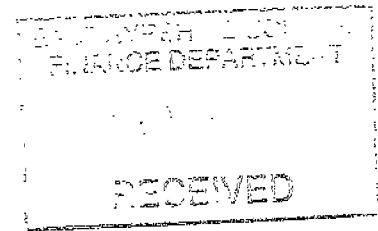
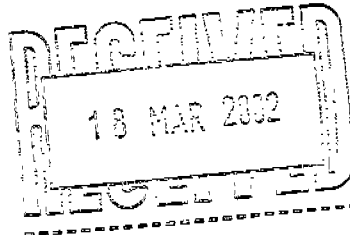


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15 March 2002

David Montgomery  
Chief Executive  
East Ayrshire Council  
Council Headquarters  
London Road  
KILMARNOCK  
KA3 7BU



Dear David

**2000/01 AUDIT - FINAL REPORT**

Further to the draft report of 1 March, and our meeting on 12 March, I enclose a bound copy of the report and a loose-leaf copy for circulation to members in due course.

I would like to express my thanks to you, and to the staff of the Council for their help and co-operation during the five years of the audit appointment.

With all best wishes



Angela Cassels  
Senior Audit Manager

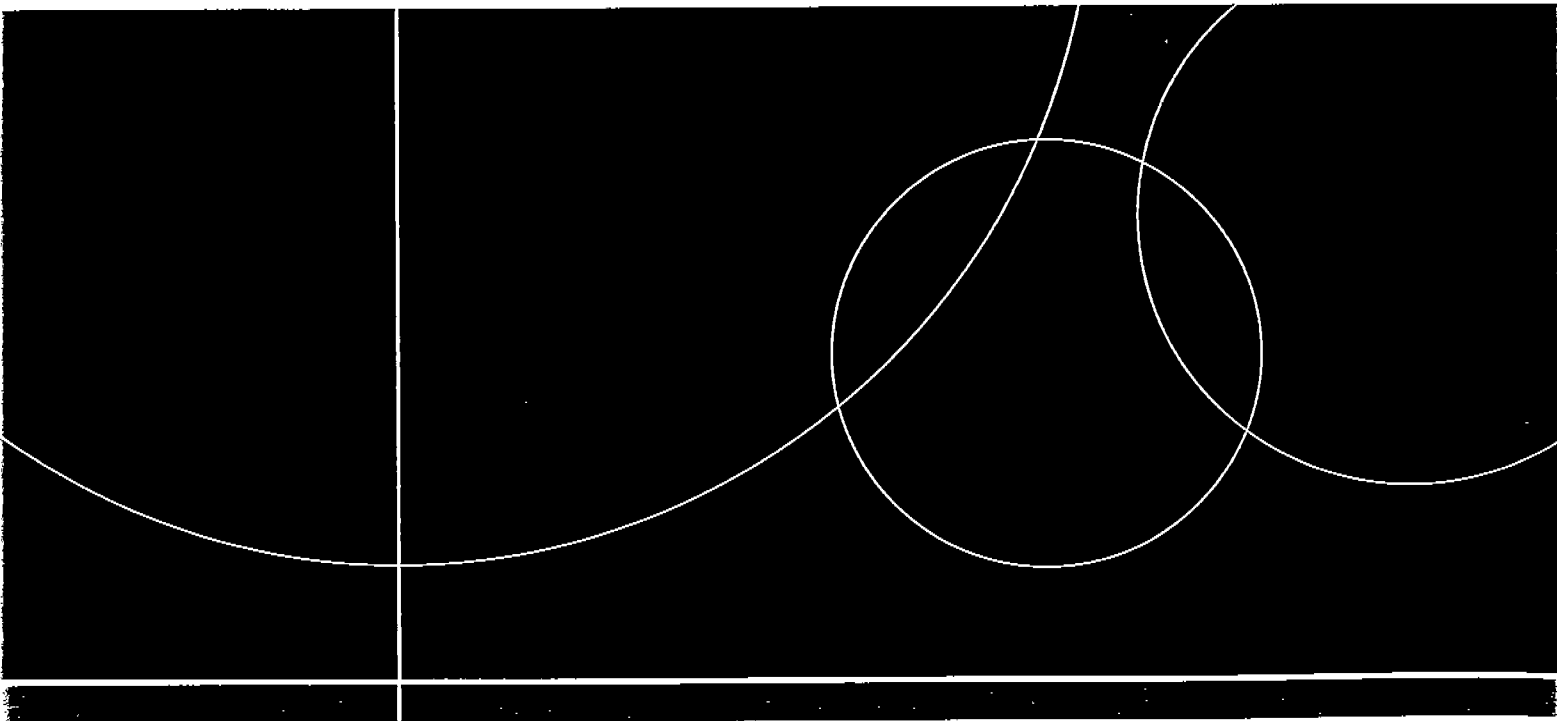
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2000/2001 report on the audit of

