

AUDIT SCOTLAND

GRAHAM POTTER CPFA MSc CHIEF AUDITOR
6TH FLOOR, PLAZA TOWER
EAST KILBRIDE G74 1LA
T 013552 361223 F 013552 28788

1 November 2000

The Provost and Members
East Ayrshire Council
London Road
Kilmarnock

Controller of Audit
Audit Scotland
18 George Street
Edinburgh

Ladies and Gentlemen

REPORT ON THE AUDIT FOR THE YEAR ENDED 31 MARCH 2000

I have now completed my audit of the Council's accounts for the year ended 31 March 2000.

As part of my responsibilities as external auditor to the Council I have to submit, at the conclusion of each year's audit, a final report addressed both to Members of the Council and to the Controller of Audit. I attach my final report on the Council's audit for the year to 31 March 2000.

This report aims to summarise all significant matters which have arisen during the course of the audit and which I feel are worthy of Members' attention.

I should like to take this opportunity to thank those officers of the Council who have assisted my staff in the course of the audit.

Yours faithfully

SIGNED GRAHAM POTTER

Graham Potter
Chief Auditor

AUDIT SCOTLAND

GRAHAM POTTER CPFA MSc CHIEF AUDITOR
9TH FLOOR PLAZA TOWER
EAST KILBRIDE G74 1LW
T 01355236223 F 01355228788

01 NOVEMBER 2000

**Report on the 1999/2000 Audit
of
East Ayrshire Council**

Contents

Section 1	1
<hr/>	
Introduction	
Section 2	2
<hr/>	
Financial accounts and related matters	
<ul style="list-style-type: none">• Audit certificate• Financial performance• Issues arising	
Section 3	8
<hr/>	
Matters arising from the audit	
<ul style="list-style-type: none">• Corporate governance• Brought forward matters• Grant claims and other returns• Review of internal audit• Review of financial systems	
Section 4	14
<hr/>	
Economy, efficiency and effectiveness	
<ul style="list-style-type: none">• Best value and management arrangements• Brought forward matters• Centrally directed studies• Citizen's charter	
Section 5	21
<hr/>	
Concluding remarks	
Appendix A	22
<hr/>	
Action plan	

Introduction

1. It may be helpful to summarise my main responsibilities and duties and the way in which I approach the conduct of the audit.
2. My responsibilities and duties as auditor derive from the Local Government (Scotland) Act 1973.
3. These responsibilities and duties are summarised in the Accounts Commission's Code of Audit Practice, which sets out the auditor's objectives as being to consider and assess the following:
 - whether the statement of accounts presents fairly the financial position of the Council
 - the adequacy of the main financial systems
 - the adequacy of the arrangements in place for the prevention and detection of fraud and corruption
 - the performance of particular services
 - the effectiveness of overall management arrangements
4. This report on the 1999/2000 audit is a summary of audit activity for the year and reflects the auditor's responsibilities.
5. This report should be considered in the context of the stewardship responsibilities of the management of the Council.
6. As the Accounts Commission's Code of Audit Practice makes clear

" Each public sector body is accountable for the way in which it has discharged its stewardship of public funds. Stewardship is a function of both executive and non-executive management and therefore, responsibility for effective stewardship rests upon both members and officers of a public sector body.

That responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources, and by the preparation, maintenance and reporting of accurate and informative accounts. "

Financial accounts and related matters

- Audit certificate
 - Financial performance
 - Issues arising
-

Audit certificate

1. The Local Government (Scotland) Act 1973 requires that, following the completion of an audit, the auditor shall place on the accounts a certificate in such form as the Accounts Commission may direct.
2. The format of the certificate directed by the Commission clarifies the respective responsibilities of management and auditors in relation to the accounts and requires auditors to set out the basis on which they have formed their audit opinion. The management of the Council is responsible for the preparation of accounts which present fairly the financial position of the Council. It is the auditor's responsibility to form an independent opinion, on the basis of the audit, on the accounts and to report that opinion to the Council and the Commission.
3. There are no qualifications on the audit certificate on the Council's 1999/2000 accounts.
4. I also have to provide an opinion on the statements of financial objectives contained within the annual reports of the Direct Labour and Service Organisations. The prescribed financial objectives were achieved for all the defined activities and the audit certificates are free of qualification.

Financial performance

5. At the beginning of the year, in April 1999, the overall financial position of the Council showed a cumulative deficit on the General Fund of £2.4 million. During the year there was a small deficit of £0.2 million which increased the cumulative deficit at 31 March 2000 to £2.6 million.
6. As part of an approved Council strategy to clear the deficit, the Council entered into an agreement to sell part of its interest in a shopping development for £2.75 million. The intention was to credit the Council's 1999/2000 revenue account with this receipt which would have given a small surplus at 31 March 2000. This initial agreement fell through late in the financial year and so the Council entered into another agreement with a different party who also had an interest in the town centre. The Council has accepted that the second transaction cannot be included in the 1999/2000 accounts as the cash is not now expected before December 2000. It is proposed, subject to further confirmation of the accounting treatment, that most or all of the £2.75 million receipt will be treated as capital income in the 2000/01 accounts.

