



**North Ayrshire Council**  
Comhairle Siorrachd Àir a Tuath

## **Audit and Scrutiny Committee**

A Meeting of the **Audit and Scrutiny Committee** of North Ayrshire Council will be held in the **Council Chambers, Ground Floor, Cunninghame House, Irvine, KA12 8EE** on **Tuesday, 31 May 2022** at **10:00** to consider the undernoted business.

- 1      Declarations of Interest**  
Members are requested to give notice of any declarations of interest in respect of items of business on the Agenda.
- 2      External Audit Report on Audit Dimensions and Best Value for the year ended 31 March 2022**  
Submit report by Head of Service (Finance) on the findings from the External Audit report on Audit Dimensions and Best Value for 2021/22 (copy enclosed).
- 3      Accounts Commission's Report: Local Government in Scotland: Financial Overview 2020/21**  
Submit report by the Head of Service (Finance) on the findings of the recently published Accounts Commission report (copy enclosed).
- 4      Internal Audit Annual Report 2021/22**  
Submit report by the Head of Service (Finance) on the work of Internal Audit during 2021/22 and providing an opinion on the governance, risk management and internal control environment of the Council (copy enclosed).
- 5      Annual Governance Statement 2021-22**  
Submit a report by the Head of Service (Finance) on the Council's Annual Governance Statement for 2021-22 for inclusion within the draft Annual Accounts (copy enclosed).

- 6 Accounting Policies 2021/22**  
Submit report by the Head of Service (Finance) on the accounting policies which will be adopted in the preparation of the Council's Annual Accounts for the year to 31 March 2022 (copy enclosed).
- 7 Corporate Fraud Team Annual Report 2021/22**  
Submit report by the Head of Service (Finance) on the work of the Corporate Fraud Team during 2021/22 (copy enclosed).
- 8 Internal Audit and Corporate Fraud Action Plans: Quarter 4 Update**  
Submit report by Head of Service (Finance) on the progress made by Council Services in implementing the agreed actions from Internal Audit and Corporate Fraud reports as at 31 March 2022 (copy enclosed).
- 9 Internal Audit Reports Issued**  
Submit report by the Head of Service (Finance) on the findings of Internal Audit work completed between March and April 2022 (copy enclosed).
- 10 Participatory Budgeting**  
Submit report by the Executive Director (Communities and Education) providing an update on engagement methods used in Participatory Budgeting events (copy enclosed).
- 11 Urgent Items**  
Any other items which the Chair considers to be urgent.
- 12 Exclusion of the Public - Para 1**  
Resolve in terms of Section 50(A)4 of the Local Government (Scotland) Act 1973, to exclude from the Meeting the press and the public for the following item of business on the grounds indicated in terms of Paragraph 1 of Part 1 of Schedule 7A of the Act.
- Non Disclosure of Information**  
In terms of Standing Order 19 (Disclosure of Information), the information contained within the following report is confidential information within the meaning of Section 50A of the 1973 Act and shall not be disclosed to any person by any Member or Officer.
- 13 Investigation Reports Issued**  
Submit report by the Head of Service (Finance) on investigation reports finalised since the last meeting (copy enclosed).

**Webcasting**

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You should be aware that the Council is a Data Controller under the Data Protection Act 2018. Data collected during the live-stream/webcast will be retained in accordance with the Council's published policy, including, but not limited to, for the purpose of keeping historical records and making those records available via the Council's internet site.

Generally, the press and public seating areas will not be filmed. However, by entering the Council Chambers and using the press or public seating area, you are consenting to being filmed and consenting to the use and storage of those images and sound recordings and any information pertaining to you contained in them for webcasting or training purposes and for the purpose of keeping historical records and making those records available to the public. If you do not wish to participate in a recording, you should leave the meeting at this point. This will constitute your revocation of consent.

If you have any queries regarding this and, in particular, if you believe that use and/or storage of any particular information would cause, or be likely to cause, substantial damage or distress to any individual, please contact [dataprotectionofficer@north-ayrshire.gov.uk](mailto:dataprotectionofficer@north-ayrshire.gov.uk).

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## **Audit and Scrutiny Committee Sederunt**

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John Bell (Chair)  
Donald Reid (Vice Chair)  
Eleanor Collier  
Cameron Inglis  
Tom Marshall  
Matthew McLean  
Davina McTiernan  
Ian Murdoch  
John Sweeney

Chair:

Apologies:

Attending:

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## NORTH AYRSHIRE COUNCIL

31 May 2022

### Audit and Scrutiny Committee

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**Title:** External Audit Report on Audit Dimensions and Best Value for the year ended 31 March 2022

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**Purpose:** To inform the Committee of the findings from the External Audit report on Audit Dimensions and Best Value for 2021/22

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**Recommendation:** That the Audit and Scrutiny Committee:

- (a) notes the findings contained in the external auditor's Audit Dimensions and Best Value report;
- (b) notes the Sector Developments as outlined in the report; and
- (c) considers the verbal Interim Report by the external auditor.

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### 1. Executive Summary

- 1.1 Deloitte LLP has been designated as the Council's external auditors for the six year period 2016-2022. 2021/22 is the final year of this appointment.
- 1.2 This report on the Audit Dimensions and Best Value provides the Audit and Scrutiny Committee with the external auditor's findings across the four audit dimensions, within the scope of the 2021/22 audit work, and the review of the arrangements made by the Council for securing Best Value.
- 1.3 The overall conclusions of the report state that the Council :
- continues to have robust budget setting and monitoring arrangements in place;
  - is financially sustainable in the short term;
  - faces significant financial challenges over the medium and longer term;
  - continues to have strong leadership and robust governance arrangements;
  - has a clear and robust performance management framework; and
  - has robust arrangements in place to secure Best Value.
- 1.4 The unaudited accounts for 2021/22 are due to be presented to Council in June 2022 and to the Council's external auditors, Deloitte LLP, for audit. The external audit Annual Report will be presented to the Audit and Scrutiny Committee in September 2022.

