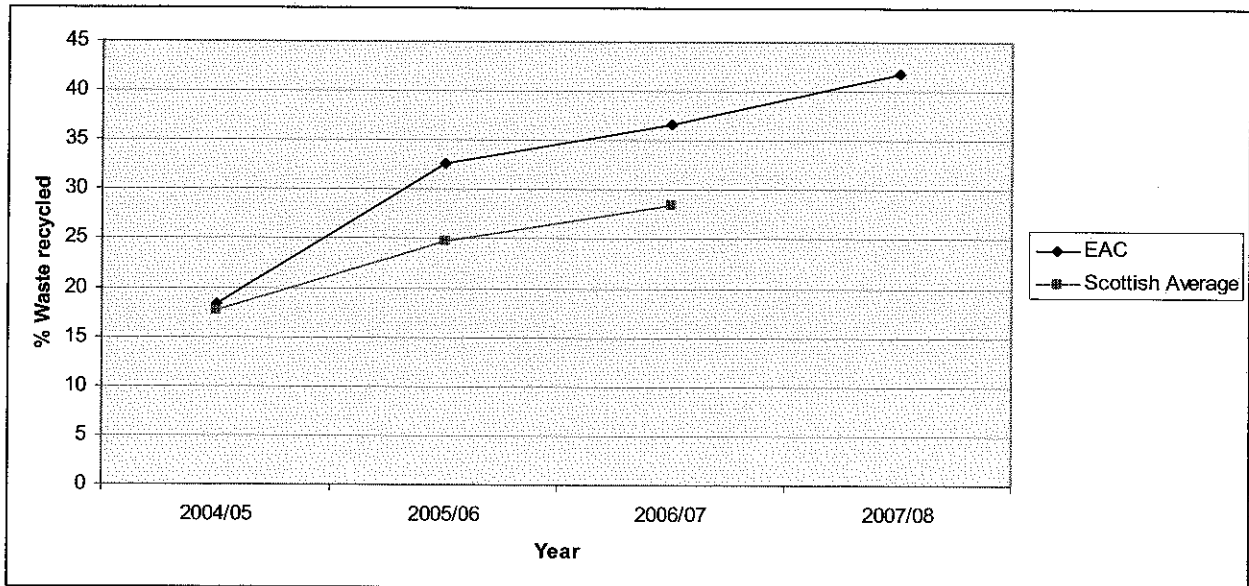


Chart 2 – East Ayrshire Council percentage of municipal waste recycled 2004/05 – 2007/08



Scottish average figure for 2007/08 not yet available.

72. The council have also commissioned a report from Caledonian University Environment Centre which is to provide recommendations on the future disposal of waste. The council is actively engaging with its neighbouring Ayrshire councils to investigate joint solutions to a common issue

Pension liabilities

73. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of estimates. A recent Audit Scotland report on public sector pension schemes highlighted that the combined funding shortfall and unfunded liabilities of the six local government pension schemes in Scotland may be as high as £53 billion.
74. In accounting for pensions, FRS 17 is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts.
75. The council's estimated pension liabilities at 31 March 2008 exceeded its share of the assets in the Strathclyde local government pension scheme fund by £1.883 million, a reduction of some £50.270 million over the 2006/07 figure of £52.153 million. The last actuarial valuation as at 31 March 2005 was reported in April 2006 and calculated the funding level, the ratio of fund assets to past service



liabilities, as 97%. Between the triennial valuations, intervaluation reports are prepared but these have been volatile (31 March 2007 108%, 31 March 2008 89%). Employer contributions (as a ratio of employee contributions) are increasing from 270% in 2007/08 to 280% in 2008/09. The next triennial valuation, as at 31 March 2008, is due to be reported early in 2009 and future employer contribution rates for 2009/10 and the following two financial years will be considered at that time.



