



East Ayrshire
COUNCIL

East Ayrshire Council

Final Report to Members 2001/02

September 2002

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27 September 2002

Our ref: CDR/MT/CM

Ladies and Gentlemen

Final Report to Members 2001/2002

We have completed our audit of East Ayrshire Council's (the "Council") financial statements for the year ended 31 March 2002.

The Final Report is primarily designed to direct your attention to matters of significance that have arisen out of the 2001/2002 audit process and to confirm what action has been agreed with management to address the areas of concern which have been identified.

Our statutory duties as your external auditor are contained within the Local Government (Scotland) Act 1973. These duties and the responsibilities which are derived from them are contained in greater detail within the Code of Audit Practice which has been approved and issued by the Accounts Commission for Scotland. Section 1 and Appendix 3 of this report outline our key responsibilities and the responsibilities of management in this regard.

The matters dealt with in this Final Report came to our notice during the conduct of our normal audit procedures, which we carried out in accordance with the framework and principles embodied within the Code. It is emphasised that the Final Report should not be interpreted as providing legal or other advice to the Council or any other party.

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

EAST AYRSHIRE COUNCIL

Final Report to Members 2001/2002

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MANAGEMENT SUMMARY

The Final Report is designed to direct your attention to matters of significance that have arisen out of the 2001/2002 audit process and to confirm action agreed with management to address any areas of concern which have been identified. **It is important that Members and Officers consider the detailed comments within the Report and do not rely solely on the Management Summary.**

KEY POINTS FOR MEMBERS	PAGE
Audit Opinions	
1. Our certificate on the Council's financial statements for the year ended 31 March 2002 is unqualified.	7
2. We note that all DLO/DSO operations have achieved the financial objective of break-even.	7
Financial Statements, the Audit Process and Overall Financial Performance	
3. The financial statements and supporting schedules were presented to us for audit within the agreed timetable and were of a high standard in terms of clarity and completeness for which management should be commended.	6
4. The Council reported a £0.160 million surplus during 2001/02 resulting in an overall accumulated surplus of £1.164 million being carried forward to 2002/03. The Council have put in place a budget for 2002/03 which results in this surplus being reduced by £0.5 million to £0.664 million. Overall the level of reserves held by the Council may not be sufficient to cover any expected liability.	8 - 9
5. We have reviewed the Council's accounting policies and identified areas where the Council has not complied with best practice.	10 - 11
6. The Council does not currently have a complete register of all assets provided to them under operating lease agreements. As a result the current disclosure within the financial statements does not accurately report the Council's obligations in respect of leased assets.	13

MANAGEMENT SUMMARY (CONTINUED)

KEY POINTS FOR MEMBERS	PAGE
Accounting Systems and Control Framework	
7. We have reviewed the matters raised in the previous year's Interim Management Letter and Final Report to Members and confirmed that the majority of the recommendations have been implemented.	15
8. We issued an Interim Management Letter during 2001/02 which contained various recommendations pertaining to the Council's control and financial management systems. Action plans have been agreed with management to implement the recommendations made.	16
9. We issued a Business Control Report in September 2002 which commented on areas including PFI/PPP, Corporate Governance, Councillor's code of conduct etc. Action plans have been agreed with management to implement the recommendations made.	17
10. We note that the Council's Policy and Resource Committee is in the process of adopting audit committee principles and we support this continued development.	18
Best Value	
11. Our Best Value programme comprised of reviews of the Performance Management and Planning framework of the following services. Findings relating to these reviews are included in Section 4: – Residential Services for Older People; – Economic Development; and – Follow Up of PMP 1 and PMP 2 Studies undertaken in 1999/2000 and 2000/2001.	21

MANAGEMENT SUMMARY (CONTINUED)

KEY POINTS FOR MEMBERS	PAGE
<p>Legal Matters</p> <p>15. Through discussions with management, reviewing Council minutes and noting the role of the Monitoring Officer, we have endeavoured to ensure that the Council has kept under review the legality of transactions or events that may have had a significant financial consequence.</p> <p>16. The “Minutes of Agreement” for the Galleon Leisure Trust mean that the Council effectively has an unlimited liability for any losses incurred by the Trust. While we appreciate that the Trust has made a surplus in the current year this risk still exists for the Council. The Council should explore options for capping or removing any future liabilities relating to the Trust.</p>	32
<p>Conclusion</p> <p>17. Matters raised in this Final Report have been discussed with Executive Management and an action plan for implementing recommendations prepared (Appendix 1). We recommend that the action plan should be monitored formally and regularly by Members to ensure that actions are achieved within the agreed timescales.</p>	Appendix 1

SECTION 1 - PUBLIC SECTOR AUDIT OBJECTIVES

“.....there are wider requirements attaching to the audit of public funds, not least in terms of the emphasis on regularity, probity and value for money. Similarly, issues of governance in the public sector differ, stemming from a somewhat different set of values and from the influence of political choice.”

The nature of Public Sector Audit

- 1.01 There is therefore a reasonable public expectation that the Council expends its funds only for duly authorised purposes, there is a high standard of probity and resources are applied to best effect. Public Sector Audit involves this wider public interest dimension to the audit of public funds.
- 1.02 Our audit has been carried out in accordance with the framework outlined in the Audit Scotland Code of Audit Practice. The Code sets out the responsibilities of the Council and its external auditors in the following areas:
- Financial Statements
 - Governance
 - Performance
- 1.03 Within Appendix 3, we have noted in greater detail the responsibilities the respective duties of management and external audit in relation to the areas of audit focus noted above.

SECTION 2 - FINANCIAL STATEMENTS, THE AUDIT PROCESS AND OVERALL FINANCIAL PERFORMANCE

We need to be satisfied that the combined evidence from our audit testing gives us a reasonable basis to conclude whether the financial statements present fairly the financial position of the Council at the year end and its income and expenditure for the year.

Basis of Preparation of Financial Statements

- 2.01 The Council's financial statements need to comply with the Code of Practice on Local Authority Accounting in Great Britain, a Statement of Recommended Practice" ("the SORP"). This is in accordance with the Scottish Office circular 5/1985 which indicates that local authorities should follow recommendations made by LASAAC regarding the form of accounts and accounting practice.

Submission of Financial Statements

- 2.02 The Council was required to submit a copy of the Abstract of the Accounts to the Controller of Audit by 30 June 2002. **This deadline was achieved by the Council.**

Audit Process

- 2.03 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, for which management should be commended.** A number of changes were suggested and agreed to ensure that the financial statements fully complied with the requirements of the SORP. We are grateful for the availability and assistance provided by Alex McPhee, Tom McHugh, Iain McMillan and their staff during the audit process. This has been an important factor in achieving an effective audit.
- 2.04 The target date set by Audit Scotland for the completion of the audit was 30 September 2002 **and this has been achieved.**

SECTION 2 – FINANCIAL STATEMENTS, THE AUDIT PROCESS AND OVERALL FINANCIAL PERFORMANCE (CONTINUED)

Audit Certificate on the Financial Statements

2.05 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.

2.06 Our opinion on the accounts which 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 our opinion, the accounts present fairly the financial position of the Council as at 31 March 2002.

Our audit certificate for the year ended 31 March 2002, which is in the format prescribed by the Accounts Commission, is unqualified.