7. The Council set its budget for 2000/01 on the basis of the creation of a surplus in the year of £1.5 million. The latest -budgetary monitoring reports project a slightly greater surplus for the year of £1.7 million. If this projection is accurate, and if it is possible to fully utilise the receipt of £2.75 million mentioned above, the Council will have a cumulative surplus at 31 March 2001 of about £1.8 million. To achieve this, up to £2.75 million of planned revenue expenditure may need to be properly re- classified as capital expenditure. This will represent a far more satisfactory position but, over the next few years, if financial circumstances permit, steps should be taken to generate greater reserves to cater for any unforeseen contingencies that may occur .
8. At the end of 1998/99, the Housing Revenue Account had a deficit of £1.7 million. In accordance with established accounting practice, a transfer was made from the General Fund to remove the deficit. The audit report for that year noted that the Council intended to recoup the .deficit over the following two years, i.e. 1999/2000 and 2000/01.
9. In 1999/2000 there was a surplus in the year of £0.6 million which has been transferred to the General Fund in accordance with the previous intention. A further £1.1 million remains to be recouped. The latest budgetary monitoring reports for 2000/01 are projecting a surplus at 31 March 2001 of £1.2 million.
10. During the year the Council operated within the capital expenditure limits prescribed by the Scottish Executive. The draft returns, which are currently being audited, show that there was an overspending of £148,000 (4.3%) on the housing account and of £201,000 (3.5%) on the General Fund. These overspendings are within the permitted flexibility of 5%. If any amendments are found to be necessary they will be reflected in the capital expenditure limits for 2000/01.

Issues arising

11. A number of important issues arose during the course of the audit of the Council's accounts. These are noted below, together with an indication of the action to be taken by the Council where appropriate.

Timetable for completion of the audit

12. To improve accountability for councils' stewardship and performance, the Accounts Commission has brought forward the timetable for completion of audits to 30 September. This has necessitated the audit of the Council's accounts being streamlined in some respects. For some of the less material matters, adjustments to the published accounts and supporting information have not been sought. Instead such matters have been drawn to the attention of officers for consideration in the context of the 2000/01 accounts. Examples of such matters are the delayed revaluation of assets due to be completed by 31 March 2000 for inclusion

in the 1999/2000 accounts (see below), and the need to write off irrecoverable sundry debtor balances.

Matters brought forward from previous years

13. *Balances inherited at reorganisation:* As mentioned in previous years' reports, the balances inherited by the Council from Strathclyde Regional Council were to be subject to change in respect of the amounts that should have been transferred to the Strathclyde Passenger Transport Authority (SPTA). The assets and loans associated with the activities of the Regional Council, acting in its capacity as Passenger Transport Authority, had been disaggregated incorrectly to the twelve unitary authorities rather than to the SPTA.
14. This matter has finally been resolved by the SPTA making cash transfers to the twelve authorities early in April 2000. The amount in question for the Council is £3.3 million. This will have to be addressed in the Council's revenue account in 2000101. The contribution to the SPTA, currently £2 million, will increase and payments of loan principal and interest will decrease. Overall the financial impact on the Council should be neutral.
15. *Reconciliations:* In previous years' reports, there has been reference to the important financial control of reconciling subsidiary financial systems with the main accounting system. This applied to bank reconciliations, income reconciliations generally, and suspense account balances. Enhanced capability arising from the restructuring of the Finance Department and action taken by finance officers has improved reconciliation procedures generally. Work is continuing to implement a new computer system that is intended to eliminate much of the manual effort currently involved in reconciling transactions from different income systems. The new system is due to be operational in 2001/02.
16. *Capital accounting:* A comprehensive and accurate asset register is essential to ensure that all the Council's assets are identified and valued consistently. The need to prepare asset registers which are up-to-date, complete, accurate and comply with external guidance, has been set out in revised financial regulations. Responsibilities have been clarified and a new computer system has been introduced. Significant progress has been made on reconciling the asset register. The project is complete for Education and Social Work properties. It is planned to have completed the exercise for all the remaining properties by 31 March 2001 in accordance with previously agreed timescales.
17. *Stores:* In 1998/99 there were concerns on the adequacy of controls at the Building and Works stores. A programme of weekly stock checks was commenced and a provision of £80,000 included in the accounts to cover any potential overstatement of the stock valuation. Internal audit continued monitoring the operation of stores controls and a full stock check was carried out.

18. Internal audit found that in general, stock levels had been reduced and that stores security and management had been improved: The main areas of concern for further management action were continuing problems in reconciling the stock valuations with the main ledger and no continuous stock counts being made between January and May 2000 because of problems with implementing a new computer system. The latest stock counts are showing variances that have yet to be resolved and stock checks continue to be carried out. The implementation of a revised action plan is to be monitored by internal audit.
19. *Community Charge debts:* The balances inherited by the Council at local government reorganisation included debtors for community charge and bad debt provisions for the full amount of the outstanding debts. Efforts to collect these debts have been continued with some success and windfall income has been received. In 1998/99 it became clear that it was no longer necessary to maintain bad debt provisions for the full amount of these debts. Consequently £ 1.3 million of the remaining debts of £10.9 million was written back in the 1998/99 accounts to reflect the amount of debt that was estimated to be collected in the future.
20. During 1999/2000 some £0.7 million has been collected and the Council now estimates that it will be possible to collect a further £1.75 million of the remaining debts of £10.25 million. To reflect this position, an amount of £1 million has been written back in the 1999/2000 accounts, reducing the provision from £9.5 million to £8.5 million.
21. *Housing voids:* In the audit report on 1998/99 it was noted that the cost of voids of council houses had risen from £0.9 million in 1997/98 to £ 1 million in 1998/99 despite over 200 property demolitions. In October 1999, the Housing Committee noted the position and agreed to a demolition programme, redevelopment initiatives, and area based strategies for properties where there was little or no demand. In 1999/2000 the position deteriorated further with the cost of voids totalling £ 1.2 million. Initial reports have been made to the Housing Committee indicating that falling demand is becoming an increasing factor and further reports will be made setting out proposed action.