**EAST AYRSHIRE COUNCIL**

Angela Cassels, CPFA BA, Senior Audit Manager Audit Scotland  
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T. 01355 619200 F. 01355 619201



15 March 2002

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 2001**

I have now completed my audit of the Council's accounts for the year ended 31 March 2001. Completion of the audit was delayed because of the need to give detailed consideration to the accounting aspects arising from the Council's agreement to dispose of rental income interests in phases 2 and 3 of the Burns Mall, in return for a one off payment of £2.8 million. This has now been resolved as indicated in my report.

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 2001. There are no qualifications on the audit certificate.

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



Angela Cassels  
Senior Audit Manager

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## Action plan

## Introduction

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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 2000/2001 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."*

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## Financial accounts and related matters

- ◆ Audit certificate
- ◆ Financial performance
- ◆ Issues arising

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### 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 2000/2001 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 objective was achieved for each of the defined activities and the audit opinion is free of qualification.

### Financial performance

5. At the beginning of the year, in April 2000, the overall financial position of the Council showed a cumulative deficit on the general fund of £2.7 million. The accounts show a surplus for the year of £3.7 million which added to the deficit balance brought forward of £2.7 million gives a cumulative surplus balance at 31 March 2001 of £1 million.
6. The surplus for the year includes a credit of £2.719 million relating to the disposal of the Council's rental interest in Burns Mall, referred to in more detail elsewhere in my report; the housing revenue account (HRA) surplus of £1.134 million; and the DLO/DSO surplus of £671,000. With annual net cost of services expenditure of about £171 million, the Council's year-end position, excluding the one-off exceptional Burns Mall item, indicates that continued efforts will be needed to match ongoing expenditure with the Council's normal sources of finance. In addition, continued efforts need to be made to generate greater reserves to build a buffer to cater for any unforeseen contingencies that may occur. The latest budgetary monitoring reports for 2001/02 are projecting a small surplus of £0.5 million at 31 March 2002.

7. The 2000/01 accounts show an HRA surplus of £1.6 million of which £1.1 million has been applied to the general fund, as planned, to fund a brought forward deficit. After a transfer to the repairs and renewals fund of £0.4 million, a balance of £66,000 is carried forward into 2001/02.
8. During the year the Council operated within the capital expenditure limits prescribed by the Scottish Executive. The returns show that there was an overspending of £46,000 on the housing account and of £128,000 on the non-housing account. These planned overspendings are within the permitted flexibility of 5%.

### Issues arising

9. 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*

10. The accounts were submitted to audit in accordance with statutory requirements, with audit fieldwork ending in early October. The completion of the audit has been delayed because of the need to give detailed consideration to the accounting aspects of the Council's disposal of rental income interests in the Burns Mall. This is referred to below.

#### *Matters brought forward from previous years*

11. **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.
12. This matter was resolved by the SPTA making cash transfers to the twelve authorities early in April 2000. The Council's share of the transfer was £3.3 million, which matched the disaggregated loans. The effect on the revenue account in 2000/01 is neutral.
13. **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

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income systems. The new system is due to be operational from April 2002.

14. **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 that 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. Last year, it was reported that the reconciliation exercise would be completed for all the remaining properties by 31 March 2001, in accordance with previously agreed timescales. The current position is that the majority of the Council's titles have now been reconciled to the fixed asset property register. Officers are still working on residual issues relating to the Kilmarnock town centre shopping mall.
15. **Revaluation of fixed assets:** I am pleased to note that the arrangements to revalue the Council's non council house assets have now been concluded. The revaluation process, completed in June 2000, is reflected in the values for fixed assets in the 2000/01 balance sheet. A net increase in value of £46 million is disclosed.
16. **Stores:** In 1998/99 there were concerns on the adequacy of controls at the building and works stores. Since this time, internal audit has been monitoring the situation. In May 2001, they reviewed the position, concluding that some progress had been made in addressing the controls in place. However, a number of high priority recommendations, including arrangements for continuous stock checks and reconciliations were made. It is important that these improvements in the control environment for stores are maintained.
17. **Housing voids:** In the 1998/99 audit report 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 made to the housing committee indicated that falling demand is becoming an increasing factor and further reports will be made setting out proposed action. Despite the Council's action plans and continuing efforts to address this issue, voids have risen further to £1.6 million in 2000/01. The need for continued monitoring of voids is mentioned in the action plan attached.