Audit Certificate on the Annual Accounts of the DLOs/DSOs

2.07 We are required to provide individual opinions on the achievement of the required financial objective for all of the Council's Direct Labour and Direct Service Organisations. Scottish Office Circular (8/96) issued in March 1996 amended the required financial objective from a 6% rate of return on capital employed to the achievement of a break-even position after taking account of capital charges.

We note that all DLO/DSO operations have achieved the required financial objective of break-even and, as a result, our audit opinions are unqualified.

SECTION 2 - FINANCIAL STATEMENTS, THE AUDIT PROCESS AND OVERALL FINANCIAL PERFORMANCE (CONTINUED)

Audit Adjustments to the Financial Statements

2.08 As noted below, three other audit adjustments to the quantification and presentation within the financial statements have also been agreed and amended. None of these had any affect on the overall financial positions:

- Reclassification of Income between Bank and Debtors (£2.445 million);
- Amendments to entries relating to the impairment of the Dalshalloch Centre (£1.396 million); and
- Reversal of depreciation charged on investment properties (£0.240 million).

Financial Performance 2001/2002

2.09 The Consolidated Revenue Account discloses an in-year surplus of £0.160 million against a break-even budget. Added to the brought forward surplus of £1.004 million results in an accumulated surplus of £1.164 million being carried forward to 2002/2003.

2.10 The reasons for the budget surplus are analysed below:

	£m
Increase in Government Grants	(6,144)
Increase in DSO Surplus	(0.691)
Reduction in debt charges	(0.566)
Increase in Departmental Expenditure	<u>(7.241)</u>
	<u>(0.160)</u>

SECTION 2 - FINANCIAL STATEMENTS, THE AUDIT PROCESS AND OVERALL FINANCIAL PERFORMANCE (CONTINUED)

Financial Performance 2001/2002 (Continued)

- 2.11 The Council has put in place a budget for 2002/2003 which results in the accumulated surplus of £1.164 million being reduced by £0.5 million to £0.664 million. Overall the level of reserves held by the Council appears to be relatively low and may not be sufficient to cover any unexpected liability. **We recommend that the Council reconsiders its reserves position to enable it to maintain a stable financial position.**
- 2.12 During the year the Council spent £19.4 million on capital schemes. This was funded from a number of sources including borrowings (£11.5 million), Useable Capital Receipts (£2.2 million), grants (£1.3 million) and revenue contributions (£4.4 million).

Implementation of Financial Reporting Standards

- 2.13 As part of our audit work we have considered the impact of recently issued financial reporting standards on the Council's financial statements.

Application of FRS 11 – Impairment of Fixed Assets and Goodwill

- 2.14 Financial Reporting Standard “FRS 11 – Impairment of Fixed Assets and Goodwill” applied to Local Authorities for the first time in the 1999/2000 accounts. This standard is intended to ensure that fixed assets are recorded in the balance sheet at no more than the recoverable amount which is the higher of the assets expected sales proceeds or the present value of the future cash flows derived from the asset.
- 2.15 During the 2001/02 financial year, the council recorded an impairment on the Dalshalloch Centre operated by Social Work Services following a fire which destroyed the fabric of the building. The total value of the impairment was £1.396 million. The value of the impairment has been correctly reflected in the Social Work Services Revenue Account. An adjustment has now also been made to correctly reflect the transaction in both the Asset Management Revenue Account and the Capital Financing Reserve.

SECTION 2 - FINANCIAL STATEMENTS, THE AUDIT PROCESS AND OVERALL FINANCIAL PERFORMANCE (CONTINUED)

FRS 15 – Tangible Fixed Assets

- 2.16 The new accounting code relevant for the 2000/01 accounts has adopted FRS 15 – Accounting for Tangible Fixed Assets. This had made a significant impact on the way that local authorities account for fixed assets resulting in local authority accounts moving more into line with Generally Accepted Accounting Principles (“GAAP”).
- 2.17 The main difference between GAAP and previous local authority practice is in the treatment of depreciation. The most immediate change has been that the Council is no longer able to contend that regular repair and maintenance of fixed assets avoids the need to charge depreciation on those assets concerned. While the introduction of FRS 15 has increased the total depreciation charge in local authorities’ accounts, the costs are charged to the Asset Management Revenue Account. This mechanism ensures that there is no increase in the expenditure that has to be met by Council Tax payers.
- 2.18 The Council has adopted a policy of depreciating assets as follows:
- Council Houses - 25 years;
 - Other Assets - Between 10 and 40 years; and
 - Equipment Assets - Between 2 and 10 years.
- 2.19 However, we noted that in a number of instances the accounting policies did not always reflect actual practice within the Council. These have been detailed below:

SECTION 2 - FINANCIAL STATEMENTS, THE AUDIT PROCESS AND OVERALL FINANCIAL PERFORMANCE (CONTINUED)

- The Council holds a number of properties for investment purposes. In accordance with the Capital Asset Accounting Manual and SSAP 19 properties leased to vendors for periods exceeding 20 years are not required to be depreciated and should be held at Open Market Value. All properties leased for periods of less than 20 years should be depreciated in accordance with the authority's accounting policies. Our review of the asset register identified approximately 30 properties leased by the authority to third parties that have a lease period in excess of 20 years. These properties were subject to a depreciation charge, totalling £240,000. Following discussion and clarification this has been reversed.
- The Council depreciate their assets, including council dwellings over a range of useful economic lives. We noted from our audit work that the calculation of depreciation for furniture, fixtures and fittings does not comply with the Council's stated policy as depreciation is calculated as a percentage of the value of land and buildings and investment properties.

2.20 We recommend that the Council review its accounting policies, in accordance with the requirements of FRS 18 – Accounting Policies which applies from the next financial year 2002/03. Furthermore the Council should monitor and amend its current practices to ensure that they comply with the stated policies.

FRS 17 – Retirement Benefits

- 2.21 The Accounting Standards Board published FRS 17-Retirement Benefits on 30 November 2000. The standard introduces a revised methodology of accounting for pension costs and obligations for employers that operate defined benefit pension schemes. Up to and including 2000/01 the SORP has required pension benefits to be accounted for in revenue accounts on the basis of contributions payable to pension schemes for that year, plus the amounts of benefits payable to pensioners in the year in relation to pay as you go elements.
- 2.22 The new accounting model for defined benefit schemes in FRS 17 approaches pension cost accounting from a balance sheet perspective. It works on the premise that a surplus or deficit in a pension scheme (measured with reference to the fair values of the scheme assets and liabilities) should be shown on the employer's balance sheet. The overall figures in the performance statements reflect the changes in those fair values year on year. For many organisations this is expected to make material differences to reported surpluses.

SECTION 2 - FINANCIAL STATEMENTS, THE AUDIT PROCESS AND OVERALL FINANCIAL PERFORMANCE (CONTINUED)

- 2.23 The Council make contributions on behalf of employees into the former Strathclyde Pension Fund which is administered by Glasgow City Council, and also the Teachers Pension Fund administered by the Scottish Executive. Both of these funds provide Members of the fund with defined benefits related to pay and service. The Council is therefore required to comply with the requirements of FRS 17.
- 2.24 The publication of FRS 17 has given a new impetus to resolving the differences between the SORP and UK GAAP for pension cost accounting. The standard has a long implementation period which extends until 2004, and may be impacted by the introduction of International Accounting Standards. Currently progressive footnote disclosures are required for the following:
- For the amounts ended 31 March 2002 – disclosure relating to the closing balance sheet amounts that would be recognised under the accounting requirements of the FRS; and
 - For the year ended 31 March 2003 – disclosure relating to opening and closing balance sheet amounts, together with profit and loss and statement of total recognised gains and losses amounts that would be recognised under the accounting requirements of the FRS.
- 2.25 The Council's pension disclosure in the draft accounts did not wholly meet the requirements of the CIPFA/LASAAC disclosure requirements due to the late provision of information by Strathclyde Pension Fund. This position was remedied prior to the completion of the audit and the accounts have been amended accordingly.