New Matters Arising

22. *Restructuring of debt:* At local government reorganisation the Council inherited a loan debt portfolio which consisted of a significant number of loans with small balances. In 1999/2000 the loan portfolio was restructured to reduce the number of loans and take advantage of comparatively low long term rates. About 35% by value of the loans, a total of £70 million, was repaid and replaced with a small number of larger value loans. The Council paid a premium of £ 11 million on this transaction which is to be written off over 39 years.

23. The necessary calculation to assess the risk was carried out in line with the decision-making methodology recommended by CIPFA for debt restructuring. The Council assessed that savings of about £ 19.6 million would accrue from this restructuring over the period of the replacement loans in that the lower interest rates would more than offset the premium of £ 11 million. Whilst it is not possible to confirm the accuracy of the assessment of the savings that will be made over the next 40 years (as it is dependent on assumptions over the longer term), external professional advice was taken by the Council which indicated that fixed rates are likely to rise over the medium term. In accordance with financial regulations, a report on treasury management activity in 1999/2000 was submitted to Committee in June 2000.
24. *Fixed asset revaluation:* The current system of capital accounting was introduced in 1994/95 with valuations taken as at 1 April 1994. The Code of Practice for local authority accounting requires that assets be revalued at intervals of not more than five years. Local authorities may choose whether they carry out such revaluation exercises on a cyclical basis or at the end of the five year period. The Council intended to revalue all of its non council house assets by 31 March 2000 for inclusion in the 1999/2000 accounts but the revaluation process was not completed until 30 June 2000. By that time the accounts were closed and so they still reflect the historic valuations. The revalued figure is about £47 million more than the historic figure included in the accounts of £164 million. The accounts for 2000/01 will include the updated figure.
25. *Ex-Strathclyde transactions:* The year end creditors include a value of £114,844 which represents the Council's share, amounting to 5%, of numerous ex-Strathclyde Regional Council balances. The Council has not been able to obtain detailed information from Glasgow City Council, the responsible authority, to substantiate this request for payment. The Council agreed to meet its share of the balances on a good faith basis. Payment was made after the year end. Given that it is now more than four years after local government reorganisation, should transactions of this nature continue to occur, steps should be taken to establish the validity of the payment request before further payment is made.
26. *Burns Mall- accelerated rental income:* As mentioned earlier, during the year the Council attempted to dispose of an interest in a shopping development. On 28 June 2000, following confirmation by consultants on value for money aspects, the Council agreed to sell for £2.8 million its interest, which produced rental income of about £275,000 a year, in relation to ground leases extending over the next 104 years. The contract specifies the entry date as being 31 March 2000, as it was considered at that time that the transaction could be accrued as revenue income in the 1999/2000 accounts, and gives the purchaser full receipt of the rental income from 31 March 2000 to the settlement date. The contract has now been concluded but because of problems over the title of the properties

which may have to be resolved by available legal process, conveyancing aspects have not yet been completed.

27. Section 74 of the 1973 Act applies to this transaction in that the disposal of the Council's interest should be the best that could reasonably be obtained. The Council considers that assessments confirmed in a letter from its professional advisers of 3 April 2000 supports the view that the best price was obtained. However, this letter was written on the basis that the whole of the £2.75 million should be obtained in very early course. Subsequently, the Council's letter of 5 June 2000 requires that the date of entry be back-dated to 31 March 2000 and offers the purchaser the full receipt of the Council's share of the rental income from that date.
28. The audit view was that the Council should give further consideration to this matter as the first payment of the £2.75 million is unlikely to be received before the end of December 2000, up to nine months after the time projected, and the rent from 1 April 2000 had been included in the negotiation which would have reduced the value of the consideration received by about £220,000. The Council confirmed that further negotiations would be carried out with the purchaser in an attempt to adjust the terms of the contract to take account of the unexpected delay in settlement. The purchaser has now agreed to compensate the Council for lost rental for the period following the time of settlement as anticipated earlier, i.e. from August 2000. The current position has been reaffirmed by the Council's professional advisers as representing value for money. The outcome of these negotiations, and whether best value has been obtained, will be reviewed in the context of the audit for 2000/01.

Matters arising from the audit

- Corporate governance
- Matters brought forward
- Grant claims and other returns
- Review of internal audit
- Review of financial systems

1. During the course of the audit a number of issues arose which have been resolved in discussion with or reported to the Council's officers. The remainder of this report draws to the attention of Members and the Controller of Audit any matters of particular significance or interest which arose from the 1999/2000 audit. The report also incorporates an action plan of issues to be addressed by the Council.