## **2. Background**

- 2.1 Deloitte LLP has been designated as the Council's external auditors for the six year period 2016-2022. Deloitte LLP has also been appointed as the auditors for the North Ayrshire Integration Joint Board. 2021/22 is the final year of this appointment.
- 2.2 A report on the Audit Dimensions and Best Value for 2021/22 has been prepared by the external auditors and is included in appendix 1. This report provides the Audit and Scrutiny Committee with the external audit findings across the four audit dimensions within the scope of the 2020/21 audit work. They include:
- Financial Management;
  - Financial Sustainability;
  - Governance and Transparency;
  - Value for Money
- 2.3 The report also incorporates a review of the arrangements made by the Council for securing Best Value, including an update on the progress made against the recommendations contained within the Best Value Assurance Report presented to Council on 23 September 2020.
- 2.4 In addition, the report examines North Ayrshire Council's preparedness in relation to the identified emerging issue of Climate Change and highlights the recently published Audit Scotland report, Addressing Climate Change in Scotland, which sets out the key improvements required to reach the Scottish public sector's climate change ambitions.
- 2.6 A summary of the key conclusions from the report include:

### Financial Management

The Council continues to have robust budget setting and monitoring arrangements in place. This is supported by an experienced finance team and a robust internal audit function, as well as appropriate arrangements for the prevention and detection of fraud and error.

### Financial Sustainability

The Council has set a balanced budget for 2022/23 and holds unearmarked reserves at a level consistent with its Reserves Strategy, therefore is financially sustainable in the short term. However, it continues to be faced with significant financial challenges over the medium and longer term, projecting a funding gap of £19.514m over the next two years, and a gap of £120m over a ten year period.

It is positive to see the work progressing with the sustainable Change Programme, with a comprehensive benefits tracker, and the commitment to invest in recovery and renewal, however, progress continues to be impacted by the pandemic. It is critical that this work is progressed at pace and scale to ensure that the planned benefits (both financial and environmental) are realised.

### Governance and Transparency

The Council continues to have strong leadership, which has been enhanced in the year with the creation of additional capacity at Head of Service to focus on priorities. The governance arrangements also continue to be robust with a comprehensive review of the infrastructure to enable hybrid meetings and an effective Audit and Scrutiny Committee. The Council continues to be open and transparent and demonstrates a culture of continuous improvement, with the planned development of the Participation Strategy.

### Value for Money

The Council continues to have a clear and robust performance management framework in place which has been enhanced in the year with the Performance Management Strategy and new Performance Dashboard. It has continued to report its performance against the priorities within the Council Plan and also against the LGBF, with clear actions in place to address indicators that are adrift of target.

The Council also continues to have robust arrangements in place to comply with the SPI Direction, including its public performance reporting requirements.

### Best Value

The Council has robust arrangements in place to secure best value and has a clear understanding of areas which require further development.

- 2.7 The unaudited accounts for 2021/22 are due to be presented to Council in June 2022 and to the Council's external auditors, Deloitte LLP, for audit. The external audit Annual Report will be presented to the Audit and Scrutiny Committee in September 2022.

## **3. Proposals**

- 3.1 It is proposed that the Audit and Scrutiny Committee:

- (a) notes the findings contained in the external auditor's Audit Dimensions and Best Value report;
- (b) notes the Sector Developments as outlined in the report; and
- (c) considers the verbal Interim Report by the external auditor.

## **4. Implications/Socio-economic Duty**

### Financial

- 4.1 None.

### Human Resources

- 4.2 None.

### Legal

- 4.3 None.

### **Equality/Socio-economic**

4.4 None.

### **Climate Change and Carbon**

4.5 None.

### **Key Priorities**

4.6 This report directly supports the Council Plan 2019 to 2024 by maximising resources and providing value for money to support financially sustainable delivery models.

### **Community Wealth Building**

4.7 None.

## **5. Consultation**

5.1 Deloitte LLP consulted with the Head of Service (Finance) in preparing their report

**Mark Boyd**  
**Head of Service (Finance)**

For further information please contact **David Forbes, Senior Manager (Strategic Business Partner)**, on **01294 324551** or **DavidForbes@north-ayrshire.gov.uk**.

### **Background Papers**

None





# North Ayrshire Council

**Report to the Audit and Scrutiny Committee  
on the 'Audit Dimensions and Best Value' for the year ended 31 March 2022**

Issued on 13 May for the meeting on 31 May 2022

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# Key messages

As set out in our audit plan, the Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. Our audit work has considered how the Council is addressing these and our conclusions are set out within this report.

Our responsibilities in relation to the Accounts Commission's Strategic Audit Priorities ('SAP'), the Statutory Performance Information ('SPI') Direction and Best Value ('BV') have all been incorporated into this audit work.

## *Financial management*

The Council continues to have robust budget setting and monitoring arrangements in place. This is supported by an experienced finance team and a robust internal audit function, as well as appropriate arrangements for the prevention and detection of fraud and error.

## *Financial sustainability*

The Council has set a balanced budget for 2022/23 and holds unearmarked reserves at a level consistent with its Reserves Strategy, therefore is financially sustainable in the short term. However, it continues to be faced with significant financial challenges over the medium and longer-term.

It is positive to see the work progressing with the sustainable Change Programme, incorporating a comprehensive benefits tracker and a clear commitment to invest in recovery and renewal. However, progress continues to be impacted by the pandemic. It is critical that this work is progressed at pace and scale to ensure that the planned benefits are realised.

