the financial year is reviewed by a professional valuer, to establish if a new asset has been created or an existing asset has been enhanced.	All departments are aware that proposed capital projects must comply with capital accounting requirements. Certification will be done by a professional valuer.	Executive Director of Development and Property Services	March 2005
Action Point 5	The Council should ensure all asset lives are valued in accordance with the requirements of the Capital Accounting Manual, namely by a professional valuer.	Certification will be done by a professional valuer.	Executive Director of Development and Property Services	March 2005
Action Point 6	The incompatibilities between the Servitor and Orchard systems should be investigated and resolved as soon as possible.	The temporary system difficulties referred to have been resolved. A final software amendment remains outstanding.	Executive Director of Neighbourhood Service	March 2005
Action Point 7	The Council should undertake a review of any potential subsidiary undertakings associates or joint ventures such as the Galleon Centre to establish if there is a requirement to produce Group Accounts.	This will be done as part of the final accounts process for 2004/05.	Executive Head of Finance	March 2005

Appendix 1 – Action Plan (continued)

Report Reference	Recommendation	Agreed Action	Responsible for Implementation	Due Date
Action Point 8	Council Members and Officers should review committee arrangements against the key Audit Committee Principles to ensure that they are meeting all requirements of the best practice guidance note.	This will be considered by the Corporate Governance Committee on 16 November 2004	Chief Executive	November 2004
Action Point 9	The Council should ensure that the 4 outstanding recommendations made within our 2002/03 Follow Up report are implemented as a matter of priority.	All outstanding recommendations relate to the Asset Management arrangements which are currently being progressed	Executive Director of Development and Property Services	March 2005
Action Point 10	The Council should monitor the progress in implementing the recommendations raised in the 2003/04 Interim Management Letter and ensure that the timetable set out in the action plan is achieved.	All matters are currently in hand	Various	March 2005

Appendix 1 – Action Plan (continued)

Report Reference	Recommendation	Agreed Action	Responsible for Implementation	Due Date
Action Point 11	The Council should continue to monitor the progress of the PPP project to ensure that the scheme is affordable and that the timetable is achieved.	Agreed	Executive Director Education and Social Services	March 2007
Action Point 12	Members should seek regular updates on the Council's progress in implementing an option appraisal mechanism to assess all new capital projects as required by the Prudential Code.	This is part of the overall Asset Management Strategy referred to at Action Point 3	Executive Director of Development and Property Services	March 2005
Action Point 13	Council Management should seek to complete the formal job evaluation process to enable the Single Status agreement to be implemented in accordance with the revised deadline.	Agreed	Head of Personnel	March 2005

Appendix 1 – Action Plan (continued)

Report Reference	Recommendation	Agreed Action	Responsible for Implementation	Due Date
Action Point 14	The implications of the Freedom of Information Act (2000) on the Council should be communicated to all service departments	Training is to be provided to senior staff in all departments	Head of Legal and Administration	December 2005
Action Point 15	Members and Officers should seek regular updates to ensure that Council Management undertake the required action to complete the VFM recommendations made in 2003/04	Agreed	Chief Executive	March 2005

Appendix 2 - Other formal reports, in addition to this Annual Report, submitted during the 2003/04 process

Output	Date	Financial Statements	Governance & Business Control	Performance
Annual Service Plan	December 2003	-	-	-
Follow up report prior year recommendations	January 2004	✓	✓	✓
Interim Management Letter	February 2004	✓	✓	
Fraud Return	May 2004	-	✓	-
Best Value Transitional Arrangements Report	June 2004	-	✓	✓
PMP Follow Up Report	July 2004	-	-	✓
Internal Audit Follow Up	August 2004	-	✓	✓
Final Management Letter	October 2004	✓	✓	-

Appendix 3 – Responsibilities of External Audit

The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within the Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of the Council and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility we evaluate significant financial systems and associated internal controls and where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist the Council regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with the Council and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to the Council or any other person.

The prime responsibility for the prevention and detection of fraud and irregularities rests with the Council. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach we consider these arrangements, but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of the Council and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

Appendix 3 – Responsibilities of External Audit

It is the responsibility of the Council to put in place proper arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness in practice. As external auditors we have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;
- Systems of internal financial control; and
- Standards of financial conduct, and the prevention and detection of fraud and corruption.

It is the responsibility of the Council to put in place proper arrangements to manage its performance, to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that the Council has put in place to secure economy, efficiency and effectiveness in its use of resources. We also have a responsibility to undertake reviews arising from national studies commissioned by Audit Scotland where these have been designated as mandatory studies.

For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to the Council during the year and as listed at **Appendix 2**.

Appendix 4 – The Audit Model and Our Approach

Against a background of change throughout the local government sector, our audit approach has evolved to place more emphasis on the way in which you manage the range of key risks and challenges affecting your business – while still focusing on the impact of these risks on our Code objectives.

Our approach recognises that, in running the business, your management team does many things to get comfort that the information systems are robust, generating reliable data and information for use in managing the business, meeting statutory duties and for reporting to stakeholders. We concentrate our attention on assessing how effectively management have gained this comfort.

This involves stepping back from transaction processing, to focus instead on the activities that drive your business. Our approach mirrors the way in which you manage the business, which means we align our work to your management structure and your business activities, rather than financial statement balances.

This approach enables us to make recommendation which should provide assurance over governance arrangements and “add value” to your business processes wherever possible.

Appendix 5 – Audit Opinion

To the Members of East Ayrshire Council and the Accounts Commission for Scotland

We certify that we have audited the financial statements on pages 4 to 35 under the Local Government (Scotland) Act 1973. The financial statements have been prepared in accordance with the accounting policies set out on pages 4 to 8. This report is made solely to the bodies to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and the Code of Audit Practice approved by the Accounts Commission and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Respective responsibilities of the Chief Finance Officer and Auditors

As described on page 36 the Chief Finance Officer of the Council is responsible for the preparation of the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, a Statement of Recommended Practice ('the SORP'). Our responsibilities, as independent auditors, are established by statute and the Code of Audit Practice approved by the Accounts Commission, and guided by the auditing profession's ethical guidance. We report our opinion as to whether the financial statements present fairly the financial position of the Council at 31 March 2004, and its income and expenditure for the year. We also report if, in our opinion, the Council has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit. We review whether the Statement on the System of Internal Financial Control on page 35 complies with the requirements of the SORP. We report if, in our opinion, the statement does not comply with the requirements or if it is misleading or inconsistent with other information we are aware of from our audit. We are not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures. We read the other information published with the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Appendix 5 – Audit Opinion (continued)

Basis of audit opinion

We conducted our audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and the Code of Audit Practice, which requires compliance with relevant United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Chief Finance Officer in the preparation of the financial statements and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements present fairly the financial position of the Council as at 31 March 2004 and its income and expenditure and cash flows for the year then ended.

PricewaterhouseCoopers LLP
Glasgow
24 September 2004