Corporate governance

2. In its consideration of the Controller of Audit's overview report on the 1998/99 audits, the Accounts Commission expressed an interest in the effectiveness of councils' overall corporate governance principles. Auditors have been requested to include appropriate references in their final reports on the 1999/2000 audits to facilitate the provision of a summary of the national position by the Controller to the Commission.
3. The concept of corporate governance in local authorities has not yet been fully developed although the three fundamental principles have been defined as openness, integrity, and accountability. A recent consultation document on the subject from CIPFA suggests that corporate governance may be defined as "the system by which local authorities direct and control their functions and relate to their communities."
4. CIPFA believes that corporate governance arrangements in local authorities are generally sound although they have been developed in an ad hoc manner over many years. It is now suggested that local authorities will be urged to devise their own codes of local governance appropriate to their circumstances and based on best practice. It is envisaged that local authorities should have such a code in place by December 2001.
5. Consequently the Council may wish to plan its own review of corporate governance over the next year with the objective of preparing and adopting a local code towards the end of 2001.
6. It is important to emphasise that the Council's current management arrangements include many aspects considered to constitute best practice on corporate governance and that a review may result in marginal rather than fundamental change. For example, the Council has implemented a major restructuring exercise which was intended to enhance financial and management control and to continuously improve performance. The

changes included the location of budgeting and accounting teams within service departments and the creation of a Budget Monitoring Group.

7. In the context of the 1999/2000 audit it has not been possible to carry out a specific review of the Council's arrangements for corporate governance. However, many elements of the audit covered areas of relevance to the corporate governance agenda, e.g. management arrangements, financial systems, final accounts. Also it would not be appropriate to prejudge the Council's own review to be carried out later this year. Therefore, at this stage, only indications may be given of the sort of changes that it may be appropriate for the Council to introduce in due course:
 - improving the external reporting of operational performance
 - publishing plans to maintain and improve service quality
 - enhancing the arrangements for managing risk.

Matters brought forward from previous years

8. *Commercial Operations deficit:* It will be recalled that a deficit was incurred by the Commercial Operations Department in certain services in 1997/98. This matter has been the subject of two statutory reports by the Controller of Audit. Since acknowledgement of the deficit in June 1998, the Council's response has been comprehensive. It has taken significant action to address the weaknesses identified in the Controller's reports including a significant reduction in costs, restructuring of management, improved financial management and control, preparation of business plans, new contractual arrangements, adoption of private sector equivalent prices, and a new bonus scheme. In accordance with the Scottish Executive direction, the Council let three contracts to the private sector .
9. The Council planned to take a number of further actions which were primarily concerned with maintaining continuous improvement. In January 2000, the Council invested in a new computer system for Building & Works which will include elements to control business processes for costing and stores handling. This system is planned to complement a new financial management system due to be commissioned from April 2001 when improved management information covering key business ratios, bonus payments and standard management information reports are anticipated. A service review of the Property Maintenance Service including an EFQM quality assessment has recently been completed. Overall, the improvements introduced have had a beneficial impact on the financial position of the Building & Works DLO which generated a surplus of £78,000 in 1999/2000 with further improvement projected for 2000/01.
10. *Housing rent arrears:* At the end of the year the Council's arrears, excluding housing benefit and voids, were 12.6% compared to 10.6% in

1998/99 and 9.2% in 1997/98. This level of arrears is of substantial concern, particularly given that they are increasing. This matter has been the subject of a value for money study in the 1999/2000 audit and further details are given in the following section.

11. *Employee council tax arrears:* In 1998/99 the Council carried out an exercise to match council tax arrears to payroll records in order to identify employees in arrears. The exercise identified 406 employees with arrears totalling £3'65,400. It has not been possible to assess progress on the recovery of these arrears as the processes are largely manual and management information is not provided routinely. Steps have recently been taken to revise procedures to allow employee statistics to be produced so that employee council tax arrears are monitored effectively.
12. *Written procedures:* It is essential that financial procedures are written down and approved as they are an essential management control to ensure that financial controls are implemented to prevent error and fraud and to protect staff. Written procedures are important for the Council given its scale, the number of staff involved, and the degree of decentralisation of financial activities. The Council has made substantial progress in developing its financial procedures and intended to complete the process for the remaining systems in 1999/2000, e.g. debtors and payroll. The procedures which remain outstanding are some aspects of budgetary control, an update on cash income and banking, processing and recording of backdated benefit claims, benefit overpayment recovery, and updated procedures notes for the debtors system when the new computer system is implemented. Overall, and given all the other competing pressures on its staff, the Council has made excellent progress in this area.