Governance

Introduction

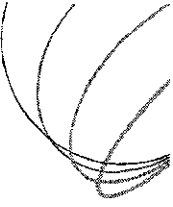
76. In this section we comment on key aspects of the council's governance arrangements during 2007/08. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2007/08

77. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on the work undertaken, we concluded that the council had systems in place that operated well within a generally sound control environment.
78. The council has adopted a local code of corporate governance based on the May 2008 CIPFA/SOLACE Code of Practice. A corporate governance assurance statement is included within the annual financial statements and has been signed by the Leader of the Council and the Chief Executive. The statement is based on an assessment by the council of its arrangements against the CIPFA/SOLACE framework, supported by written declarations from Executive Directors and Heads of Service that confirm compliance with their governance responsibilities. The statement concludes that the level of compliance with the code is adequate in all areas and notes that an action plan is in place to direct further improvements.

Political governance

79. The political context for councils in Scotland changed significantly in 2007, with a new national administration and a shift to more coalition and minority administrations in local government. Nearly half of the councillors elected in May 2007 were new to local government, requiring that councils quickly develop training packages sufficient to allow new members to effectively fulfil their responsibilities. The need for effective member support has been increased in those councils which, like East Ayrshire Council, have opted to move from a functional committee structure to the cabinet model. The cabinet model functions very differently in terms of oversight and all members have therefore been required to develop an understanding of the new procedures.
80. The council monitors the training which its members receive and is on course to develop individual development plans for all members by December 2008.
81. The creation of multi-member wards has required new ways of working to support efficient representation and sharing of the workload. The council has taken the view that protocols to support



the effective working of the new system are best developed as the need arises. To date this approach appears to be working well. The council is investigating case management software which is designed to make it easier for members to manage their responsibilities. This is part of an ongoing review of member support, encompassing reporting arrangements, information access and personal development. However, multi-member wards are still fairly new in Scotland and the practical issues will become clearer as the new arrangements mature.

Audit committee

82. Effective scrutiny is central to good governance. Members have a significant role scrutinising performance, holding management to account on service delivery and supporting the improvement and modernisation agenda. This scrutiny role is the responsibility of the Governance and Scrutiny Committee, which also monitors corporate governance, standards of conduct, performance and best value as well as audit and risk. This range of roles means that the Governance and Scrutiny Committee must be able not only to carry out the conventional audit committee role but also scrutinise performance and hold management to account.

83. We noted in our 2006/07 report that the council's establishment of the Governance and Scrutiny Committee meant that it was fully compliant with the current "Audit Committee Principles in Local Authorities in Scotland" guidance issued by CIPFA. We have reviewed the training provided to members during 2007/08 and note that all members of the committee have been provided with training in their scrutiny role. We were pleased to support this development by providing a presentation to members in February 2008, alongside the council's Internal Audit Service on the role of audit in supporting the committee's activities. The wide ranging responsibilities of committee members requires considerable effort on their part and the council should ensure that they are fully supported with the training and information necessary to manage all aspects of their remit, including consideration of issues arising from audit reports.

Internal audit

84. Internal audit provides an independent appraisal service to management, by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the council's internal audit arrangements against the CIPFA Code of Practice for Internal Audit in Local Government 2006. We found that the function continues to deliver quality work in accordance with a risk based framework. With only minor adjustments to its planned activity, to reflect resourcing demands in year, internal audit were able to deliver the range of planned work.



Systems of internal control

85. A statement on the system of internal financial control for the council and its group was included within the financial statements. In accordance with the SORP, the statement reflects the internal control environment for the group as a whole. Following receipt of a range of assurances from managers across the council and the Chief Internal Auditor, alongside assurance obtained from associates, the Chief Executive and Executive Head of Finance and Asset Management have concluded that reasonable assurance can be placed on the adequacy and effectiveness of the systems of internal control operated by the council and its group.
86. The statement acknowledges that further work is needed to enhance internal controls in three specific areas:
- the accuracy and charging of repairs and maintenance
 - consistent compliance with council guidance on following the public pound
 - the need to strengthen the control environment in Social Work Services.

We will monitor progress on these issues as part of our 2008/09 audit.

87. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on the council's main financial systems. During 2007/08 we conducted high level reviews of all the council's main financial systems, the significant findings from which were reported to management in June 2008. Specific comment was made in this report on the following main systems:
- budgetary control
 - loans and borrowing
 - rent accounting
 - council tax billing and collection
 - cash and banking
88. Action plans have been agreed in respect of each weakness identified and we will monitor progress as part of our 2008/09 audit work. We did not report any weaknesses in the systems for managing housing rents, and we commended the team for their record in managing rent arrears.
89. We were also able to place reliance for our opinion work on the full systems reviews conducted by internal audit on all aspects of the operation of the non domestic rates and council tax systems.

Prevention and detection of fraud and irregularities

90. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include an anti-fraud and corruption



policy, introduced during 2007/08, a whistle blowing policy, codes of conduct for elected members and staff, and defined remits for committees and cabinet.

NFI in Scotland

91. During 2007/08, we continued to monitor the council's participation in the 2006/07 national fraud initiative (NFI). This exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£9.7 million from the 2006/07 exercise and £37 million including previous exercises). Where fraud or overpayments are not identified in a body, assurances can usually be taken about internal arrangements for preventing and detecting fraud.
92. In our 2006/07 report we reported that the council had made significant progress towards following up referrals although it had concentrated on high quality matches. Some lower quality risk-based matches, where the returns were likely to be small in relation to the effort required had not been examined. The council did not intend to follow up matches in areas where previous work had given adequate assurance. At East Ayrshire Council 26 frauds have been detected and around £100,000 has been identified as savings. The council has now checked most of its high quality matches and a significant proportion of its other matches.
93. Between the 2006/07 and 2008/09 exercises, councils have had the opportunity to pursue an interim set of matches concentrating on information available from the electoral register and the council tax systems. Due to legal concerns, the council has not yet participated in this exercise. These concerns have now been alleviated and the council will now undertake the examination of these matches.

Housing and council tax benefits

94. From April 2008, Audit Scotland took over responsibility for inspecting the housing and council tax benefit functions from the Department for Work and Pensions' Benefit Fraud Inspectorate. A central team is carrying out inspections on a cyclical basis and all councils will be inspected during an 18 month period. Councils will be subject to review based on a risk assessment of benefit performance and processes, which means that the timing of each review will depend on the relative performance of different authorities. The council will be notified of its review date in due course.

Data handling and security

95. Data handling and security has received increased public and media attention recently as a result of a number of national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions and other government departments.



Information security is now a service delivery issue where a significant failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing, legal costs relating to civil litigation and prosecution.

96. We reported on our 2007/08 review of data handling within the council in July 2008 and noted that the council had a number of areas of good practice in respect of its governance arrangements. We also identified four areas where the council was exposed to risk, including the need to formally classify and monitor information in accordance with an overarching information and knowledge strategy.

Payment card standards

97. The Payment Card Industry Data Security Standard (PCI/DSS) was developed by major credit card companies as a guideline to assist organisations that process card payments to prevent credit card fraud, hacking and various other security threats. Any organisation processing, storing or transmitting payment card data must be PCI/DSS compliant or risk losing their ability to process credit card payments. The council is currently investigating the possibility of using a hosted service to ensure full compliance with these requirements and negotiations are underway to identify a suitable supplier.

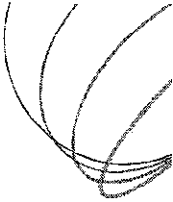
Your business @ risk

98. Your business @ risk (YB@R) is a web-based survey that helps auditors and public sector organisations to focus on the business risks associated with information and communications technology. The survey is part of a portfolio of tools developed by the Audit Commission's Good Conduct and Counter Fraud and IT Knowledge Networks. The Graham Committee report on the Standards of Conduct in Public Life endorsed these tools and recommended that they be used throughout the whole of the public sector.
99. Audit Scotland piloted YB@R in a number of central and local government clients during 2006/07. In the last year work has been done, in conjunction with the Audit Commission, to upgrade the survey for more widespread rollout in Scotland. It is anticipated that this will occur during 2008/09.