## *Governance and transparency*

The Council continues to have strong leadership, which has been enhanced in the year with the creation of additional capacity at Head of Service to focus on priorities. The governance arrangements also continue to be robust, with a comprehensive review of the infrastructure to enable hybrid meetings and an effective Audit and Scrutiny Committee. The Council continues to be open and transparent and demonstrates a culture of continuous improvement, with the planned development of a Participation Strategy.

## *Value for money*

The Council continues to have a clear and robust performance management framework in place which has been enhanced in the year with the Performance Management Strategy and new Performance Dashboard. It has continued to report its performance against the priorities within the Council Plan and also against the Local Government Benchmarking Framework (LGBF) with clear actions in place to address indicators that are adrift of target.

**Best value** - The Council has robust arrangements in place to secure best value and has a clear understanding of areas which require further development.

# Key messages (continued)

## Added value

Our aim is to add value to the Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making, and more effective use of resources.

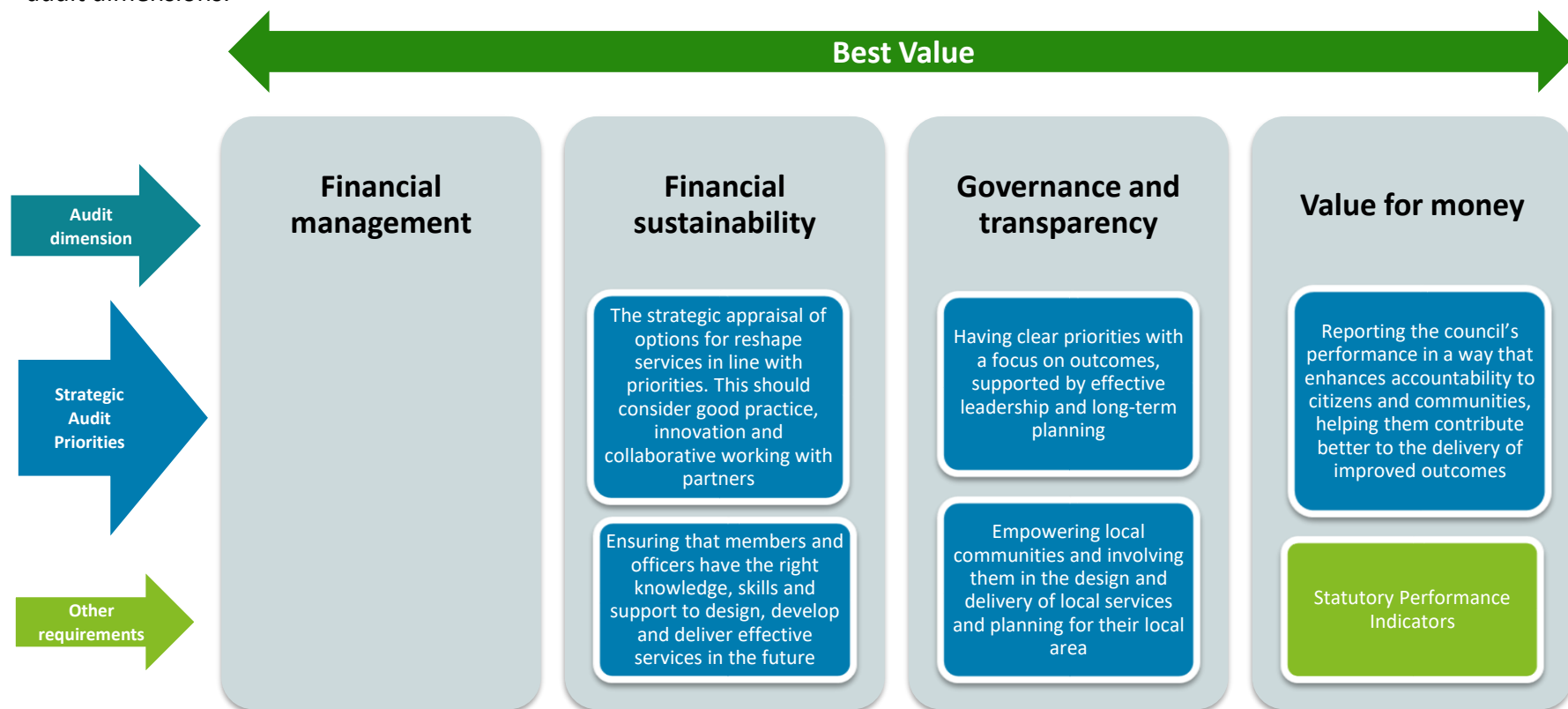
This is provided throughout the report. In particular, we have highlighted some specific areas to consider in relation to climate change on pages 28-30 given the importance and urgency of addressing this. We have also included our “sector developments” on pages 33 to 35 where we have shared Audit Scotland’s national reporting and our research and informed perspective and best practice from our work across the wider public sector that are specifically relevant to the Council.

# Audit Dimensions and Best Value

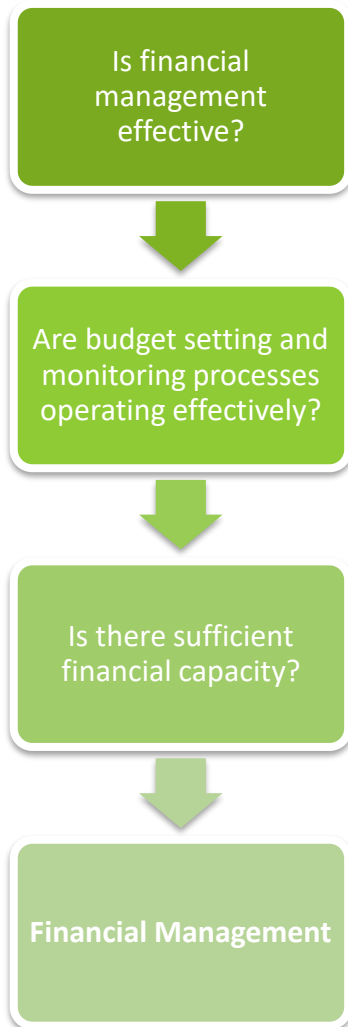
## Overview

This report is structured in accordance with the four **audit dimensions**, but also covers our specific audit requirements on Best Value, the Accounts Commission's **Strategic Audit Priorities (SAPs)** and the **Statutory Performance Information** Direction.