Grant claims and other returns

Housing and council tax benefit

13. One of the most important grant claims councils have to submit relates to the return of housing and council tax benefit payments to the Department of Social Security (DSS). This is needed to allow the DSS to pay subsidy at the agreed levels. Councils must satisfy their auditors and the DSS that the entries made in their returns are accurate and in accordance with the relevant legislation. The rules governing the payment of housing and council tax benefit are acknowledged to be very complex and prone to error. The importance of accurate processing of claims is increasing given the profile being attached to minimising fraud and error which is being reviewed by the Benefit Fraud Inspectorate.
14. The main areas of concern in previous years related to the quantification of benefit period overruns, the procedures for classifying and awarding backdated benefits, and the lack of procedures for recovering benefit overpayments. The backlog in processing benefit information posed the

risk that applications and entitlement reviews might not be completed within DSS timescales. The consequences of the backlog were significant to the 1997/98 subsidy claim. The loss of subsidy arising from the absence of a review of entitlement of rent rebates and council tax benefits within the timescales specified by the DSS amounted to about £220,000. In 1998/99 the Council suffered a loss of subsidy of £231,000 for the same reason.

15. In June 1999 the Council took an initiative to review benefit administration with the objective of ensuring that significant benefit period overruns did not occur in 1999/2000 and that the whole service was put on a firm footing for the future. The initiative was overseen by a Member/Officer Working Group established to take the review forward.
16. The Working Group completed its work and reported in March 2000. The report included a number of areas for action and noted that processing backlogs had been eliminated and that as benefit period overruns had been limited to below 5% for 1999/2000, no subsidy loss is anticipated for 1999/2000. The process for reviewing continuing entitlement to benefit has been automated. Customer complaints have reduced substantially and an improved staff structure with associated training initiatives put in place. The computer system has been rationalised and further improvements are planned.
17. At this stage it appears that the key issues leading to the service decline have been properly identified and appropriate remedial action taken. The processing backlog of some 16,000 correspondence items at May 1999 had been reduced to a normal working balance of about 3,500 at March 2000. However, this increased to about 8,000 during the period May to July 2000. It is understood that this has now been reduced to 5,800 items representing approximately one week's backlog beyond the normal two weeks work in hand. A comprehensive follow-up report on the service review is due to be submitted to Committee around March 2001. The 1999/2000 claim form has been submitted for audit review and the position on this and all the other issues will be addressed.

Review of internal audit

18. Internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control systems established. The Council therefore needs to have in place a properly resourced internal audit of good quality. To maximise the reliance that may be placed on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.
19. I am pleased to report that the internal audit function broadly met the standards set out in authoritative external guidance issued by CIPFA and the Auditing Practices Board. In particular an annual report is submitted

to members setting out summary internal audit findings and the Chief (Internal) Auditor reports direct to the Chief Executive.

20. Currently the Chief (Internal) Auditor reports to the Policy & Resources Committee twice a year at the planning and annual report stage. In its review of the decision making structure, the Council intends to ensure that Audit Committee principles are fully taken into account in whatever future arrangements that emerge.
21. Internal audit has a strategic plan which was last revised in 1997 at which time it was assessed that there were not sufficient audit resources. Since then there has been a fundamental shift in internal audit strategy .Routine financial and regularity audits have been reduced substantially, advice to departments and assistance with the resolution of frauds has increased, not all main financial systems have been examined annually, and there has been a degree of slippage of planned work. To retain the relevance of the internal audit planning documents, and the effectiveness of the internal audit function, it will be important for the current strategic plan and assessment of audit need to be reviewed at an early date. The adequacy of internal audit is to be the subject of a special exercise by Audit Scotland at all councils in the 2000/01 audit.

Review of financial systems

22. The review of the Council's main financial systems is an important part of the audit process. Reliance was placed on internal audit for aspects of its coverage on budgetary control, teachers' payroll, sundry debtors, cash collection, aspects of the council tax system, rating relief and rent collection. During 1999/2000, the Council has been continuing with the assessment of the various financial systems inherited from its predecessor authorities. Reviews were carried out to determine the reliance that may be placed on the systems of internal control operating during the year.
23. There have been identified a number of internal control matters reported in previous years but not yet fully resolved by officers. Work on these issues is continuing. Achievement of the action points agreed as a result of the current year's reviews carried out by the external audit team will also be followed up as part of the 2000/01 audit. The agreed actions for improvement arising from these reports included:
 - *Payroll:* The accuracy of standing data should be confirmed annually, standard exception reports should be produced for review, procedures should be updated to include access and authorisation rights, and input control totals should be enhanced.
 - *Creditors:* Standing lists of contractors should be maintained and Contract Standing Orders should be enhanced to incorporate post tender negotiations, re-tendering, and sole suppliers.

- *Housing benefits:* Improvements are necessary in filing systems, procedures for backdated claims and overpayments, the assessment of staff training plans, monitoring of targets. for processing of applications, and the investigation of fraud and irregularities.
- *Control mechanisms:* Various agreed internal control recommendations made by internal audit during the course of the year concerning budgetary control and sundry debtors are in the course of being implemented within agreed timescales.