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*New Matters Arising*

18. ***Burns Mall - accelerated rental income:*** As mentioned earlier, during the year the Council disposed of an interest in a shopping development. The Council owned land, which was leased to two property companies. The leases had unexpired terms of approximately 104 years to 2104. The companies constructed shops on the site, in three phases. In respect of the leases, the Council received annual ground rent of £20,000 and a share of the net rental income on the shop units of approximately 40%. In 2000/01, the Council concluded an agreement whereby they disposed of their entire interest in phases 2 and 3, in return for a one off payment of £2.8 million. The payment represents accelerated rental income of £2.75 million and disposal of the reversionary interest in the land (residual value of land after expiry of the leases) of £50,000. The Council received the cash settlement for this transaction in March 2001.
19. In compiling the 2000/01 financial statements, the Council has treated £50,000 of the income as a capital receipt in respect of the land and the balance of £2.719 million (£2.750 million less management fees of £31,000) has been credited to the consolidated revenue account. The land is treated as a capital asset, and the £50,000 receipt is properly accounted for as a capital receipt.
20. The interest in the stream of rental income was not previously capitalised in the Council's accounts. Payments were credited each year to the revenue accounts. It is accepted that the Accounting Code of Practice does not give any specific guidance on the accounting treatment for a payment of accelerated rental income. In these circumstances, I have concluded that the Council's chosen accounting treatment is reasonable and consistent with its normal accounting practices. I have accepted that the payment of the £2.75 million is, in effect, a compensation payment for giving up future revenue payments, and that it should be disclosed as a windfall payment in the year of receipt. Full disclosure of the transaction is included in the accounts.
21. ***New SAP ledger System:*** The Council's new financial ledger system was originally planned for implementation with effect from 1 April 2000. Further important development work has meant that the implementation was not completed during 2000/01, and a new date of April 2002 has now been set. The capital expenditure incurred from 1998/99 to date is £357,000, against a budgeted amount of £450,000. Revenue costs incurred on the project in 2000/01 were £206,000. Projected total spend on the project is capital - £600,000 (budget £700,000), and revenue - £482,000, i.e. a total of £1,082,000 (budget £1,182,000).
22. ***Kilmarnock Leisure:*** The Council has a commitment to indemnify and reimburse the trustees of the Kilmarnock Leisure Centre Trust (also known as the Galleon Centre) to the extent of any loss incurred. The consolidated revenue account, Note 14 shows expenditure in this regard

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of £1.248 million. The majority of this expenditure relates to loan charges repaying a capital loan that was repaid in 2000/01. Now that the loan repayments have been completed the Council's funding relationship with the Trust, in particular the requirement to underwrite the Centre's revenue costs, is being reviewed.

23. **Council Tax Benefit Subsidy Claim 1998/99:** During the compilation of the 1999/00 housing and council tax benefit subsidy claim, officials confirmed that council tax benefit cases processed in the final week of March 1999 had been excluded from the 1998/99 subsidy claim. In March 2001, the Council submitted amended 1998/99 subsidy figures to the then DSS. Comprehensive working papers required to audit the amended subsidy figures were supplied in July 2001. The audit of the amended 1998/99 subsidy claim has now been completed and the following observations are made.
24. The Council left the final week (week 52) of the 1998/99 benefits system open until February 2000 to allow processing of a backlog of claims. Audit testing confirmed that the additional subsidy included in the amended claim includes amounts granted by the benefits section in 1998/99 and also amounts granted in 1999/00 but relating to 1998/99 charges. The amounts granted in 1999/00 had not been included in the claim for 1999/00. The Council is unable to split the additional subsidy claimed between the two years, and to be prudent, it was agreed that the total additional subsidy now due should be treated as part of the 1998/99 subsidy claim. Additional subsidy of £420,927 has now been paid to the Council.
25. **East Ayrshire Housing Partnership:** The Council signed up to this housing partnership in 1997. Subsequently, in December 1999, the special ad hoc New Housing Partnership Committee agreed that the Council would not proceed to conclusion of the project agreement, due to concerns over government policy that extended the scope of right to buy legislation to all tenants in the social rented sector. The Council felt that it could be exposed to financing rented housing, which would then be transferred to private ownership. The Council felt that this would not be an appropriate use of resources. An exit strategy was devised and agreed by the Emergency Powers Committee of 31 October 2000.
26. As a consequence of the Council's withdrawal, the partnership would not have been able to meet its debts. Accordingly, the agreed exit strategy resulted in costs to the Council of £105,000:
  - ◆ to write off a VAT reclaim due to the Council of £41,000
  - ◆ to write off an invoice for demolition costs of £6,000
  - ◆ to pay 50% of the project management costs due to Turner & Townsend Project Management, amounting to £48,000.