Best Value Accounting

- 2.26 The 2001/2002 SORP adopts Best Value Accounting, through the implementation of the Best Value Accounting Code of Practice. The Best Value regime has been established to modernise the system of local authority accounting and reporting and ensure that it meets the changed and changing needs of modern local government; particularly the duty to secure and demonstrate best value in the provision of services to the community.

SECTION 2 – FINANCIAL STATEMENTS, THE AUDIT PROCESS AND OVERALL FINANCIAL PERFORMANCE (CONTINUED)

2.27 Councils are required to disclose the “Net Cost of Services” in the Consolidated Revenue Account in the BVACOP format. Unless the management structure of the Council differs significantly from the BVACOP model. In such cases each council can base their disclosure on their management structure. Where the BVACOP model disclosure is used authorities are required to restate the 2000/01 comparatives in the BVACOP format. The disclosure made in the 2001/02 accounts is based on the Council’s management structure to reflect the managerial accountability of service expenditure.

Other Accounting Issues

Operating Leases

2.28 The Council does not currently have a complete register of all assets provided to them under operating lease agreements, the omission predominately relates to building leases. As a result the current disclosure within the financial statements does not accurately report the Council’s obligations in respect of leased assets. **We recommend that a register of current leases is established and updated on a regular basis by the Council.**

Housing Rent Bad Debt Provision

2.29 The current method used to calculate the Housing Rent Bad Debt Provision may not fully reflect the Council’s potential liability. At present the Council has bad debts of £173,000 for rent arrears greater than 42 weeks, with a provision of approximately £104,000 based on 60% of the liability. Based on the Council’s collection levels for long term housing debt a more appropriate level for the provision may be 95% which would result in an increase of £60,000. We have been informed that the Council has established a debt collection strategy which has reduced the level of housing rent arrears from 14% to 10%. In addition to the work in improving collection rates **we recommend that Management review their current methodology for calculating the level of Bad Debt Provision in the light of actual experience.**

SECTION 2 – FINANCIAL STATEMENTS, THE AUDIT PROCESS AND OVERALL FINANCIAL PERFORMANCE (CONTINUED)

Accounting for Capital Expenditure

- 2.30 Our review of the £14.4 million of capital expenditure programme identified a number of items that could be classified as non-enhancing repairs and maintenance, and enhancing existing fixed assets or the creation of new fixed assets. The ACOP provides clear guidance on how these should be treated for capital accounting purposes. In relation to non-enhancing repairs and maintenance, this should be charged to service revenue accounts. From a sample of items selected for testing, we identified a number of projects which could be interpreted as non-enhancing repairs and maintenance. These include, for example, roughcasting and painting of exterior walls.
- 2.31 Under Section 94 of the Local Government (Scotland) Act 1973, local authorities receive their capital consent on an annual basis that allows them to incur capital expenditure while at the same time, restricting the amount of money they can borrow. In their response to our audit enquiries, Council Management stated that the expenditure detailed above would qualify as capital under Section 94 regulations and therefore would not warrant a charge to a departments' Service Revenue Account.
- 2.32 There would appear to be a conflict between the ACOP and Section 94 in relation to the treatment of non-enhancing repairs and maintenance expenditure. Paragraph 3.18 of the SORP states: "...expenditure to ensure that the fixed asset maintains its previously assessed standard of performance should be recognised in the revenue account as it is incurred." For Section 94 purposes, the CAM states: "...capital expenditure which does not result in the creation of a fixed asset would come under the heading of a *deferred charge*." Furthermore, "...a significant amount of the capital expenditure incurred by local authorities does not fall within the Code of Practice's definition of fixed assets, but is classified as expenditure for capital purposes with respect to capital controls. These amounts are exempt from being charged to revenue."
- 2.33 This accounting treatment would appear to comply with the guidance in the CAM. However, this guidance appears to allow significant flexibility in the amount of capital expenditure which can be transferred to the FARR rather than being depreciated and charged to service revenue accounts. The Director of Finance has indicated that CIPFA Scotland is in the process of preparing written guidelines to formally establish the circumstances in which capital expenditure may be transferred from fixed assets to the FARR rather than being depreciated and charged to the service revenue accounts and that this will be taken into account in the future.

SECTION 3 – ACCOUNTING SYSTEMS AND CONTROL FRAMEWORK

“Accounting Systems”

The series of tasks and records of the Council by which transactions are processed as a means of maintaining the financial records.

Overview

- 3.01 As part of our normal audit process for 2001/2002, we have submitted an Interim Management Letter which included recommendations for improvements in financial controls and in accounting and processing systems which were operating within the Council. In addition, we followed up matters raised within the previous auditor’s reports.

Update of 2000/01 Reports

- 3.02 While significant action has been taken, management has not implemented fully all of the agreed recommendations made in the previous auditor’s 2000/01 Interim Management letter and Final Report to Members. The action plan from the 2000/01 Interim Management Letter is detailed in Appendix 2 and details progress to date in respect of each recommendation made. The recommendation from the Final Report to Members which have not yet been addressed include:
- 3.03
- Implementation of previous PMP report recommendations (see section 4); and
 - Implementation of previous Value For Money report recommendations (see section 6).
- 3.04 **Management should ensure that these recommendations are addressed in full in the near future.**

SECTION 3 – ACCOUNTING SYSTEMS AND CONTROL FRAMEWORK (CONTINUED)

Interim Management Letter

3.05 Our 2001/02 review of the overall financial control arrangements focused on the following key areas:

- Budgetary Control;
- Main Accounting System;
- Payroll and Personnel;
- Debtors and Debt Collection;
- Fraud and Corruption;
- Housing and Council Tax Benefit;
- Creditors and Accounts payable; and
- Cash Collection and Banking.

3.06 Our review of certain of the accounting and processing systems considered controls such as segregation of duties, reconciliation controls, the adequacy of management review procedures and arrangements to prevent fraud and corruption. At that time, we identified the need for action in relation to :

- the monitoring of annual leave patterns amongst staff in all departments by the Council's Corporate Personnel Department;
- regular changes to staff system passwords;
- to ensure that appropriate staff authorising new account codes/journals are checked by the 'systems' team making the changes;
- positive confirmation of staff from departments to the Payroll Section;
- formal reconciliations to be performed between payroll system input and output;
- duplicate claim entries to be automatically flagged by the HB/CTB system;
- debtors systems staff do have access to a procedures and guidance manuals; and

SECTION 3 – ACCOUNTING SYSTEMS AND CONTROL FRAMEWORK (CONTINUED)

Business Control Report

3.07 Our external audit approach is risk based and we comment on the procedures the Council has in place to manage the key risks it faces. A number of risks were identified by using a variety of sources including, interviews with key officers, our knowledge of the Council and the local government sector in Scotland and our understanding of current national and local priorities. Our findings were reported in our draft **2001/02 Business Control Report** which commented on the following areas:

- Economic downturn;
- PFI/PPP;
- Statement of Internal Control;
- Corporate Governance;
- Audit Committee principles;
- Regulation of Care (Scotland) Act 2001;
- Landfill Tax Legislation;
- E-Government; and
- Councillor's Code of Conduct.
- Health & Safety

3.08 The Council has introduced measures to address these issues. However, we made a number of recommendations where we considered that further action and monitoring was required.