In recognition of the demands on auditors' time and the challenges of remote auditing, the Accounts Commission agreed that auditors are not required to specifically consider and report on the SAPs as part of the 2021/22 audit. The SAPs continue to be important but the work on the audit dimensions will be used to inform progress. We have therefore set out below how each SAP inter-relates to the audit dimensions.



# Financial management



## Significant risks identified in Audit Plan

In previous years we have concluded that the Council had strong financial management arrangements in place and a sufficiently qualified and experienced finance team. We therefore did not identify any significant risks in relation to financial management during our planning. We have continued to review the arrangements in place as summarised on the following pages.

## Current year financial performance

The **2021/22 General Fund budget** of £365.296m was approved by the Council on 4 March 2021. This included use of unearmarked reserves of £0.862m which were released following a review of corporate contingency funding. It has been updated throughout the year to include in-year movements and the latest projected position is a net underspend of £1.208m (0.3%) after carrying forward funds of £2.455m, i.e. a gross underspend of £3.663m. The Executive Leadership Team and Councillors regularly review progress against budget throughout the year, with quarterly reporting to the Cabinet for both revenue and capital expenditure. From review of the reporting throughout the year, variances are clearly reported and explained.

The main underspend has arisen in the Communities service, which has reported a £1.750m underspend in the year which is largely in Early Years Education due to the revised programme for full implementation of the expansion to 1140 hours which now expands into 2022/23.

The budget incorporated planned savings of £2.842m, with the majority of these on target to be delivered by 31 March 2022. The exception is the planned reduction in external residential placements for children which have been impacted by the pandemic, along with other minor shortfalls in planned savings resulted from the impact of the pandemic. These delayed savings have been offset by other underspends across the services.

As part of its ongoing monitoring, the Council has continued to identify a risk to the financial position presented by the uncertainty around the progress of, and recovery from, the COVID-19 pandemic.

# Financial management (continued)

## Current year financial performance (continued)

The **2021/22 Housing Revenue Account (HRA)** budget, agreed by the Council on 16 December 2020, is projecting an underspend of £3.298m. This has been consistently reported to members throughout the year as part of the normal reporting cycle. The primary reason for the underspend is due to a review of the profiling of a £2.5m contribution towards the £5m sustainability and regeneration programme, resulting in an underspend in property costs in the year.

The Council has an ambitious long-term **10-year investment programme**, as discussed further on page 12. Progress against this plan is reported regularly to Cabinet.

A summary of the original and revised budgets for the general services and HRA capital investment programmes (“CIP”) for 2021/22 is provided in the table below.

	General Services (£'000)	HRA (£'000)
<b>Original budget</b>	<b>77,762</b>	<b>109,756</b>
Changes to funding	7,000	
Other revisions	13,070	- 2,006
Rephasing of projects	(47,073)	(64,324)
<b>Revised budget</b>	<b>50,759</b>	<b>43,426</b>

As can be seen from the above table, the significant changes from the original budgets are due to having to re-profile a significant portion of capital projects to future years due to the COVID-19 restrictions impacting on the construction industry.

The Council has recognised that the major risk for the capital programme remains the uncertainty around the impact of the COVID-19 pandemic and the EU withdrawal on contractors and the cost of materials. Any significant increase in cost during the tendering phase will have a negative impact on the deliverability of both the General Fund and HRA capital programme for 2021/22 and beyond.

In setting its 2021/22 budget, the Council highlighted the continued engagement with the Convention of Scottish Local Authorities (COSLA) and the Scottish Government around additional support measures, including a range of financial flexibilities, which may be applied to address the financial impact of the pandemic. It concluded that, at the time of approving the budget, the benefits to the Council were limited but agreed to continue to monitor and approved the use of such flexibility to meet COVID-19 related pressures should the need arise through 2021/22. No such need has arisen during 2021/22.

## Finance capacity

The finance team has remained consistent throughout the year. Whilst COVID-19 has created additional work for the team, including the additional reporting requirements to the Scottish Government and administering of the business support grants, this is being well managed.

# Financial management (continued)

## Internal audit

We have assessed the internal audit function, including its nature, organisational status and activities performed. We have also carried out a review of the internal audit reports published throughout 2021/22. The conclusions have helped inform our audit work, although no specific reliance has been placed on this work.

The 2021/22 Internal Audit Plan was approved by the Audit and Scrutiny Committee in January 2021. Due to the impact of the pandemic on the delivery of the 2020/21 audit plan, the 2021/22 plan covered the slightly extended period from February 2021 to March 2022.

A mid-year update was provided to the Audit and Scrutiny Committee in November 2021, with a number of changes agreed due to a reduction in the number of available audit days mainly as a result of a gap in resourcing and continuing to avoid some audits which require physical site visits. As a result of this, the Committee approved the deferral of seven internal audits to 2022/23. The deferred audits were lower risk areas therefore not considered a significant risk to the overall audit opinion.

Good progress has been made in implementing internal audit recommendations, with the most recent progress report showing that of the 57 actions, 34 have been completed, 19 are not yet due, leaving 4 that have not started.