27. *Catering DSO:* The 1998 Act applies compulsory competition to school and welfare catering and other catering. In previous years, the Council did not maintain separate financial statements for schools and welfare catering and other catering, but instead aggregated both activities.
  
28. The 1996 CIPFA Code for Compulsory Competition, para. 3.13 says that if the estimated gross expenditure in the previous year for 1988 Act work is less than the de-minimis level of £100,000, the work is exempt from separate CCT accounting. Some years ago, other catering was below the de-minimis level. However, it was agreed that for 2000/01, the de minimis level had been exceeded and that separate revenue accounts needed to be published for both schools and welfare catering and other catering. The 2000/01 accounts have been amended to show these separately.

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## Matters arising from the audit

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

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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 that arose from the 2000/01 audit. The report also incorporates an action plan of issues to be addressed by the Council.

### Corporate governance

2. The Controller of Audit's overview report on the 1999/2000 local authority audits commented on the developments in corporate governance arrangements in Scottish local authorities. Drawing on the comments made in auditors' final reports to council members, the overview report identified three areas of corporate governance: the role of audit committees, the role of internal audit, and the internal control arrangements in councils.
3. It is important to emphasise that the Council's current management arrangements include many aspects considered to constitute best practice on corporate governance. In the context of the 2000/01 audit no specific review of the Council's arrangements for corporate governance has been carried out. However, many elements of the audit covered areas of relevance to the corporate governance agenda, e.g. management arrangements, review of internal audit, review of controls in financial systems, review of performance management and planning arrangements.
4. Corporate governance is assuming a higher profile in both public and private sectors. In 1999/2000 the Council agreed to review its corporate governance arrangements, and put in place a local code. The review is due to be completed soon. In this context, reference is being made to the CIPFA guide 'Corporate Governance: a Framework for Public Service bodies' and the guidance on corporate governance currently being prepared by Scottish directors of finance.

### Matters brought forward from previous years

5. **Commercial operations deficit:** It will be recalled that certain services in the commercial operations department incurred a deficit 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

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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.

6. The Council has taken further actions that were primarily concerned with maintaining continuous improvement, including new computer systems to improve costing and stores handling, and to produce better management information reports. Overall, these actions have had a beneficial impact on the financial position of the Building & Works DLO which generated a surplus of £78,000 for 1999/2000 and £234,000 for 2000/01.
7. In recognition of the significant steps taken by the Council to address the various issues arising from the 1998 commercial operation's deficit, and with the assurance that the Council will abide by rigorous best value criteria when tendering for revenue and capital works, the Section 19B restriction notice was lifted with effect from 24 August 2001. This now brings the historic deficit matter to a successful conclusion and allows the Council to determine and deliver DLO type services under national best value arrangements, in line with the general guidance to all Scottish local authorities.
8. **Housing rent arrears:** At the end of 1999/2000 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. Last year, it was agreed that a high priority was to be given to reducing the level of arrears from its current level of 12.6%. A review of the 2000/01 performance indicators shows that the level of arrears has risen further to 14.1%. This increasing level of arrears is of considerable concern. Audit Scotland recently advised that a reasonable target of 3% (net of housing benefit and voids) for semi-urban council's such as East Ayrshire should be achieved. Overall, and as reported in previous years, the Council's rent arrears position continues to deteriorate and previous actions taken to reduce arrears to more acceptable levels have not been successful. A report was presented to the November housing committee on this issue, and any further action to be taken should be rigorously progressed and monitored.
9. From a total arrears figure of £2.7 million, former tenants' arrears account for £0.75 million, i.e. 28% (1999/00: 17%), leaving a balance of £1.9 million owing by current tenants. There are currently in excess of 1,000 tenants owing more than £500, accounting for £1.2 million, i.e. 63% (1999/00 - 54%) of the current arrears. Action needs to be taken to tackle this position.