3.09 **Management should ensure that the recommendations contained in our 2001/02 Interim Management Letter and Business Control Report are addressed in accordance with agreed timescales.**

SECTION 3 – ACCOUNTING SYSTEMS AND CONTROL FRAMEWORK (CONTINUED)

Audit Committee Principles

- 3.10 “Local Government Reorganisation and the Stewardship of Public Funds” published by the Accounts Commission encouraged councils to establish a mechanism incorporating the principles of Audit Committees. In a document published around the same time (“Corporate Governance - A Framework for Public Service Bodies”), CIPFA also recommended that public service bodies should establish Audit Committees. A report of the Commission on Local Government and The Scottish Parliament has also commented on the advantages of an Audit Committee as a means of providing independent reassurance to councils and their electorate that resources are used properly and cost effectively.
- 3.11 Audit responsibility within the Council has been delegated to the Policy and Resources Committee with the following duties included within the council remit to:
- review with management the adequacy of internal control systems;
 - review with management the adequacy of policies and practices to ensure compliance with relevant standards or codes of corporate governance;
 - review with management compliance with relevant standards or codes of corporate governance;
 - review with management the financial statements;
 - ensure that the internal audit function is properly resourced and has appropriate standing within the Council;
 - review the activities of the internal audit function; and
 - manage all aspects of the Council’s relationships with the external auditors.
- 3.12 **We recommend that the Council continues and develops further the audit committee principles through its Policy and Resource Committee.**

SECTION 3 – ACCOUNTING SYSTEMS AND CONTROL FRAMEWORK (CONTINUED)

Internal Audit

- 3.13 As part of our statutory audit, we have reviewed the work performed by the Council’s Internal Audit Section and assessed on its audit planning, approach, execution and reporting.
- 3.14 At the time of our audit, the main findings from this review were as follows:
- All assignments appeared to be adequately planned and staffed by appropriately qualified/experienced staff;
 - Audit assignments were supported by adequate terms of reference recognising the specific risks facing the department in which the work was focused; and
 - The work was adequately documented, subjected to the appropriate level of review and supported recommendations made in reports.
- 3.15 For external audit purposes, we have been able to place reliance on the work of Internal Audit in the following areas; -
- | | |
|----------------|------------|
| • Fixed Assets | • Payroll |
| • Stock | • DLO/DSOs |
- 3.16 The Audit Scotland Value for Money study “Internal Audit Review” issued in 2001 identified a number of weaknesses in Internal Audit. Our work has included a review of progress made in addressing these weaknesses. We are pleased to note that good progress has been made, with many of the recommendations having been implemented and the remaining recommendations in the process of implementation.

SECTION 3 – ACCOUNTING SYSTEMS AND CONTROL FRAMEWORK (CONTINUED)

Arrangements designed to prevent Fraud and Corruption

- 3.17 To ensure proper stewardship of funds, it is essential that the Council has adequate arrangements in place to minimise the risk of fraud and corruption. These arrangements should include corporate policies in respect of the prevention of fraud and corruption on a Council wide basis as well as detailed controls at an operational level.
- 3.18 On a cyclical basis we seek assurance that certain policies and procedures exist within the Council relating to the prevention of fraud and corruption. Specifically, during 2001/02, we reviewed the Council's overall fraud and corruption arrangements and asset management procedures. There were no significant issues identified from our work.
- 3.19 As part of our audit, we have submitted to Audit Scotland fraud and corruption returns detailing instances of fraud during the year as notified to us by the Council.
- 3.20 We must emphasise that the responsibility for the prevention and detection of fraud or corruption lies with management and our external audit work does not remove the possibility that fraud or corruption may have occurred and remained undetected.

Whistleblowing Policy

- 3.21 The Council is required to introduce a formal "Whistleblowing Policy" in accordance with the terms of the Public Interest Disclosure Act 1998. The Council has completed, approved and circulated a whistleblowing policy as part of the Defalcation Procedures.

Housing and Council Tax Benefit

- 3.22 The 2000/01 Housing and Council Tax Benefit Subsidy claim was submitted according to the expected timetable. The Council's estimate of entitlement to benefits included in the 2000/01 financial statements was within £36,000 of the amount finally claimed. No benefit fraud inspections were undertaken by the BFI during 2001/02.

SECTION 4 - BEST VALUE

“We have to be satisfied that the council is making progress on implementing the Performance Management and Planning (“PMP”) framework and that services are planning for improvement”.

Introduction

- 4.01 Best Value was introduced in Scotland in 1997, and a Best Value Task Force was established to develop the framework and timetable for implementing Best Value in Scottish councils. The Best Value Task Force included representatives of The Scottish Office, the Convention of Scottish Local Authorities (“CoSLA”) and the Accounts Commission.
- 4.02 As part of the auditor’s statutory responsibilities, we are required to satisfy ourselves whether a local authority has in place appropriate management arrangements to secure value for money in its use of resources. With the introduction of the Best Value regime for councils, the PMP audit has been used to review the progress that councils are making in implementing the framework set out by the Best Value Task Force.

Performance Management and Planning Audit

- 4.03 In 2001/2002, the PMP audit (“PMP3”) has been carried out in accordance with guidance issued by Audit Scotland and has been applied within two services selected for review through agreement between the Council and ourselves. Separate reports have been prepared in respect of these service reviews.
- 4.04 A number of factors were considered in deciding on the service areas for review, including the organisational structure of the Council, the existence of a distinct service plan, clear management and reporting structures, the size of the service area and the scope of completed Best Value reviews. The following service areas were reviewed :
- Residential Services for Older People; and
 - Economic Development.

SECTION 4 - BEST VALUE (CONTINUED)

- 4.05 Each service submitted a written self assessment which included an improvement action agenda and a Best Value Achievement Report (BVAR) which set out the main tangible improvements that have been achieved over the last three years. The audit task was to validate the BVAR through checking a sample of evidence.
- 4.06 The review was based on a concise submission from the Service. The submission was reviewed and the evidence was checked on a sample basis. In the event further assurances were required, additional evidence was requested and provided by the service for ratification
- 4.07 Overall, the audit demonstrated that the Council continues to make progress in developing and achieving its Best Value goals and objectives for continuous improvement. There are, however, a limited number of areas where progress is ongoing within individual service areas. The key issues identified in these reports for further development are summarised below.

Residential Services For Older People

- 4.08 Overall, this service has made good progress and demonstrated a clear commitment to taking further action as required. A number of specific areas were identified for further ongoing action, including the need to: -
- Develop a Service Plan for Older People's Residential Services;
 - Improve the Service's approach to involving staff in continuous improvement activities; and
 - Regularly assess the state of morale, satisfaction and motivation of staff.