Computer Audit

24. As part of the 1999/2000 audit, selective audit work was carried out on reviewing the integrated housing and council tax benefit system. Data extraction required for the planned review would have required the Council's systems supplier to develop special extract programs. It was considered that expenditure for special extracts could not be justified solely for the purposes of audit. As a consequence of data extraction difficulties, the audit review was restricted to an examination of a number of key computer based controls present in the system.
25. The absence of ready access to the data held in the system is an issue that the Council should address in the medium term. The type of data extraction envisaged by Audit should be the same information needed by Council officers in managing and controlling benefits generally, and for ensuring that benefit is paid only to eligible claimants. As such, it may be appropriate for the Council to consider methods of obtaining interrogation type data routinely and inexpensively.
26. Whilst the review did not highlight any major areas of concern relating to the underlying system records, it did identify some issues for management attention, e.g.
 - the arrangements for extracting and reviewing analytical review type data from the HB/CTB system should be improved
 - the overall control for preventing benefit period overruns using increased system automation should be monitored closely
 - the existing manual process used for reporting rent allowance cases for rent officer attention should be reviewed with a view to improving system automation
 - the Council's anti-fraud initiatives would be enhanced if the system allowed for the automatic identification of multiple applications, e.g. from same names, dates of birth etc.

Economy, Efficiency and Effectiveness

- Best value and management arrangements
 - Brought forward matters
 - Centrally directed studies
 - Citizen's charter
1. It is the Council's responsibility to ensure that proper arrangements are in place to achieve value for money in the use of its resources. The responsibility of auditors is to satisfy themselves that the Council has made adequate arrangements to fulfil its responsibilities.
 2. In fulfilling that responsibility, auditors carry out a variety of work which comprises review of three main elements:
 - best value and management arrangements
 - centrally directed studies identified by the Accounts Commission
 - citizen's charter .

Best value and management arrangements

3. During 1996, the Commission developed an approach to the audit of management arrangements which involved self-assessment by councils, action planning, and continuous improvement. In May 1997, the drive towards improving councils' management arrangements was given further impetus by the government's policy of achieving best value. As part of this process, councils had to submit best value plans for the approval of the Scottish Office. As part of the 1998/99 audits, councils , assessments of progress on best value and management arrangements were considered and validated by their auditors.
4. That review concluded that the Council had implemented a number of developments since its inception which should assist in the development of best value, e.g. the completion of the European Foundation For Quality Management (EFQM) model for excellence self assessments for all departments. In a number of areas the Council had not achieved the progress set out in its best value plan, largely because of the time spent by senior management and members in responding to the Commercial Operations' deficit. It was clear that the Council was committed to achieving good performance and best value, and that evidence existed of clear, corporate leadership and direction of best value.
5. In 1999/2000, the audit has focused on the establishment by councils of a .performance management and planning (PMP) framework which delivers continuous improvement. The development of a PMP framework is about establishing clear standards and targets for all activities, identifying where and how improvements can be made, and reporting on

performance. The Commission has defined ten criteria under four key questions for use in reviewing progress in developing a PMP framework.

6. Each council's progress has been reviewed by their external auditors to provide independent assurance that councils are making progress on implementing PMP frameworks. The three services reviewed at this Council were Criminal Justice, Grounds Maintenance, and Repairs Service (Housing and Property).
7. The review found that the three services had demonstrated their support for continuous improvement in service delivery and had completed or were in the course of completing a service review. Improvements were to be progressed by the implementation of PMP and other action plans. These plans were comprehensive and so the possibilities for further action identified by the audit reviews were limited.
8. Some of the improvements still to be progressed were of a corporate nature. These included the development of the matters below which will be followed up in the 2000/2001 audit:
 - consultation processes are to be built into the regular service planning cycle,
 - a staff development scheme,
 - a process for three year revenue budgets,
 - continuation of the enhancement of financial monitoring reports,
 - improved performance reports for issue to key stakeholders, and
 - local performance indicators.

Brought forward matters

9. *Collection of local taxes:* As part of the 1996/97 audit, a study was carried out on selected aspects of the systems for administering and collecting council tax and non-domestic rates income. As part of the 1998/99 audit, the Commission requested some follow-up work on collection rates at all local authorities to review whether councils were making improvements in their collection rates generally.
10. Both reviews found that the Council's costs of collecting council tax were below the relevant benchmark. However, this was at the expense of the collection rates which, at 78% at that stage, compared unfavourably with the relevant benchmarks. In 1998/99 the collection level was 82% which remained considerably below the longer term target level of 94%. An action plan is in place to maximise collection and during 1999/2000 the collection level increased slightly to 83.15%. The plan identifies the type and timing of follow-up for debts relating to all financial years. The Director of Finance monitors progress on a monthly basis.

11. Both reviews noted that it was intended to improve the collection levels for non-domestic rates. from their previous levels of 84% to 88%. Target collection rates for non-domestic rates were to be set and monitored. Again, an action plan and reporting framework is in place to maximise collection. During 1999/2000 the collection level increased to 86.7%

Centrally directed studies

12. In the 1999/2000 audit, four value for money studies from the national programme devised by the Commission were progressed, i.e. rent arrears, refuse collection, DLO/DSO management, and schools administration.