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## Grant claims and other returns

### *Housing and council tax benefit*

10. 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 Work and Pensions (DWP). This return is needed to allow the payment of subsidy at the agreed levels. Councils must satisfy their auditors and the DWP 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 through the reviews of the Benefit Fraud Inspectorate.
11. In previous years comments were made on the backlog in processing benefit information, leading, in some cases, to benefit period overruns. Following a Council review of benefit administration, an action plan was produced to address the issues identified.
12. A follow up report, produced in April 2001, concluded that, "good progress has been made on the medium term action plan." By March 2001, about 3,700 items were awaiting processing, representing about two weeks workload. This is not considered a backlog as it represents a reasonable level for mail awaiting processing. It is recognised however that processing improvements still need to be made as only about 60% of claims were processed within 14 days for 2000/01.
13. During the year, an evaluation of the current benefits system was carried out and inadequacies in the system were risk assessed. The head of IT concluded that a replacement system should be procured and the Council has made funding available for a new system which is due to be in place by 1 December 2002.

## Review of internal audit

14. 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.
15. In August 2001, Audit Scotland prepared a national report 'A Job Worth Doing' – Raising the Standard of Internal Audit in Scottish Councils. The study was requested by the Accounts Commission in order to establish a clear picture of performance of internal audit services in all councils in Scotland, and to provide benchmarking data to support

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continuous improvement. The expectation is that councils will use the information in the Commission's report to challenge their current levels of performance and take action to achieve the standards set out in the CIPFA Code of Practice for Internal Audit in Local Government.

16. Audit Scotland has undertaken this national benchmarking study by assessing the performance of internal audit services in all Scottish councils, against the standards set by the CIPFA Code of Practice for Internal Audit in Local Government. As a supplement to the national report, the Commission asked external auditors to review and challenge councils to use the information supplied in the national report to identify areas for improvement and take action to improve performance. All councils are expected to prepare action plans to make performance improvements.
17. Locally, it was found that the internal audit service in East Ayrshire has well-developed procedures and performance in most areas covered by the study. Examples of good practice already in place include:
  - ◆ an annual assessment of internal controls is included in an annual report to the director of finance, chief executive and is presented to members
  - ◆ the chief internal auditor reports directly to the chief executive
  - ◆ the chief internal auditor issues reports in his name and has the right of final edit
  - ◆ risk assessment is used to compile a three-year strategic plan
  - ◆ an annual plan is issued to reflect the strategic plan and corporate objectives
  - ◆ internal audit has an effective working relationship with external audit
  - ◆ audit policies and procedures are contained in a comprehensive internal audit manual
18. A few areas were identified where internal audit or council procedures are to be improved:
  - ◆ the Council has agreed to produce a leaflet entitled 'Introducing Internal Audit'; this publication will embrace a mission statement, and set out the role, objectives and reporting structures for the internal audit service
  - ◆ the chief internal auditor has agreed to include completion and reporting target dates in audit briefs, with follow up discussions being held where material slippage on the agreed reporting timescales is likely
  - ◆ any shortfall between the strategic needs assessment and the internal audit days available is to be monitored in conjunction with

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the progress of complementary activity being carried out by other internal and external colleagues to ensure all priority work is completed

- ◆ the internal audit service will continue to manage staff turnover to ensure achievement of annual operational plans; the recent restructuring of the service demonstrates this commitment
- ◆ the policy and resources committee's audit role within the new council structures is to involve the further development of internal audit reporting, and will incorporate audit committee principles.