SECTION 4 - BEST VALUE (CONTINUED)

Economic Development

4.09 Overall, this service has made good progress and demonstrated a clear commitment to taking further action as required. A number of specific areas were identified for further ongoing action, including the need to: -

- Further develop its approach to consultation to confirm the achievement of Value for Money;
- Further develop the process for taking stakeholder views into account when formulating plans;
- Further develop an approach which evaluates the impact that training has compare with the impact that was desired; and
- Continue to develop an approach to supporting continuous improvement which uses appropriate performance information and enables staff to share knowledge and experiences in effective practice and also use feedback from customers in improving services.

Prior Year Performance Management and Planning Audits

4.10 Since 1999/2000, the Council has selected service areas for PMP audit and each was required to prepare a written submission covering the PMP criteria. The written submissions focused primarily on the extent to which the services met the PMP criteria and resulted in the production of a list of planned improvements to the services' PMP framework.

4.11 The following details the service areas which have been subject to previous audit review:

1999/2000 (PMP)1	2000/2001 (PMP)2
Property Repairs. Criminal Justice. Grounds Maintenance.	Corporate. Information Technology. Community Care (Home Care). Roads DLO.

SECTION 4 - BEST VALUE (CONTINUED)

- 4.12 One of the core criteria for Best Value is the achievement of continuous improvement and, as part of the PMP3 review, each service's progress in achieving the improvements agreed in PMP1 and PMP2 has been audited.
- 4.13 The PMP follow up review is intended to assess :
- the extent to which a PMP framework is in place; and
 - whether improvement actions have been identified to address areas of weakness and what progress has been made in implementing planned improvement actions.

SECTION 4 - BEST VALUE (CONTINUED)

4.14 Separate reports have been produced and submitted to the Council in respect of the implementation of agreed improvement actions for the PMP1 and PMP2 reviews detailed above. **The key findings from these reports are as follows :**

Reviews undertaken	Progress
PMP 2	
Information Technology	The audit concluded that the service has made significant progress in implementing most of the previously agreed improvement actions and shows a clear commitment to taking further action as required. Limited progress has been made in developing structured approach to performance reporting.
Community Care (Home Care)	The audit concluded that the service has made reasonable progress in implementing most of the previously agreed improvement actions and shows a clear commitment to taking further action as required. Progress on the 8 actions originally identified has not been as intended. This is due mainly to the need to conclude the Councils review of Home Care Services. In addition the post of Service Unit Manager (Home Care) was vacant for a considerable part of 2001/02.
Roads DLO	<p>The audit concluded that the service has made significant progress in implementing most of the previously agreed improvement actions and shows a clear commitment to taking further action as required. A number of areas where agreed improvements have not been implemented within the previously agreed timescale include:</p> <ul style="list-style-type: none"> - The development of a formalised Operational Plan; and - Implementation of staff training programme.

SECTION 4 - BEST VALUE (CONTINUED)

Reviews undertaken	Progress
PMP 1	
Grounds Maintenance	<p>The audit concluded that the service has made significant progress in implementing most the previously agreed improvement actions and shows a clear commitment to taking further action as previously agreed timescale include:</p> <ul style="list-style-type: none"> - The inclusion of consultation in the regular service planning cycle; and - Harmonisation of DSO contract Prices.
Criminal Justice	<p>The audit concluded that the service has made reasonable progress in implementing most of the previously agreed improvement actions and shows a clear commitment to taking further action as required. A number of areas where agreed improvements have not been implemented within the previously agreed timescale include:</p> <ul style="list-style-type: none"> - Development of a benchmarking process; and - Roll out a staff development scheme.
Property Repairs	<p>The audit concluded that the service has made reasonable progress in implementing seven of the previously agreed improvement actions and shows a clear commitment to taking further action as required. A number of areas where agreed improvements have not been implemented within the previously agreed timescale include:</p> <ul style="list-style-type: none"> - Implementation and re-launch of Repairs Review Implementation; and - Installation of Homes IT system.

4.15 **Arrangements should be put in place for and by Members to ensure that those actions agreed by management in relation to the Best Value reports are implemented.**

SECTION 5 - PERFORMANCE INDICATORS

The standards of performance achieved by the authority in the current and comparable years.

- 5.01 It is the responsibility of the Council to ensure that, as far as practicable, the information which is published is complete and accurate.
- 5.02 There are 65 Performance Indicators (“PIs”) in total, all of which have been graded by us 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 authority 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.
- 5.03 All Performance Indicators published by the Council in 2001/02 were awarded an ‘A’ Grading.
- 5.04 The quality of systems used for data collection and analysis and the supporting documentation provided to us was of a high standard, for which Management should be commended.

SECTION 6 - VALUE FOR MONEY

The arrangements at the Council for securing economy, efficiency and effectiveness in the use of resources.

Introduction

- 6.01 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 (economy, efficiency and effectiveness) from its resources.
- 6.02 In terms of this responsibility, the following studies have been undertaken in relation to 2001/2002 :
- Pre School Education;
 - Trading Standards; and
 - Previous Year Follow Up.

2001/2002 VFM Studies

Pre School Education

- 6.03 The Government has funded the expansion of pre-school education provision for 3 year olds and children in their pre-school year. The aim was to ensure that a free high quality pre-school education place is available to every eligible child by summer 2002. The total funding made available to councils in 2000/01 was £110.6 million, representing £1,200 per eligible child.
- 6.04 The specific grant to purchase pre-school places will continue until 2002, and funding will then be provided through the block grant.

SECTION 6 - VALUE FOR MONEY (CONTINUED)

- 6.05 In March 2001, Audit Scotland published 'A good start: managing pre-school education', reporting the findings of an Accountants Commission study on how councils manage the provision of pre-school education. The study found that:
- As at September, councils were well on their way to meeting the Scottish Executive's targets.
 - All councils are working with partners in the private and voluntary sectors to achieve the necessary number of pre-school places.
 - Despite the successful expansion in the numbers of places, the flexibility of provision, from the parents' point of view, could be significantly improved by some councils.
- 6.06 The audit will help councils commissioning places from the private or voluntary sectors to ensure that they have in place robust arrangements to manage contracts with parents. A draft report was issued in September 2002 and highlighted areas for improvement in the completion and submissions of grant claims. Our main findings are detailed below:
- A number of issues were identified in the process for formally documenting arrangements with the partner providers.
 - A number of issues were identified in the process for the completion and submissions of grant claims.

Trading Standards

- 6.07 Local Authority Trading Standards Services operate at the interface between businesses and consumers where there are problems with faulty goods or substandard services. Furthermore, they also provide important information and advice services to assist businesses to comply with the law and ensure consumers know their rights.
- 6.08 This value for money review focussed on helping councils to develop trading standards services that will meet the standards expected by the evolving National Performance Framework and achieve Best Value services. There are three main objectives:
- To provide an understanding of the performance of trading standards services in all councils in Scotland, as a baseline for improvement;
 - To provide benchmarking data to support continuous improvement; and
 - To identify areas where trading standards services need to improve their performance.

SECTION 6 - VALUE FOR MONEY (CONTINUED)

6.09 We have completed our fieldwork and agreed action plans for this review with Council Management. Our report highlighted areas where the Council failed to demonstrate achievement with minimum service standards and recommends areas for improvement. Our main recommendations are detailed below :

- assess the current position of the Customer Consultation Group in order to establish a likely timescale for undertaking a second stakeholder consultation.
- investigate implementing a benchmarking group to allow operational, performance and strategic comparison to be conducted to provide usable information.
- conduct the planned home Authority project, to tidy up the current position and evaluate the way forward.
- investigate, with North and South Ayrshire Councils, undertaking an Ayrshire-wide relationship with trade organisations (e.g. Chamber of Commerce).