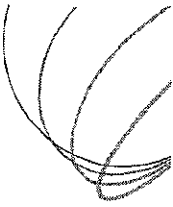
Governance outlook

Single outcome agreements

100. The concordat between the Scottish Government and CoSLA aims to establish a new relationship between national and local government in Scotland. The concordat will determine the level and structure of funding provided to local government over the period 2008/09 to 2010/11. Central to the concordat is the single outcome agreement (SOA) between each council and the Scottish government



101. The council is required to report annually to the Scottish Government on local progress against the SOA. This annual report will include a retrospective element reviewing the year passed, as well as a forward looking element setting out future plans. An action plan has now been produced which sets out the next steps required to March 2009 and we will continue to monitor this area. Further comment in regard to the council's SOA has been made in the Performance section of this report.



Performance

Introduction

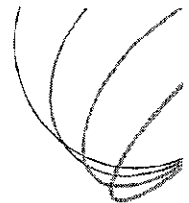
102. In this section we summarise how the council manages its performance. We set out the council's community planning objectives and themes and set out the reported achievement against thematic action plans. We comment on the council's performance as reported through its public performance report, statutory performance indicators and Best Value improvement agenda. We give an outlook on future performance and update the position of the issues identified in our Strategic Audit Risk Analysis (SARA). Finally, we comment on the findings of other inspectorates and Audit Scotland's national performance studies, relating them to the council's position.

Corporate objectives and priorities

103. East Ayrshire Council has a vision, shared with its community planning partners, which seeks to ensure that East Ayrshire will be a place with strong, vibrant communities where everyone has a good quality of life and access to opportunities, choices and high quality services which are sustainable, accessible and meet people's needs. This statement is the foundation to the council's sovereign planning document, the community plan.

104. The community plan was, and continues to be, developed in conjunction with the council's planning partners and identifies and prioritises what actions need to be taken to achieve its vision, in addition the plan addresses how the council and its partners will achieve their objectives. In order to ensure that the community planning process is consistent, the community plan highlights a number of guiding principles which the council must work towards in order to achieve its goals, these are:

- to promote social justice and social inclusion
- to build sustainability
- to succeed in joint working and involving people
- to ensure quality and accessibility
- to deliver continuous improvement and best value.



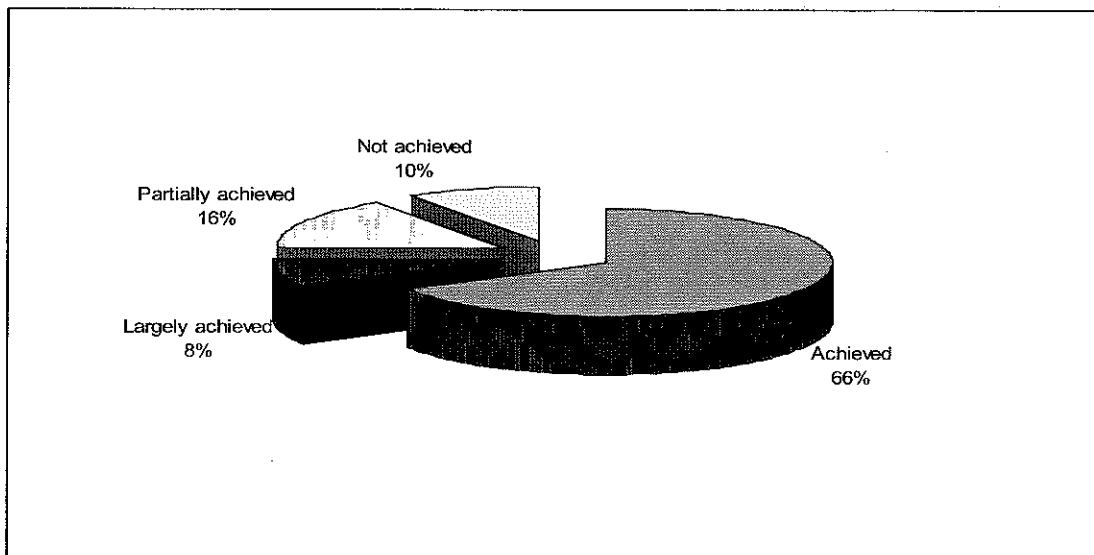
105. Underpinning these guiding principles are six thematic action plans each having a number of planned actions and outputs and each contributing to securing the community plan objectives. The themes are:

- promoting community learning
- improving opportunities
- improving community safety
- improving health
- eliminating poverty
- improving the environment

106. Measuring the council's progress against the thematic action plans is crucial to the effective management of performance. The council reports its performance annually as part of the annual performance report, and provides a mid term report to cabinet.

107. Performance against the thematic action plans for 2007/08 was reported to the Community Planning Partnership Board in June 2008. Across the six thematic action plans there were 240 planned outputs. Of these outputs the council reported that 160 were fully achieved, 19 largely achieved and a further 38 partially achieved. The remaining 23 outputs had limited progress made against them.

Chart 3 – Community planning outputs achieved 2007/08





108. The 2007/08 annual performance report highlighted the following as being key achievements in the year:

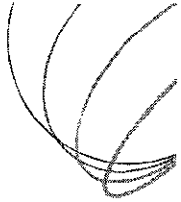
- 67 health, culture, parenting and entrepreneurship courses delivered during the year
- 51 early education and childcare workers completed qualifications in 2007/08
- 20 additional “20’s plenty” zones established
- 14,268 young people participated in sports/physical activities
- 673 successful benefits claims made arising from contacts made by the joint council/DWP benefits team.

Overview of performance in 2007/08

Annual public performance report

109. The council’s annual public performance report will be published soon. The report will highlight some of the council’s significant achievements over the previous 12 months. Some of the notable achievements to be reported include:

- The delivery of a number of flagship school developments across East Ayrshire.
- Dumfries House was officially opened to the public in June of this year by HRH The Prince of Wales in a ceremony also attended by the First Minister Alex Salmond. The Prince’s vision for the project is to use the house and surrounding land as a way of encouraging the regeneration of the Cumnock area.
- The CONDUIT programme provides information technology training to long-term unemployed people living in East Ayrshire. 74% of the project’s participants in 2007/08 progressed to employment, whilst 96% of participants achieved an SVQ Level II in administration.
- The risk management centre opened in May 2008 and now monitors all public space close circuit television cameras across East Ayrshire. The system has 49 cameras located not only in the main centres of Kilmarnock and Cumnock, but also in other smaller population centres.
- The Flexible Warden Unit was introduced in September 2007 and allows much greater coverage within the communities of East Ayrshire. This service has been improved further with access to the North Ayrshire mobile CCTV vehicle.
- “Streetsport cages” have now been installed within 22 communities across East Ayrshire. Run in partnership with the council’s Outdoor Services, Anti Social Behaviour Team and the local police, these cages provide outdoor sports facilities that are floodlit until 10.00 p.m each night



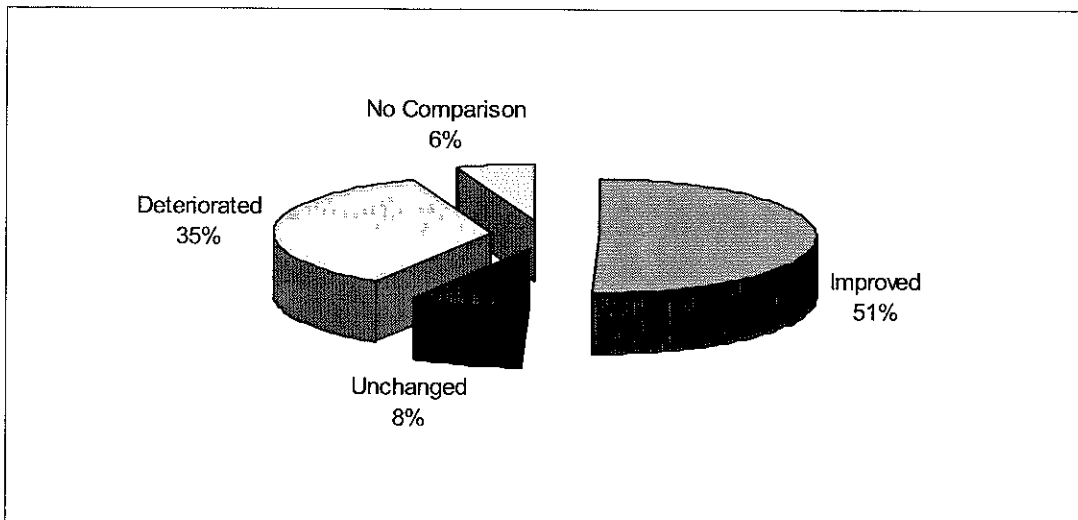
and can be used by young people at no cost. Figures produced by the police indicate a 46% reduction in youth-related calls in the 12 months following the installation of the cages.