Rent arrears

13. In June 2000 Audit Scotland published "Managing Rent Arrears - Getting the Balance Right" based upon a study carried out by the Accounts Commission. This was intended to assist councils to achieve best value in their management of rent arrears. Councils were expected to use this information to challenge their current levels of performance and take action to achieve the standards of the best.
14. Rent arrears is an increasing problem for many councils and performance information shows a wide variation in the level of arrears. The study also found that the amount of housing benefit overpayments has increased substantially and that more than half of councils do not make housing benefit payments within the 14 day target set by the DSS. The study also found that there are a number of areas where substantial proportions of councils were not meeting accepted good practice standards. The report made a number of detailed recommendations to councils on the steps that should be taken to improve the management of rent arrears.
15. As a supplement to the national report, the Commission asked external auditors to challenge councils to use the information supplied to identify areas for improvement and take action to improve performance. All councils were expected to prepare action plans to make performance improvements.
16. The audit review found that the Council complied with a majority of the 43 good practice statements. The Council subsequently further reviewed its policies through the Housing Committee. The main issues for management attention include:
 - an arrears performance target of 7% net (currently 12.6%) for reporting should be adopted and achievement monitored,
 - steps to achieve the 14 day processing target for benefit claims set by the DSS should be implemented (about 43% of claims were processed within 14 days as at 31 March 2000),

- the Commission's best practice suggestions for rent arrears recovery should feature in the new housing management computer system currently being implemented.

Refuse Collection

17. In April 2000 Audit Scotland published "A review of councils' refuse collection services" based upon a study carried out by the Accounts Commission. This was intended to assist councils to achieve best value in their refuse collection services. The Commission has also provided all councils with operational and financial benchmarking information. Councils were expected to use this information to challenge their current levels of performance and take action to achieve the standards of the best.
18. The Commission last reviewed the refuse collection service in 1990. Since then, there have been substantial productivity improvements. However, the cost of collecting household and commercial refuse varies among councils. Councils need to know the real cost of providing refuse collection services, in order to set appropriate charges and make informed policy decisions about levels of service and allocation of resources to support individual collection services. Over three-quarters of councils do not maintain separate trading accounts for commercial refuse services and the Commission estimates that councils may be subsidising their commercial collection services by as much as £9.7 million a year .
19. Councils need to ensure that resources are used efficiently and effectively by improving performance monitoring and review. Examples of areas where the national report identified scope for efficiency improvements include management of sickness absence and bonus schemes, management of vehicle replacement programmes, and review of the efficiency of collection routes.
20. Councils face significant challenges in meeting environmental targets. In 1998/99, the overall level of waste recycled was 3.8%, well below the government's year 2000 target of 25%. If councils are to meet the recycling and landfill targets, as set out in the National Waste Strategy, they will have to give waste management a higher priority. This will involve developing an effective waste management strategy, in partnership with other councils and agencies, and allocating sufficient funding to support expensive, but environmentally desirable, collection and recycling activities.

21. As a supplement to the national report, the Commission has asked external auditors to challenge councils to use the benchmarking information supplied to identify areas for improvement and take action to improve performance. The audit review found that the main issues for management attention include:
- officers are to contribute to the continuing corporate initiative of introducing an activity based costing system into the Council to allow the cost of providing individual refuse collection services to be assessed
 - future absence management reports to Committee are to provide summary details of how the position locally compares with Accounts Commission benchmarks
 - effort should be devoted to achieving the government's recycling targets.
 - to assist the service's efforts on continuous improvement, the benchmarked data provided in the Commission's national report are to be drawn upon.

DLO/DSO management information

22. Councils have sought guidance from the Accounts Commission on what management information is needed to enable the performance of DLO/DSOs to be managed more effectively. The need for better management information was also a recurring theme in the Controller of Audit's 1998 and 1999 reports on DLO/DSOs.
23. In December 1999 the Commission published a report called 'Understanding our business'. It aimed to improve understanding of the importance of management information and corporate management practices to the successful management of DLO/DSOs. The report provided guidance within three areas: the role of councillors, corporate management, and managing DLO/DSO businesses.
24. As part of their audits of councils' 1999/2000 accounts, auditors have been asked to review the robustness of the councils' self assessments against the best practice noted in the Commission's report. The main findings from the review are set out below.
- the roles and responsibilities of councillors in relation to DLO/DSOs have been clarified and documented, and the arrangements for the supervision and control of DLO/DSOs at committee level have been reviewed

-
- the Council, through its member/officer Budget Monitoring Group, monitors and reviews DLO/DSO performance on a regular basis and reports to the responsible service committees. The implications of Council decisions for DLO/DSO operations are considered as and when they arise.
 - business plans have been approved for all DLO/DSOs for the financial year 2000/2001; the plans were prepared using a standard business plan template in line with 'Understanding our business', and were endorsed by the responsible committees.
25. The overall conclusion from the review is that the Council has taken a number of significant actions to improve its management of DLO/DSOs and is aware of the small number of further actions necessary to comply with 'Understanding our business'. In so doing, the Council has demonstrated its commitment to continuous improvement in this area of its operations.

Schools administration

26. The study is based on 'Time for Teaching -Improving administration in Scottish schools', which was prepared jointly by the Accounts Commission and Her Majesty's Inspectors of Schools. The aim of this review is to provide a framework within which councils could assess their schools' approaches to handling administrative work. This is intended to aid councils' understanding of where they may be able to improve administration and release time for improving attainment.
27. The study considered the extent to which the non-classroom contact time with pupils is devoted to- tasks which are a necessary part of the professional duties of teachers. It further considered whether there were aspects which were mostly administrative in nature and whether such tasks could be done in more cost effective ways.
28. As a supplement to the national report, the Commission has asked external auditors to challenge councils to identify areas for improvement based on best practice guidance identified in the study, and take action to improve performance. The draft conclusions arising from the audit review will be discussed with officers in the near future.