SECTION 6 - VALUE FOR MONEY (CONTINUED)

Previous Year Follow Up

6.10 As part of our audit work, the action plans of the VFM reports, issued in previous years, were analysed. Their progress can be summarised as follows:

Report Date	VFM Review	Matters Raised	Fully Implemented	Partially Implemented	No Longer Relevant
Dec 2000	Rent Arrears	14	11	3	-
Nov 2000	Administration of Schools	13	13	-	-
Oct 2000	Refuse Collection	8	8	-	-
Nov 2000	DLO/DSO Management Information	11	9	2	-
Sept 2001	Internal Audit	5	4	1	-
Oct 2001	School Property	18	8	9	1

6.11 **Members should seek regular updates to ensure management undertake the required action to meet all agreed VFM actions.**

SECTION 7 - LEGAL MATTERS/LEGALITY

For the purposes of this Report, this relates to the Council's overall arrangements for authorising and considering the statutory basis for a transaction or event with a financial consequence.

Introduction

- 7.01 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.
- 7.02 In considering the arrangements put in place by the Council with reference to legality, we have focused our attention on significant areas of decision making within the Council which may involve unlawful expenditure or courses of action which may be illegal and which might lead to a loss or deficiency.
- 7.03 We emphasised that the responsibility for assessing the legality of such matters rests with management and that by reporting in this Section, we do not purport to offer advice to the Council or any other party.
- 7.04 During 2001/02, we have considered the Council's arrangements as they relate to legality by:
- Reviewing general arrangements in place for ensuring the legality of transactions; e.g. the role of the Monitoring Officer;
 - Reviewing the minutes of the Council's principal committees;
 - Holding discussions with officers;
 - Having regard to the Council's implementation of significant new legislation or statutory requirements;
 - Taking account of advice issued by Audit Scotland; and
 - Reviewing statutory requirements concerning the financial statements.
- 7.05 We have not identified any matters from this element of our work that we would wish to bring to your attention in this report.

SECTION 7 – LEGAL MATTERS (CONTINUED)

Termination/Severance Payments

7.05 Our review included testing of a sample of individuals who had left the Council during 2001/02 to identify if such payments existed. In addition, we also reviewed certain individual redundancy packages to ensure that these complied with relevant conditions. From this sample testing, we did not identify any specific termination payments which were outwith the standard level of redundancy packages for Local Authorities.

Verification Framework

7.06 The Verification Framework was introduced in 1998 and since then the Department of Works and Pensions (DWP) has, in consultation with local authorities, modified the Verification Framework to simplify its implementation whilst ensuring that its integrity is maintained.

7.07 The latest version of the Verification Framework has been produced in the form of a three-part manual which has been issued to all local authority benefits manager, with future updates being issued by way of amendments to this manual, rather than by circulars.

7.08 The Verification Framework was introduced as a fraud preventative measure. It sets out the information which must be verified before benefit is paid, indicates what is acceptable as evidence in support of that information, identifies the checks that must be made by a local authority during the life of a claim and specifies maximum benefit periods for claims in different risk groups. The Framework is generally regarded as representing good practice for benefits administration. Its adoption is not compulsory, but local authorities which implement it receive additional funds from the DWP.

7.09 We understand that the Council has agreed to defer the adoption of the Verification Framework. This is in response to the DWP reviewing the current guidelines for adopting the framework with a view to introducing a phased approach. Although the Framework has not been formally adopted in full, our review has shown that basic principles of the Framework in relation to fraud prevention are followed. **We recommend that the Council moves to implement the Verification Framework at the earliest possible opportunity.**

SECTION 7 – LEGAL MATTERS (CONTINUED)

Galleon Leisure Trust

- 7.10 The Galleon Leisure Trust “Minute of Agreement” states that the Council will “reimburse the Trustees to the extent of any loss incurred by the Trustees”.....” arising from the operation of the leisure centre in each financial year”
- 7.11 As a result of this agreement the Council effectively has an unlimited liability for any losses incurred by the Trust. While we appreciate that the Trust has made a surplus in the current year this risk still exists for the Council. **We recommend that the Council explore options for capping or removing any future liabilities relating to the Trust.**

Electors’ Objections

- 7.12 We did not receive any electors’ objections during 2001/2002 that required external audit investigation.

Action Plan

Report Reference	Issues relating to 2001/2002	Agreed Action	Responsible for Implementation	Timescale deadline
2.11	We recommend that the Council maintains sufficient reserves to enable it to support a stable financial position.	The Council will be made aware of this matter with a review to increasing the level of reserves	Director of Finance	November 2002
2.20	We recommend that the Council should review its accounting policies, in accordance with the new requirements of FRS 18 – Accounting Policies for the financial year 2002/03. Furthermore the Council should monitor its current practices to ensure that they comply with the stated policies.	This will be done each year from 2002/03.	Director of Finance	March 2003
2.30	Management should review the housing rents bad debt provision in light of actual experience.	This will be done each year from 2002/03.	Director of Finance	March 2003

Action Plan (Continued)

Report Reference	Issues relating to 2001/2002	Agreed Action	Responsible for Implementation	Timescale/ deadline
2.36	The Council may wish to consider preparing written guidelines to formally establish the circumstances in which capital expenditure may be transferred from fixed assets to the FARR rather than being depreciated and charged to the service revenue accounts.	To be done following the issue of guidance from CIPFA Scotland.	Director of Finance	March 2003 Subject to guidance being issued.
3.04	Management should ensure that all recommendations from the 2000/01 reports are addressed in full.	Agreed	Depute Chief Executive/Director of Corporate Resources	April 2003
3.09	Management should ensure that the recommendations contained in our 2001/02 Interim Management Letter and Business Control Report are addressed in accordance with agreed timescales.	Agreed as per separate action plans agreed with auditors for: <ul style="list-style-type: none"> • Interim Management Letter • Business Control Report 	Director of Finance Director of Finance/Depute Chief Executive	June 2002 – December 2002 November 2002 – October 2003
3.12	We recommend that the Council continues and develops further audit committee principles through its Policy and Resource Committee.	Agreed in consultation with auditor	Chief Executive	Full completion by November 2003

Action Plan (Continued)

Report Reference	Issues relating to 2001/2002	Agreed Action	Responsible for Implementation	Timescale / deadline
4.15	Arrangements should be put in place for and by Members to ensure that those actions agreed by management in relation to the Best value reports are implemented.	<p>Progress reports will be presented regularly to the appropriate committee until completion in line with the action plans agreed with the auditor:</p> <ul style="list-style-type: none"> • Economic Development • Residential Services for older people 	<p>Director of Development Services</p> <p>Director of Educational & Social Services</p>	November 2002 onwards
6.11	Arrangements should be put in place for and by Members to ensure that those actions agreed by management in relation to the Best value reports are implemented.	<p>Progress reports will be presented regularly to the appropriate committee until completion in line with the action plans agreed with the auditor</p> <ul style="list-style-type: none"> • Pre School Education; and • Trading Standards. 	<p>Director of Educational & Social Services</p> <p>Director of Community Services</p>	November 2002 onwards

Action Plan (Continued)