- The latest co-location initiative, the Stewarton Area Centre, was completed during the year. This facility brings together council and police services in the centre of Stewarton.
- The Berryknowe Care Home, which provides modern facilities meeting national care and accessibility standards, opened in May 2008.
- The council completed the 4,500th home to be provided with a grade 'A' gas central heating system. Other energy saving improvements to the housing stock include enhancing loft and wall insulation and draught proofing to doors and windows.

Statutory performance indicators

110. One of the ways of measuring the council's comparative performance is by using statutory performance indicators (SPIs). Historically, the council has been well placed in national comparisons for a range of indicators, however, it also recognises that for other indicators, such as those for development services, improvements can be made and has placed emphasis in using targets to improve performance in these areas. In 2007/08, the council reported continued improvement and high performance for a proportion of its SPIs and has set itself targets in areas where improvement is required.

Chart 4 – Statutory performance indicators 2007/08





111. Examples of SPIs displaying a sustained improvement trend are:

- the percentage of operational buildings that are suitable for their current use
- the average time taken to process new benefits claims
- the net cost of refuse collection per premise
- current tenant rent arrears as a percentage of the net amount of rent due for the year.

112. Reported performance in 2007/08 has, however, declined in a number of areas, notably:

- the cost of collecting council tax per dwelling has increased by £6.55
- the average time to re-let houses which are not low demand has risen by 7 days, from 31 days to 38 days.

113. The percentage of income due from council tax that was received by the end of the financial year remained unchanged at 92.4%.

114. Each year we review the reliability of the council's reported SPIs. The council's Internal Audit Service provided invaluable assistance in completing this task. We were able to conclude that the reported figures were reliable.

Best value and community planning audit

115. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of best value based on a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.



116. The Best Value audit of East Ayrshire Council was carried out in 2006 and the findings published in September 2006. Overall conclusions from the audit are set out in table 5.

Table 5 – Extract from East Ayrshire Council Best Value and Community Planning audit report

“East Ayrshire Council can demonstrate a clear commitment to Best Value. It is focused on meeting the diverse needs of its communities, and is enthusiastic and innovative in working with a range of partners through Community Planning.

The council is characterised by strong and effective leadership from its senior management, which is developing a culture of continuous improvement throughout the organisation.

Progress has been made in performance management and other essential elements of Best Value, but further development is required, such as in linking service and budget planning and more balanced reporting on service performance.

The available evidence suggests there are good services in community care, housing, finance and education, although attainment levels remain a challenge in many schools. Statutory Performance Indicators (SPIs) could improve in a number of areas. The council also needs to ensure that it encourages a positive approach to challenging and discussing areas in need of improvement”.

117. As a consequence of the Best Value audit an improvement agenda, underpinned by detailed improvement action plans, was put in place. Annual progress reporting is considered by the Governance and Scrutiny Committee. The improvement plan has been incorporated into the council's ongoing performance management arrangements.

118. A number of the actions in the improvement plan were identified by the council as part of its own strategic self assessment which preceded the Best Value audit. Officers have reported to council that 54 of the 62 actions had been fully achieved as at 31 July 2008.