We will consider the work of internal audit as part of our audit work on the Annual Governance Statement and report our conclusions in our final report to the Audit and Scrutiny Committee in September 2022.

## Standards of conduct for prevention and detection of fraud and error

We have assessed the Council's arrangements for the prevention and detection of fraud and irregularities. This has included specific considerations in response to the increased risk of fraud as a result of COVID-19. Overall we found the Council's arrangements to be designed and implemented appropriately.

## National Fraud Initiative (NFI)

All councils are participating in the most recent NFI exercise which commenced in 2020/21. We have continued to monitor the council's participation and progress in the NFI during 2021/22 and submitted an assessment of the Council's participation to Audit Scotland in February 2022. The information submitted will be used by Audit Scotland in its next national NFI report which is due to be published in the summer of 2022. We concluded that the Council was fully engaged in the exercise.

### Deloitte view – financial management

The Council continues to have robust budget setting and monitoring arrangements in place. This is supported by an experienced finance team and a robust internal audit function, as well as appropriate arrangements for the prevention and detection of fraud and error.



# Financial sustainability



## Significant risks identified in Audit Plan

While the Council has historically achieved short term financial balance, there remains a risk that robust medium-to-long term planning arrangements are not in place to ensure that the Council can manage its finances sustainably and deliver services effectively. We have therefore considered the 2022/23 budget setting process and the work being done over the medium and longer-term including the sustainable change programme and recovery and renewal as summarised on the following pages.

## 2022/23 budget setting

The Council approved a balanced budget of £380.710m for 2022/23 on 2 March 2022. This incorporated an initial budget gap of £31,500 for which a detailed savings plan have been developed. This is in addition to the savings of £3.087m previously approved. The 2022/23 budget assumes no draw on unearmarked reserves, an increase in core grant funding and a 3% increase in Council Tax.

In setting its budget, the Council recognises that its financial framework is underpinned by strategic, operational and project risk registers. The following key risks have been identified that are associated with securing financial sustainability.

- Financial Environment – funding not keeping pace with cost of service delivery;
- Financial Sustainability of the Health and Social Care Partnership (HSCP); and
- Delivery of sustainable change programme/transformation – to address projected budget deficit.

The Council, via COSLA, continues to have dialogue with Scottish Government across a range of areas including fair funding, multi-year financial settlements, financial flexibility and the levels of funding ring-fenced to meet policy commitments. It recognises that the delivery of financial savings through a change and transformation programme, including the use of investment in “net zero” projects, is a more sustainable approach in addressing the financial challenges in the medium and long-term.

# Financial sustainability (continued)

## 2022/23 budget setting (continued)

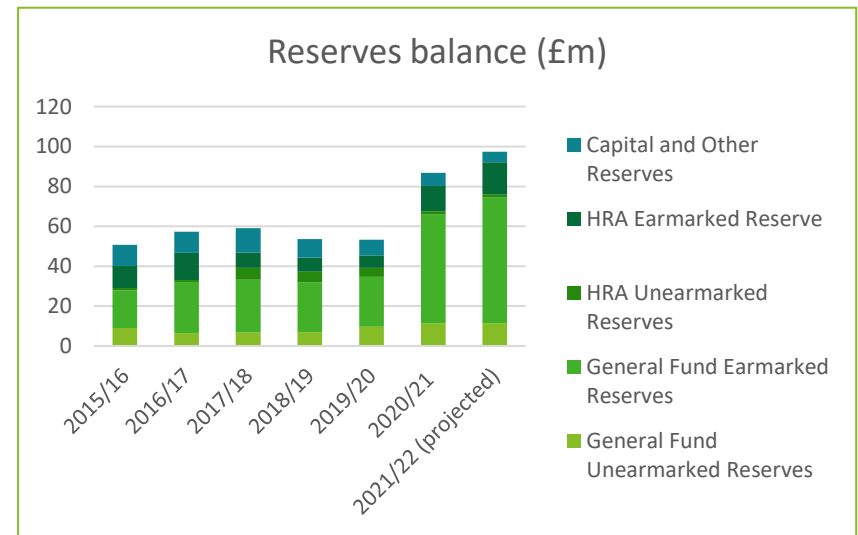
Elected members were fully involved in the budget process in advance of the formal budget setting meeting. This included comprehensive budget sessions in November 2021 and February 2022 with all elected members. As part of these sessions, members were taken through the key planning assumptions, the financial gaps and the options available to close the gaps. The sessions not only covered the 2021/22 position, but also looked to the medium-term to 2024/25 and considered the corresponding workforce and capital programme implications.

The Council also carried out virtual community engagement sessions on 20 January 2022 and 27 January 2022 with all localities represented. Feedback from these sessions continue to help inform the budget process and influence investment proposals.

## Reserves

At the time of approval of the 2022/23 budget on 2 March 2022, the Council carried out its annual review of its Reserve and Fund Balances in line with good practice. This took into account known commitments, potential liabilities and the risk profile of the Council to provide flexibility to deal with unforeseen circumstances.

The projected reserves position at 31 March 2022 is illustrated below:



The unearmarked general fund reserve is projected to remain consistent with 2021/22 at £11.315m. This represents 2.9% of budgeted net expenditure and is in line with the Council's Reserves Strategy, albeit towards the lower end of the recommended range of between 2 and 4%.