Report Reference	Issues relating to 2001/2002	Agreed Action	Responsible for Implementation	Timescale/ deadline
7.09	We recommend that the Council moves to implement the Verification Framework at the earliest possible opportunity.	Verification Framework standards for claims processing and evidence will be adopted. A watching brief will be maintained in respect of the visiting officer and formal returns to DWP aspects and a move will be proposed at a point where there is no disadvantage to the Council to do so.	Director of Finance	April 2003
7.11	The Council should continue to explore options for capping or removing any future liabilities relating to the Galleon Trust.	Agreed proposals will be made to the Trust in this regard.	Solicitor to the Council	March 2003

FOLLOW UP OF PREVIOUS YEARS

Report Ref	Agreed Action	Responsible Officer & Date Due	Current Status – Evidence of Completion
	Housing and Council Tax Benefit 1999/00 HB/CTB Subsidy Claim		
1	To facilitate the timely completion of the audit of the 1998/99 'week 52' CTB subsidy under claim, explanations are to be provided by staff to Audit as requested.	Head of Exchequer Services Immediate	Fully Implemented
2	A senior officer is to sign off the working papers for the 2000/01 DSS subsidy claim.	Head of Exchequer Services 30 September 2001	Fully Implemented
3	Benefit period overrun calculations for 2000/01 are to be prepared on the basis agreed with Audit.	Head of Exchequer Services 20 September 2001	Fully Implemented
4	Benefits' staff are to ensure that all 2000/01 period end prints can be located easily.	Head of Exchequer Services Immediate	Fully Implemented
5	All differences and rejected items identified in year-end and periodic reconciliations are to be cleared prior to submitting the 2000.01 DSS subsidy claim.	Head of Exchequer Services 20 September 2001	Fully Implemented

FOLLOW UP OF PREVIOUS YEARS (CONTINUED)

Report Ref	Agreed Action	Responsible Officer & Date Due	Current Status – Evidence of Completion
	Previous Years' Action Points		
6	The allocation of caseload to staff is to be periodically rotated.	Head of Exchequer Services Ongoing	This recommendation has been implemented as a result of the high level of staff turnover. In addition staff are required to complete a declaration of independence if passed a claim relating to a member of family or friend.
7	All benefit applications are to be compared with previous claims and the check evidenced.	Head of Exchequer Services Immediate	Fully Implemented
8	Manual benefit calculations are to be independently checked on a sample basis.	Head of Exchequer Services Ongoing	Fully Implemented
9	The outstanding action plan points reported in the October 2000 – Computer Audit Review are to be implemented.	Head of Exchequer Services 1 April 2002	Fully Implemented
10	Checks carried out to monitor targets set for the accurate processing of HB/CTB application forms are to be recorded and monitored.	Head of Exchequer Services Immediate	Fully Implemented

FOLLOW UP OF PREVIOUS YEARS (CONTINUED)

Report Ref	Agreed Action	Responsible Officer & Date Due	Current Status – Evidence of Completion
	2000/01 Review of Internal Controls		
11	A sample of 50 overpayments is to be tested to establish an estimated split between claimant and local authority error for the 2000/01 subsidy claim.	Head of Exchequer Services Immediate	Fully Implemented
12	Staff are to raise overpayments sheets for the six cases to initiate recovery procedures.	Head of Exchequer Services Immediate	Fully Implemented
13	Procedures for dealing with DSS Circulars are to be regularised and a register introduced.	Head of Exchequer Services Immediate	Fully Implemented
14	The procedures manual should be amended to require staff to document, sign and date all checks carried out e.g. verification of the NINO.	Head of Exchequer Services 30 September 2001	Fully Implemented
15	Outstanding recommendations made by Internal Audit' in its March 2001 report 'Housing and Council Tax Benefit-Follow Up' are to be implemented.	Head of Exchequer Services Immediate	Fully Implemented

FOLLOW UP OF PREVIOUS YEARS (CONTINUED)

Report Ref	Agreed Action	Responsible Officer & Date Due	Current Status – Evidence of Completion
	CT Billing & Collection		
	1998/99 Action Points		
16	The costs and benefits of the Arrears Recovery Team are to be monitored.	Head of Exchequer Services To be determined	Fully Implemented
17	A ward-by-ward canvass exercise on billing details is to be carried out.	Head of Exchequer Services Revised to 31 December 2001	This recommendation has now been implemented by a different approach than originally agreed
	2000/01 Findings		
18	Internal Audit's outstanding recommendations on Council Tax Recovery and Enforcement are to be implemented.	Head of Exchequer Services Immediate	Fully Implemented
	NDR Billing & Collection		
19	Written procedures for NDRI are to include action to be taken on receipt of an NDRI form.	Head of Exchequer Services 30 September 2001	Fully Implemented
20	Evidence is to be recorded to support all changes to the NDRI system.	Head of Exchequer Services Immediate	Fully implemented as part of systems replacement.

FOLLOW UP OF PREVIOUS YEARS (CONTINUED)

Report Ref	Agreed Action	Responsible Officer & Date Due	Current Status – Evidence of Completion
21	Processing of annual system amendments is to be evidenced and recorded.	Head of Exchequer Services Immediate	Fully Implemented
22	The Council is to investigate whether or not it is possible for the system to produce exception reports to identify arrears before refunds are processed.	Head of Exchequer Services Ongoing	Fully implemented as part of system replacement.
	Main Accounting		
23	The implementation of the new financial ledger system is to be scheduled to minimise any additional costs to the Council.	Director of Finance Ongoing	Fully Implemented
	Creditor Payments		
24	Internal Audit's outstanding internal control recommendation for creditors payments is to be implemented.	Head of Exchequer Services Immediate	Fully Implemented
25	The Council is to minimise claims as a result of the Late Payment of Commercial Debts (Interest) Act 1998.	Departmental Directors Ongoing	Fully Implemented

FOLLOW UP OF PREVIOUS YEARS (CONTINUED)

Report Ref	Agreed Action	Responsible Officer & Date Due	Current Status – Evidence of Completion
	Cash Income & Banking		
26	<p>Internal Audit's outstanding internal control recommendations are to be implemented for:</p> <ul style="list-style-type: none"> • Cash Collection in Social Work Offices • Leisure Income • Community Education Income. 	<p>Departmental Directors Immediate</p>	Fully Implemented
	Payroll		
27	Finance is to consider whether procedures are adequate with regard to removing leavers from the payroll.	<p>Head of Exchequer Services 30 September 2001</p>	Fully Implemented
28	New posts are to be confirmed to approved staffing establishment prior to processing payrolls.	<p>Head of Service Immediate</p>	Fully Implemented
29	Departmental directors are to be reminded to complete the rolling programme of checks to confirm the accuracy of payroll standing data.	<p>Head of Exchequer Services Immediate</p>	Fully Implemented

FOLLOW UP OF PREVIOUS YEARS (CONTINUED)

Report Ref	Agreed Action	Responsible Officer & Date Due	Current Status – Evidence of Completion
	Capital Accounting		
30	The Legal Services exercise for reconciling the asset register is to be completed prior to certifying the 2000/01 financial statements.	Solicitor to the Council Immediate	Partially implemented – Internal Audit identified instances where legal title could not be confirmed.
31	The revaluation of all assets is to be considered in the context of the 2000/01 financial statements.	Head of Economic Development Immediate	Not implemented – rolling revaluation programme is not being fully performed – value for money being taken account of.
32	To ensure compliance with the Code of Practice, a fixed asset revaluation programme is to be complied.	Head of Economic Development Immediate	Not implemented – see 31 above.
	Capital Contracts		
33	Interim payments are to be paid within the 14-day time period.	Contract Monitoring Section Head of Exchequer Services Immediate	Fully Implemented
34	Internal Audit's recommendations on Contract Tendering Procedures should be implemented.	Director of HATS Immediate	Fully Implemented