Citizen's charter

29. The Local Government Act 1992 requires the Accounts Commission to issue directions to councils to publish information relating to their activities in any financial year which the Commission consider will facilitate the making of appropriate comparisons, by reference to cost, economy, efficiency and effectiveness, between the standards of

performance achieved by different councils in that financial year, and achieved by such bodies in different financial years.

30. I am pleased to report that the Council achieved publication of the statutory advertisement within the required timescale. The audit review of the published data confirmed that the Council had generally complied with the relevant Direction. One of the indicators was found not to have a reliable basis to support the figure reported and another was not reported by the Council. The principal message arising from the audit is an overall and continued improvement in the level of data submission compared with previous years.

31. The principal actions for officers to consider for the 2000/2001 performance indicators concern improved information systems. There remains a need for improved information systems to produce Libraries 5 (% of borrowers from libraries) and Housing 1 (Response Repairs) indicators. It is a matter of concern, especially for Housing 1, that some four years on from reorganisation, the Council is unable to report accurately on this PI. Audit has been assured that efforts are being concentrated on this aspect for 2000/01 reporting purposes and beyond.

Concluding remarks

1. I am pleased to be able to formally conclude the audit of the Council's 1999/2000 accounts.
2. A number of areas have been identified from the first four years of my audit responsibility which are referred to in this report.
3. The key issues for action by the Council arising from the audit are set out in the attached action plan. This includes those actions that the Council has not yet been able to fully implement arising from the audits of previous years.
4. I would like to take this opportunity to convey my thanks to those officers of the Council with whom the audit team has had contact over the last year for their courteous and helpful co-operation.

Graham Potter
Chief Auditor

c:\document\eastayr\letters\east ayr 1999-2000 final report.doc

Action plan

Page/ Paragraph	Action to be taken	Action	
		Who by	When by
	1996/97 ACTIONS		
n/a	Title deeds from the former authorities are to be reconciled to the Council's fixed asset property register .	Solicitor to the Council	June 2001
	1997/98 ACTIONS		
n/a	Written procedures are to be produced for those financial systems not yet covered	Director of Finance	June 2001
	1998/99 ACTIONS		
n/a	Asset registers are to be prepared which are up-to-date, complete, accurate & comply with appropriate guidance.	Director of Finance and Service Directors	March 2001
n/a	Internal Audit are to continue monitoring the operation of stores controls.	Chief Internal Auditor	ongoing
n/a	The strategy for managing housing and council. tax benefit processing backlogs agreed by the Working Group is to be implemented.	Director of Finance	Immediate
n/a	A revised council tax arrears management action plan is to be put in place to maximise collection levels.	Director of Finance	Immediate
n/a	Target collection rates for non-domestic rates are to be set and monitored.	Director of Finance	Immediate
	1999/2000 ACTIONS		
3/7	General reserve: Over the next few years, if financial circumstances permit, steps should be taken to generate more of a reserve to cater for any unforeseen contingencies that may occur .	Council	each year

Page/ Paragraph	Action to be taken	Action	
		Who by	When by
3/12	2000/01 accounts: Consideration is to be given to the less material matters in the preparation of the draft accounts.	Director of Finance	June 2001
5/21	Void: Further action is being considered to reduce the level of voids in council house rents.	Director of HaTS	Continuing
6/25	Ex-Strathclyde transactions: Steps are to be taken to ensure that any future amounts are properly payable.	Director of Finance	Continuing
7/28	Burns Mall: Further confirmation is being sought to demonstrate that the agreed disposal price represents the best that could reasonably be obtained.	Director of Development Services	Immediate
8/5	Corporate carried out over the next year with the objective governance: A review is to be of preparing and adopting a local code.	Chief Executive	December 2001
11/17	Benefit backlogs: A high priority is being given to reducing working balance. the backlog to a 14 day	Director of Finance	Immediate
12/20	Audit Committee principles: The principles of Audit Committees are to be built into whatever decision making structure emerges from the planned review of the corporate governance arrangements.	Council	March 2001
12/21	Strategic internal audit plan: The current plan is to be reviewed to take account of the strategic changes that have occurred.	Chief (Internal) Auditor	31 March 2001
13/26	HB/CTB: The benefits section should consider its arrangements generally for extracting and reviewing analytical review type data from the HB/CTB system.	Benefits Service Manager	31 March 2001
15/8	Performance management and planning: The remaining improvements to the Council's best value and management arrangements are to be implemented.	various Directors	various dates

Page/ Paragraph	Action to be taken	Action	
		Who by	When by
16/16	Rent arrears: A high priority' is to be given to reducing the level of arrears from its current level of 12.6%, Progress on the achievement of the action plan is to be monitored,	Director of HaTS	31 March 2001
18/21	Refuse collection: Progress on the achievement of the action plan is to be monitored.	Director of Community Services	various dates
18/24	DLO/DSO management information: Progress on the achievement of the action plan is to be monitored.	Various Directors	Ongoing
19/28	Schools Administration: Progress on the achievement of an agreed action plan is to be monitored.	Head of Schools	various dates

AGENDA