### Review of financial systems

19. The review of the Council's main financial systems is an important part of the audit process. A review of internal audit's planned and actual input for 2000/01 was carried out to assess the degree of reliance that could be placed on the section's work. The planning stage review indicated that reliance could be placed on the section's systems reviews for aspects of payroll, creditors, cash handling and collection, aspects of council tax and housing benefits and stores.
20. In accordance with the audit plan for 2000/01, work has been carried out on the following systems: budgetary control, main accounting, payroll, creditor payments, cash income and banking, housing and council tax benefits, council tax billing and collection, non domestic rate income, capital accounting, capital contracts, council house sales, insurance and risk management, burial and crematoria income, grants to voluntary organisations, clothing grants, and school transport, together with follow-up of systems reviewed as part of the 1999/00 audit.
21. Overall, the audit work carried out was able to give assurances on the systems examined. Nevertheless, there are a number of areas where it was agreed that improvements should be made, and which would strengthen the management and control of the systems examined. These issues are summarised below:
  - ◆ **housing benefit and council tax benefit:** procedures were reviewed to ensure that the 2000/01 subsidy claim and related supporting schedules were compiled in line with procedures agreed with audit; benefit overpayment recovery action will be initiated in all cases; all benefit decisions will be fully documented in claimants' case files
  - ◆ **non domestic rate income:** computer system changes will be recorded and evidenced
  - ◆ **new ledger:** progress on implementing the new FMS financial ledger/management system will continue to be monitored

- ◆ **payroll:** input controls will be reviewed; the scheduled rolling review to confirm the accuracy of payroll standing data will be carried out
  - ◆ **written procedures** will be reviewed and updated for school transport, insurance and risk management, payments to voluntary organisations, clothing grants, and burial and crematoria income
  - ◆ **approved authorised signatory** lists will be updated and maintained
  - ◆ **internal audit** control recommendations made during the course of the year concerning housing and council tax benefits, council tax recovery and enforcement, creditors payments, income collection, payroll, and contract tendering procedures will be implemented by management.
22. As part of the 2000/01 audit, selective audit work was carried out on reviewing the Council's corporate computer network management and controls used to provide a secure and reliable operating environment. The Council's intranet and links to the internet are becoming key to the overall management of the Council and will continue to take on greater importance as the government's policy of '21<sup>st</sup> Century Government; is implemented. The key objectives and scope of the audit were to ascertain whether the Council had appropriate strategies and policies in place, and whether there were procedures in place to cover security, risk assessment and contingency.
23. Whilst the review did not highlight areas of major concern relating to the underlying management and control environment, it did identify some issues for management attention. These can be summarised as follows:
- ◆ the use of a systematic method of monitoring trends in network traffic using software tools will be fully developed as the Council embarks on its expansion of electronically delivered services
  - ◆ the implementation of a security policy to cover the changes required for the new and developing computer networking environment is to be completed
  - ◆ procedures to ensure the immediate removal or suspension of redundant user accounts such as those on long term leave will be introduced
  - ◆ plans for the recovery of the Council's IT infrastructure, in the event of disaster, including voice and data networks will be reviewed and updated
  - ◆ contingency arrangements for data communications issues will be reviewed and tested on a regular basis.
  - ◆ a more formal risk assessment methodology or framework will be applied when considering new ICT projects

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## 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 comprising 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 that 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. Since this time, Audit Scotland has developed the performance management and planning (PMP) audit to review the progress that councils are making in implementing the framework set out by the Best Value Task Force.
4. The PMP audit for 2000/01 comprised three elements: an audit of the arrangements in three services selected by the Council (roads contracts and operations, home care services, and information technology services); an audit of overall co-ordinating arrangements at a corporate level for key elements of best value; and a follow-up audit of the progress made in relation to the improvement actions agreed by the three services subjected to the PMP audit framework last year. As with previous years, the PMP audit has been carried out in accordance with guidance issued by Audit Scotland.
5. In broad terms, at a corporate level, the Council can demonstrate clear commitment and good progress in implementing the PMP framework, is making good progress on a number of fronts and is committed to taking further action as required. In general, across the four criteria against which the corporate arrangements were judged i.e. leadership, the corporate framework, management of best value reviews and the

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approach to public performance reporting, the Council has many elements of a sound approach in place, but with scope for some improvements.

### **Summary of main strengths and areas for improvement**

6. There are a number of areas where the Council has well developed corporate approaches and performance. Particular examples include the leadership given by the corporate strategy group, the linkages between the corporate plan and service departments' planning processes, the use of EFQM reviews in supporting the corporate strategy for best value, and the use of the MORI residents survey to inform public performance reporting.
7. The Council recognises that its public performance reporting process is still at an early stage of development despite the actions taken to date. Public performance reporting is an evolving process and will continue to be developed over time, with departments expected to develop performance information on individual services. However, the Council has identified a number of possible ways of delivering information to its stakeholders, including use of the internet, email, and performance information at the point of service delivery. It is understood that the Council's public performance report will be issued to every household in late April 2002.