FOLLOW UP OF PREVIOUS YEARS (CONTINUED)

Report Ref	Agreed Action	Responsible Officer & Date Due	Current Status – Evidence of Completion
35	Approved written procedures are to be issued to staff responsible for administering school transport.	Head of Resource Support, Ed & social services 30 September 2001	Fully Implemented
	Insurance and Risk Management		
36	Written procedures are to be revised to include a check to determine if claimants are in arrears with Council debts prior to settlement of an insurance claim of greater than £200.	Head of Accounting Services 30 September 2001	Fully Implemented
37	Written procedures are to be revised to prohibit staff from processing claims submitted by relatives and friends.	Head of Accounting Services 30 September 2001	Fully Implemented
38	Consideration is to be given to revising written procedures to say that claims are only to be processed following receipt of a signed application form.	Head of Accounting Services 30 September 2001	Fully Implemented
39	Staff are to be reminded of the requirement to complete a discharge form for all cases.	Head of Accounting Services 30 September 2001	Fully Implemented

FOLLOW UP OF PREVIOUS YEARS (CONTINUED)

Report Ref	Agreed Action	Responsible Officer & Date Due	Current Status – Evidence of Completion
40	A revised insurance policy document is to be obtained from Zurich.	Insurance and Risk Manager Immediate	Fully Implemented
41	The insurance premium allocation to departments is to be reviewed with a view to reflecting claims history.	Head of Accounting Services 30 April 2002	Fully Implemented
	Payment to Voluntary Organisations		
42	Applications are not being processed unless accompanied by the documentation required per the grant application form.	Head of Admin & Legal Services	Fully Implemented
43	Staff are to be reminded that assessment forms should be completed and filed for all grant applications.	Head of Admin & Legal Services Immediate	Fully Implemented
44	The authorised signatory list is to be updated to include the Principle Administration Officer.	Head of Exchequer Services Head of Admin & Legal Services Immediate	Fully Implemented

FOLLOW UP OF PREVIOUS YEARS (CONTINUED)

Report Ref	Agreed Action	Responsible Officer & Date Due	Current Status – Evidence of Completion
45	Written procedures are to be amended to prohibit employees processing grant applications for organisations with which they have connections.	Head of Admin & Legal Services Immediate	Fully Implemented
46	Consideration is to be given to widening the formats that grant applications can be made.	Head of Admin & Legal Services 30 September 2001	Fully Implemented
	Clothing Grants		
47	Written procedures are to be reviewed and updated as appropriate.	Head of Resource Support Ed. & social Services 30 September 2001	Fully Implemented
48	The authorised signatory list is to be updated and maintained. Authorisation procedures are to comply with the Financial Regulations and APB 12A.	Head of Exchequer Services Head of Resource Support, Ed & social Services 20 September 2001	Fully Implemented
49	All grant claims for pupils are to be verified to school rolls.	Head of Resource Support, Ed. And social Services 30 September 2001	Fully Implemented
50	Checks to clear duplicate payments prints should be evidenced.	Head of Resource Support, Ed. And social Services Immediate	Fully Implemented

FOLLOW UP OF PREVIOUS YEARS (CONTINUED)

Report Ref	Agreed Action	Responsible Officer & Date Due	Current Status – Evidence of Completion
	Burial and Crematoria Income		
51	Standardised written procedures are to be compiled and issued to staff administering burial and crematoria income.	Head of Leisure Services 30 September 2001	Fully Implemented
52	Officers should be reminded to evidence Invoice Creation Forms on completion and checking.	Head of Leisure Services Immediate	Fully Implemented
53	A reminder is to be issued to all departments to clarify the arrangements for the monthly lists of outstanding balances.	Head of Exchequer Services 30 September 2001	Fully Implemented
	Follow-up of the 1999/00 Financial Systems Review (Letter 27/9/00) Action Plan		
54	The Council is to put effective governance arrangements in place to ensure that agreed action plan points are acted upon within agreed timescales.	Director of Finance Immediate	Fully Implemented
55	The 12 points awaiting action for the 1999/00 review of financial systems are to be implemented.	Various 31 October 2001	Fully Implemented

RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND THE AUDITOR

	Management responsibility	Auditor responsibility
General Stewardship	Accountable for the way it has discharged its stewardship of public funds.	Provides an independent and objective consideration of the stewardship function.
Controls Framework	It is the responsibility of Members and officers to decide the extent of the internal control systems which are appropriate to the Council. In this regard, a strong internal audit function is an important feature of an effective internal control system.	We assess certain control features of the Council's main financial systems and report on any significant control weaknesses that come to our attention from this normal audit process.
Fraud and Corruption	The primary responsibility for the prevention and detection of fraud and corruption rests with management.	Our responsibility is to give consideration to the arrangements made by management in this regard.
Financial Statements	The possibility for ensuring the preparation of financial statements which present a fair statement of the financial position of the Council rests with management.	We need to be satisfied that evidence from our audit testing is sufficient to give us a reasonable basis for our opinion that the financial statements present fairly the financial position of the Council at the year end and its income and expenditure for the year.
Best Value	The responsibility for ensuring that Best Value permeates throughout the Council rests with management.	As part of our annual audit process, we review the Council's self-assessment of their best value implementation.
Value for Money	It is management's responsibility to ensure that arrangements are in place that are designed to achieve economy, efficiency and effectiveness in the use of resources.	We consider by examination of the accounts or otherwise certain of the Council's management arrangements for securing economy, efficiency and effectiveness in its use of resources.

RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND THE AUDITOR (CONTINUED)

	Management responsibility	Auditor responsibility
Legality	The responsibility for ensuring the legality of all activities and transactions rests with management.	As part of our normal audit process, we consider the Council's arrangements for ensuring the legality of transactions or events with a significant financial consequence.

OTHER REPORTS SUBMITTED BY US RELATING TO 2001/2002

- Annual Service Plan
- Interim Management Letter
- Business Control Report (Draft)
- Residential Services for Older People – PMP3
- Economic Development – PMP3
- Corporate Services – PMP2 Follow Up
- Information Technology Services – PMP2 Follow Up
- Community Care (Home Care) Services – PMP2 Follow Up
- Previous Year Follow Up of Value for Money reviews
- Roads DLO – PMP2 Follow Up
- Grounds Maintenance – PMP1 Follow Up
- Criminal Justice Services – PMP1 Follow Up
- Property Repairs – PMP1 Follow Up
- Performance Indicators Statutory Return
- Pre Schools Education Value for Money review
- Trading Standards Value for Money review
- Various correspondence, principally with the Director of Finance, mainly relating to technical and accounting matters.

Independent Auditors' Report

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

We certify that we have audited the financial statements on page ... to ... under the Local Government (Scotland) Act 1973. The financial statements have been prepared in accordance with the accounting policies set out on pages ... to

Respective responsibilities of the Chief Finance Officer and Auditors

As described on page ... 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. 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 2002, 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 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.

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 2002 and its income and expenditure and cash flows for the year then ended.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Glasgow

30 September 2002