# Financial sustainability (continued)

## Reserves (continued)

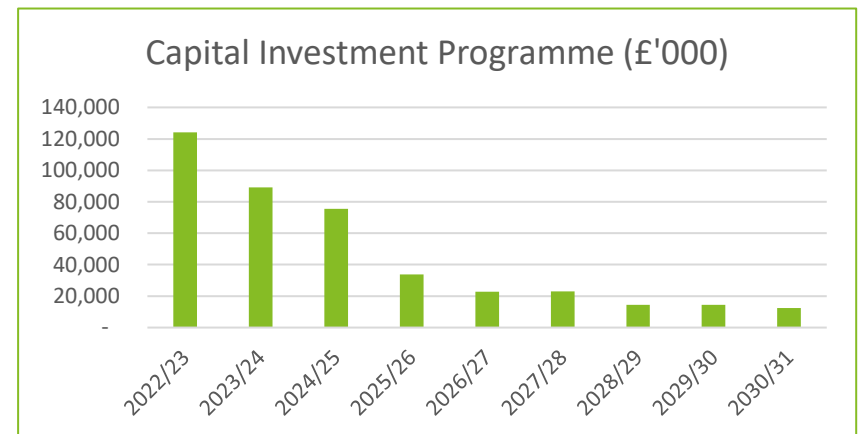
The overall reserves position is projecting to continue to increase from the 2020/21 position, however, the majority of this is earmarked for specific purposes, in particular:

- **Project specific funds (£28.820m)** – these will be carried forward from 2021/22 to allow completion of specific projects. This includes the sum of £2.476m to help mitigate the legacy financial impact of the pandemic.
- **Prudential Investment Fund (£7.307m)** – these are resources to smooth the revenue implications of loan charges supporting the Capital Investment Programme.
- **Renewal Fund (£13.594m)** – these are to support a range of projects across key themes identified through the experience from the pandemic.
- **Investment Fund (£8.488m)** – these are to support a number of sustainability, infrastructure and Community Wealth Building projects.

## Capital planning and treasury management

The Council updates its 10-year Capital Investment Programme (CIP) on an annual basis as part of its budget setting process. At the same time, it refreshed its Treasury Management and Investment Strategy. The latest long-term capital programme covers the long-term period of 2022/23 to 2030/31.

The graph below illustrates the projected CIP over the next 10 years, which again shows that the Council continues to have an ambitious capital programme, particularly in the first 3 years of the programme which totals £289m.



A total of £47m of planned expenditure from 2021/22 has been re-profiled into 2022/23 to 2030/31 in line with updated project delivery timelines (as discussed further on page 7). In addition, to manage the risks associated with the consequences of the pandemic referred to on page 77, specifically increased contractor and material costs, an additional £10m investment has been included within the budget over the next four years.

# Financial sustainability (continued)

## Capital planning and treasury management (continued)

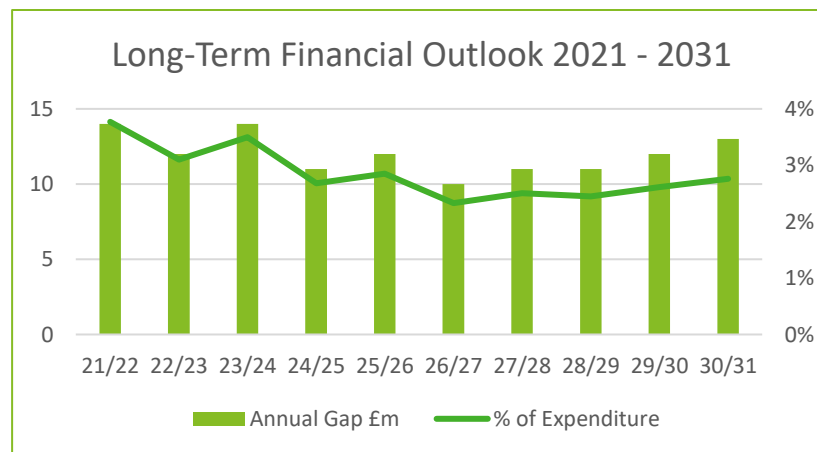
The next major review of the capital programme is planned for 2023/24. The longer-term affordability of the current and future programme requires incremental increases to the current General Fund financing budget which has been included in the indicative budgets for 2022/23 to 2025/26. As part of the planned major review, the Council plans to review the available financing budgets with a view to increasing the available funding to maintain these programmes.

The HRA capital programme is also updated annually as part of the annual report of the HRA Business Plan. In February 2022, the Council approved £114.507m HRA capital expenditure for 2022/23 and a further £98.259m for future years.

Similar to the CIP, the 2021/22 HRA capital programme has experienced delays due to the COVID-19 restrictions on the construction industry. The 2022/23 programme has been updated to reflect these delays. The Council and its Registered Social Landlord (RSL) partners have been monitoring the impact of both COVID-19 and Brexit on the Strategic Housing Investment Plan and has reported that there is clear evidence of both time and financial impacts due to national labour and material shortages and an increase in material costs. A total of 1,625 new homes are targeted for completion by the Council by 31 March 2027, of which 632 were completed at 20 January 2022, with the total expected to increase to 695 by 31 March 2022.

## Medium-to-long term financial planning

As reported in our 2020/21 audit report, the Council updated its Long-Term Financial Outlook (LTFO) in December 2020, covering the period 2021/22 to 2030/31. This establishes a sound basis for the development of the Medium-Term Financial Outlook and subsequent annual budgets. It identified a funding shortfall of £120m over the next 10 years. This compared favourably to the shortfall identified in the previous LTFO published in 2017, where a gap of £156m over a 10-year period was identified, but still remains a significant challenge.