### **Improvement actions**

8. The corporate improvement actions agreed with the Council address issues such as the development of a fully costed three-year budget and resource plan, improvements on the arrangements for public performance reporting, and the development and dissemination of its Best Value Manual. The Council also produced a mid-term report on progress made in implementing the council plan.
9. The main priorities for improvement identified through the PMP audit and through other audit work appear to be addressed through the improvement actions identified. Clear objectives, deadlines and responsibilities have been set, and the overall tasks identified appear realistic.

### **Service reviews**

10. Service reviews were carried out on roads contracts and operations, home care services and information technology services. All demonstrated commitment and progress in implementing their PMP framework, with areas identified for improvement.
11. Roads contracts and operations has some well developed approaches including a service review planning process incorporating, for example,

ISO 9001 quality accreditation reviews. Areas where improvement actions have been agreed include a more comprehensive planning process to cover all activities, development of a formal ongoing process of communicating with staff on best value, and development of a systematic approach for identifying and using the best means of communicating its PPRg information to its stakeholders.

12. Home care services well developed approaches include building consultation into its regular service planning cycle and a systematic approach to monitoring and controlling the service's performance. Areas where improvement actions have been agreed include involving relevant elected members in formulating its approach to best value, reviewing some aspects of the service planning process and a more systematic approach to communicating objectives and performance expectations to staff.
13. Information technology services is particularly noted for including building consultation into its regular service planning cycle and for a systematic approach for communicating objectives and performance expectations to staff. Areas where improvement actions have been agreed include involving staff and relevant members in formulating the service's approach to best value; further development of appropriate indicators and continuous review and development of processes and outputs.

#### **Follow-up of previous year's service reviews**

14. Follow-up reviews took place in three services, repairs (housing and property), grounds maintenances and criminal justice services, which involved an assessment of the progress made by the services audited last year in implementing agreed improvement actions. It was identified that some progress has been made in strengthening the PMP framework through the implementation of improvements in all three services. However, whilst all three services had made some progress on implementing their planned actions, on reflection, all of the services were somewhat overly optimistic in what they felt was achievable at the time of preparing their PMP (1) improvement action plans. They would benefit from more clearly identifying the steps to be taken to achieve each action, and the people and other resources required. For most of the actions not achieved the services feel that the actions are still relevant and revised milestones for completing the improvement plans have been agreed with officers.

#### **Brought forward matters**

15. *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

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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.

16. Both reviews found that the Council's costs of collecting council tax were below the relevant benchmark. However, this may have been at the expense of the collection rates which, at 78% at that stage, compared unfavourably with the relevant benchmarks for semi urban councils. In 1999/2000 the collection level increased to 83.2% from 82% in the previous year. The performance indicators for 2000/01 show a further improvement to 85.3%, although this remains below the Scottish average of 89.2%. The Council has acknowledged that further action is required in this area.
17. The reviews carried out also 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. The Council achieved its collection target of 85% for 2000/01, and has increased the target to 87% for 2001/02.
18. 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. These were re-visited in 2000/01 to assess progress.
19. **Rent arrears:** 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.
20. The initial 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 included the level of arrears that were at 12.6% in 1999/2000, a rise from 10.6% the previous year, the low level of processing of benefit claims against the 14 day processing target and the need to continue to address arrears recovery in line with best practice.
21. In section 3 the position in 2000/01 is recorded. This shows a further deterioration of the arrears position, and indicates that a fresh approach is being adopted by the Council.
22. **Refuse Collection:** 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.

23. 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.
24. The findings from the audit review included enhancing its costing system, improving absence management, improving the Council's response to the government's recycling targets, and developing benchmarking information. The Council has progressed action in these areas during 2000/01.
25. *DLO/DSO management information:* 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.
26. 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. In response to the report, the Council prepared an action plan to address the main issues, including implementation of a new financial management system, development of key business ratios and service quality measures and implementation of the findings of the best value review of the repairs service.
27. Some follow up work has been carried out as part of the 2000/2001 audit plan to review and verify the extent to which the Council has implemented the various actions that were to be completed/implemented in the main, around April 2001. Overall, the Council has taken some action towards implementing the agreed action plan. Progress in implementing the revised action plan will be reviewed by the incoming auditor as part of the 2001/2002 audit.
28. *Schools administration:* 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

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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.