119. Whilst the council has largely implemented the priorities set out in its improvement agenda, a number of important actions are still being progressed. Examples include:

- the production of a revised suite of local performance indicators for the implementation of the IT based performance management system
- the development of personal development plan scheme for members
- the rationalisation of the council's repairs service following recommendations of the cross-cutting best value service review of property maintenance.

120. The council's strategy for community-based public services is to work closely with its community planning partners in providing fully integrated public services, co-located in shared premises. The first co-location project, the Dalmellington Area Centre, was recognised nationally as a flagship partnership joint working project. This brought together under one roof, police, health and council services. Since this centre opened in 2001, a further four major co-located projects have become operational throughout the East Ayrshire area. The most recent co-location project, the Stewarton Area Centre, was opened during the year.

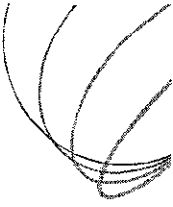
121. The council is committed to further extending this model of shared service provision to other parts of East Ayrshire. Work is also about to commence on a new area centre in Crosshouse. This latest co-location initiative, scheduled for completion in 2009/10, will incorporate a learning centre, community library and local office, and provide accommodation for a range of health professionals including GPs, podiatrists and community health visitors.

Performance outlook – opportunities and risks

122. In the course of our audit work we identified some strategic risks to East Ayrshire Council delivering on its stated objectives and priorities in the years ahead. These risks were set out in the SARA and grouped into six risk themes. In the following paragraphs, we comment on the progress made by the council during the year and the key risks yet to be fully addressed.

Political governance

123. The minority SNP administration which was formed after the May 2007 elections has, in common with a number of other Scottish local authorities, introduced a cabinet structure to replace the previous arrangements based around service committees. The cabinet structure invests a number of members with "executive portfolios" based around the community planning themes and with special responsibility for council activity in these areas. The current cabinet has the Leader of the Council acting as spokesperson for Community Planning and Equalities, while two members have joint responsibility for each of the remaining portfolios, Lifelong Learning, Management and Resources,



Environment and Regeneration and Community Wellbeing. The Leader of the Opposition is also a member of the cabinet. Further comment is made on these developments in the governance section of this report.

Community planning and partnership working

124. East Ayrshire Council has clearly signalled its commitment to a shared vision by its decision to adopt the community plan as its strategic plan, with no need for a separate corporate plan. The council believe that it not only reinforces its commitment to partnership working but also gives other benefits, including clarity of purpose across the council and a common framework for coordinated action.
125. The key development in community planning during 2007/08 was the requirement to agree a Single Outcome Agreement (SOA) with the Scottish Government by 30 June 2008. Due to the strategic importance of the community plan, community planning partners took the decision to develop a Community Planning Partnership Single Outcome Agreement by June 2008 – one year ahead of schedule. The SOA and its development was considered routinely by cabinet during its preparation and was endorsed by the Community Planning Partnership (CPP) Board on 26 June, prior to submission to the Scottish Government on 27 June.
126. East Ayrshire Community Planning Partnership's SOA for 2008-2011 links strategically to the East Ayrshire community plan and the priorities, measures and targets contained within it were drawn from the community planning thematic action plans, partner agencies' key strategic priorities and current reporting requirements for example, SPIs and HEAT targets. The intention is to build on existing strategic and performance monitoring arrangements as the transition is made to the SOA process.
127. The SOA links strategically to the community plan therefore existing planning and budgeting cycles have been used. The specific 'commitments' set out within the 2007 Concordat are currently being costed and considered by the council. The response to these commitments, as they relate to East Ayrshire, will be built into the SOA over the coming year.
128. As a result of a review of consultation and engagement, the council and its community planning partners agreed to establish four new Local Community Planning Forums. These were inaugurated on 1 April 2008. To shape the overall development of the forums and inform the agenda for individual forums a two day "Working Together, Learning Together" event was held in early April and an annual plan agreed.