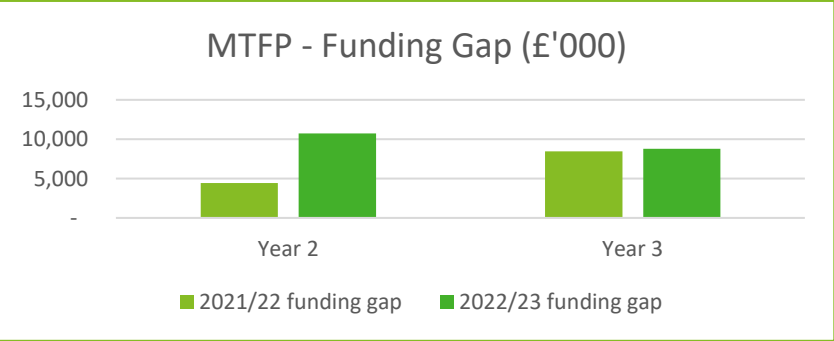


# Financial sustainability (continued)

## Medium-to-long term financial planning (continued)

The Medium-Term Financial Plan (MTFP), as updated in February 2022 for the period 2022/23 to 2024/25, draws on the same data and projections, with the exception being that the 2022/23 funding position was known at the time of drafting the MTFP. This includes further one-off funding of £120m being announced by the Scottish Government on 27 January 2022. Based on current planning assumptions around financial pressures, Scottish Government funding levels and Council tax funding, this identified a gross funding gap of £38.998m over the next 3 years.

In setting its 2022/23 budget in March 2022, proposals were included for future years in relation to the MTFP, resulting in a balanced budget being set for 2022/23 and a remaining gap of £10.729m and £8.785m for 2023/24 and 2024/25 respectively. No specific plans have been defined yet to bridge the funding gaps for 2023/24 and 2024/25. This is an increasing medium-term gap when compared with that estimated as part of the 2021/22 budget setting process, as illustrated below.



We have considered the updated assumptions used, which have resulted in the increased gap for 2023/24 to 2024/25 and concluded they are reasonable and based on available data, including:

- Rising inflation
- Predicted Interest Rate Rise
- Higher Taxes
- The Scottish Landscape

In the updated MTFP, the Council has recognised that the ongoing pandemic has resulted in significant costs to all local authorities during 2020/21 and 2021/22. Through a combination of financial recovery planning and funding support from the Scottish Government, this position has been managed within the overall resources available and has also supported investment into recovery and renewal activities. The majority of funding from Scottish Government ceases in 2021/22, however, legacy financial pressures remain across a number of areas including waste services, commercial and general income, facilities management and North Ayrshire Leisure Ltd. The Council has retained earmarked funds to help mitigate the impact of these pressures, as summarised on page 11, however, it is anticipated the funds will be utilised by 2023/24.

# Financial sustainability (continued)

## Sustainable change programme

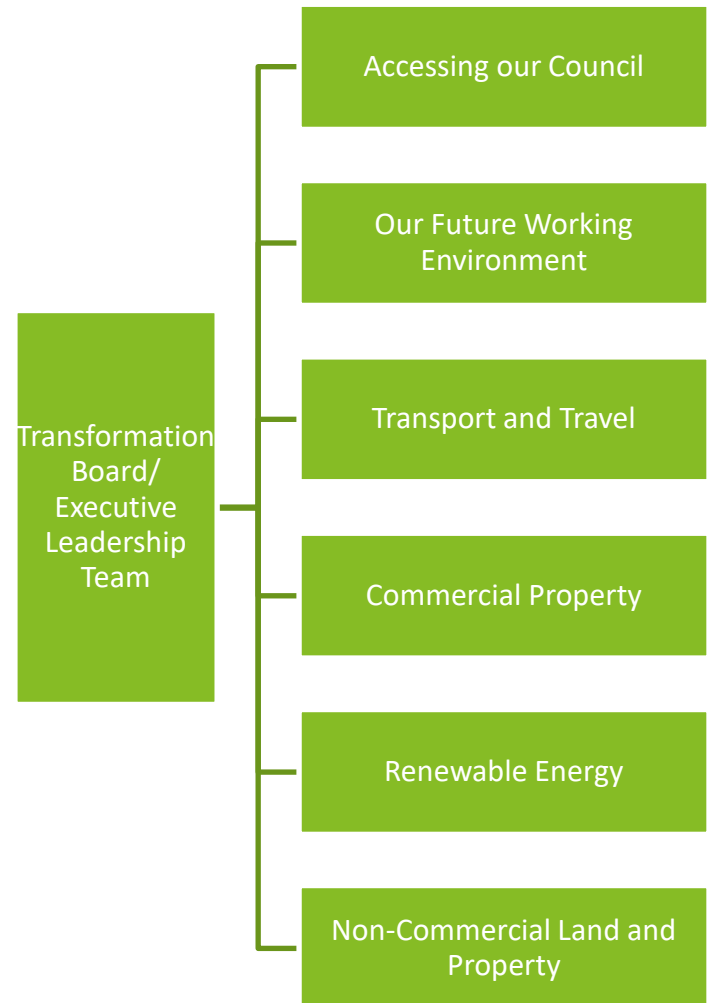
The Council has reported that progress continues to be made in developing its Sustainable Change Programme (SCP), aligned to the Council priorities and the Council Transformation themes, and set within the context of the Council Plan and Community Wealth Building Strategy. It has, however, recognised that progress has been impacted by the pandemic, but is clear that it remains vital that change is delivered at pace and scale to support both the budget and the Community Wealth Building ambitions over the medium and longer-term and to help reduce impact on communities.

The objective is to develop a pipeline of projects that will deliver improved outcomes, meet the Council's environmental ambitions, and deliver financial efficiencies to help address the projected funding gaps over the short, medium and longer-term.

To support the delivery of the SCP, a revised governance framework is in place, and includes programme development and monitoring through the Council's Transformation Board and Executive Leadership team. The current projects, each of which has a Project Board and Project Team, is illustrated opposite.