29. 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.
30. A number of action points were agreed by the Council, including implementation of a revised staffing structure, provision of ICT training, streamlining documentation and producing a policy on the management of supply teachers.
31. Follow-up work confirmed all but two of the 13 action points have been completed. Outstanding issues are the completion of an assessment of training needs for APT&C staff within schools, and an exercise to review the roles and remits of all central staff. In both areas work is ongoing.

### Centrally directed studies

32. In the 2000/01 audit, two value for money studies from the national programme devised by the Commission were carried out: property risk management in schools and raising the standard of internal audit (reported in section 3).

#### *'A safer place - revisited' : property risk management in schools*

33. In January 1997, the Accounts Commission published '*a safer place: property risk management in schools*' reporting the findings of a national value for money study of property risks in schools. Following publication of '*a safer place*', local audits were undertaken in over half the councils in Scotland. These suggested that councils were starting to take steps to improve their management of risks relating to school property.
34. Now, more than four years on from the publication of '*a safer place*', the Commission has conducted a national follow up study based on audited self assessments by councils to assess progress in implementing the recommendations made in that report. In June 2001, the findings from this follow up were published as a national report '*a safer place : revisited*'. As a supplement to the national report, the Commission asked external auditors to produce local reports showing individual council's performance against national findings and to identify areas for improvement to be progressed through an action plan. The draft

conclusions and action plan arising from the local audit are with officers for consideration and comment prior to issuing the final report.

### **Citizen's charter**

35. 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.
36. 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 complied with the relevant Direction. However, there remains a need for improved procedures to produce the housing 1 (response repairs) indicator and officers have undertaken to concentrate on this aspect for 2001/02.

## Concluding remarks

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1. I am pleased to be able to formally conclude the audit of the Council's 2000/01 accounts.
2. A number of areas have been identified from the five years of the 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.

Angela Cassels  
Senior Audit Manager

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## Action plan

Page/ Paragraph	Action to be taken	Action	
		Who by	When by
	<b>1996/97 ACTIONS</b>		
4/14	<b>Title deeds</b> for the Kilmarnock town centre are to be reconciled to the Council's fixed asset property register.	Solicitor to the Council	July 2002
	<b>1998/99 ACTIONS</b>		
4/16	Internal audit is to continue monitoring the operation of <b>stores controls</b> .	Chief Internal Auditor	Continuing
17/16	An updated <b>council tax</b> arrears management action plan is to be put in place to maximise collection levels.	Director of Finance	June 2002
	<b>1999/2000 ACTIONS</b>		
2/6	<b>General reserve:</b> Over the next few years, if financial circumstances permit, steps will be taken to generate a reserve to cater for any unforeseen contingencies that may occur.	Council	Each year
4/17	<b>Void:</b> The position is to be monitored with a view to reducing the level of council house voids.	Director of HaTS	Continuing
8/4	<b>Corporate governance:</b> The ongoing review is to be completed and a local code adopted.	Chief Executive	June 2002
9/8	<b>Rent arrears:</b> A high priority is to be given to reducing the level of arrears from its current level of 14.1%. Progress on the achievement of the action plan is to be monitored.	Director of HaTS	Continuing
18/27	<b>DLO/DSO management information:</b> Progress on the achievement of the action plan is to be monitored.	Various Directors	Continuing
19/31	<b>Schools administration:</b> Progress on the outstanding agreed action plan points is to be monitored.	Head of Schools	Various dates

Page/ Paragraph	Action to be taken	Action	
		Who by	When by
	<b>2000/01 ACTIONS</b>		
5/21	<b>Financial ledger system:</b> The new financial ledger system is to be implemented.	Director of Finance	April 2002
11/18	<b>Internal audit review:</b> Progress on achievement of the agreed action plan will be monitored.	Chief Auditor	Continuing
12/21	<b>Review of financial systems:</b> Progress on the achievement of the agreed action plan is to be monitored.	Director of Finance	Continuing
15/9	<b>Performance management and planning:</b> Progress on the achievement of the agreed action plans is to be monitored.	Depute Chief Executive/ Director of Corporate Resources	Continuing
19/34	<b>School property risk management:</b> The response to this draft report will be completed.	Director of Education	April 2002