Each project is aligned to one of the following key themes, with digital being an enabler across each of the themes:

- Sustainability
- Land and Property Assets
- Children, Young People and Communities
- Caring for People
- Transport and Travel



# Financial sustainability (continued)

## Sustainable change programme (continued)

A new monitoring framework has been developed to track progress across the medium-to-longer term. The impact on how each project addresses the anticipated budget gap is reflected in the framework, as well as the workforce implications for delivery, the full-time equivalent impact of any anticipated savings and the anticipated key outcomes.

The latest monitoring to the Transformation Board demonstrates that the new monitoring framework is now being used, with each project having a separate tracker to monitor key information as summarized below, albeit a number of the projects do not yet have estimated financial data.

### Benefits Tracker - content

High level project scope	Key outcomes
Progress and achievement	Upcoming milestones
Items for escalation	Key risks and issues
Local authority research	Strategic alignment
Whole system toolkit	Financials (savings, investment, cost avoidance)

## Recovery and Renewal Investment

Another key enabler to support the budget challenges that the Council faces is from the use of investment, most notably through the Council's Investment Fund and Recovery and Renewal Investment Programme. With total resources of over £25m set aside, a key focus of this investment is to support sustainability projects as part of the Council's journey towards net zero. In addition to the clear environmental benefits, financial efficiencies through energy savings and returns on investment will accrue to help address the financial challenges over the medium-term.

The Cabinet has approved a range of investment proposals, including:

- ***Shewalton Solar Photovoltaic Farm Development*** - £5.280m.
- ***Community Investment Fund*** - £3.000m.
- ***Levelling up Fund – 10% match – Transport B714*** - £2.370m.  
As a result of this investment, the UK Government has confirmed an award of £23.693m to support this project, subject to approval of a full business case.

# Financial sustainability (continued)

## Workforce planning

The Best Value Assurance Report in 2020 concluded that the Council had a coordinated approach to workforce planning and was developing workforce plans to support transformational change.

In our 2020/21 audit we highlighted the positive work that the Council was doing to consider the impact COVID-19 has had on the workforce via the Future Working Environment project.

Workforce planning discussions have recommenced in 2021 and have been updated at six monthly intervals for the majority of services. These meetings ensure that workforce planning is aligned with challenges, service reviews and the transformation agenda

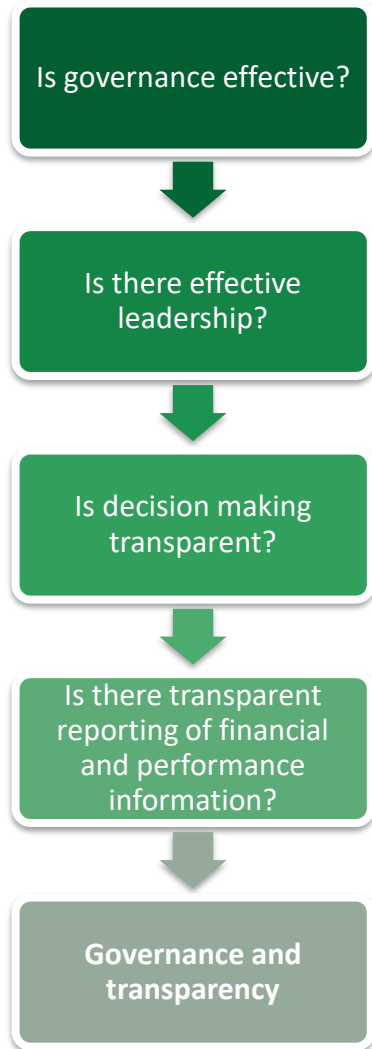
## Deloitte view – Financial sustainability

The Council has set a balanced budget for 2022/23 and holds unearmarked reserves at a level consistent with its Reserves Strategy, therefore is financially sustainable in the short term. However, it continues to be faced with significant financial challenges over the medium and longer-term, projecting a funding gap of £19.514m over the next two years, and a gap of £120m over a ten year period.

It is positive to see the work progressing with the sustainable Change Programme, with a comprehensive benefits tracker, and the commitment to invest in recovery and renewal, however, progress continues to be impacted by the pandemic. It is critical that this work is progressed at pace and scale to ensure that the planned benefits (both financial and environmental) are realised.



# Governance and transparency



## Significant risks identified in Audit Plan

In previous years we have concluded that the Council has strong leadership, and that the governance arrangements continued to work effectively. We therefore did not identify any significant risks in relation to governance and transparency during our planning. We have, however, continued to review the work of the Council and its Committees, as summarised on the following pages.

## Leadership

The Executive Leadership Team has remained largely consistent with previous years, and has continued to demonstrate strong leadership, working closely with partners. There continues to be a positive and collaborative culture.

In our 2020/21 report we highlighted that the Council appointed a Head of Service (Recovery and Renewal) in May 2020 for a period of 18 months in recognition of the significant work required in the recovery and renewal stage of the COVID-19 pandemic. As the recovery period is essentially complete and renewal focus is now embedded within the Council's sustainable change agenda, this post has been removed.

In December 2021, the Staffing and Recruitment Committee approved changes to the Chief Officer structure. The Council has recognised the need for additional capacity at a senior level to ensure focus on delivery in relation to climate change and sustainability. In addition, the pandemic has placed additional pressures upon the local economy and the Council's response. The key changes are as follows:

- The teams within Recovery and Renewal (namely Risk Management and Transformation) will align under the Head of Service (Finance) portfolio.
- An additional permanent Head of Service post has been created within the Place Directorate, given the increased focus on priorities on climate change, sustainability projects and Council's use of land and property assets.

# Governance and transparency

## Governance and scrutiny arrangements

We have reviewed meetings attendance from the past year and confirm that there has been good attendance. In addition, from attendance at meetings we can confirm that there is sufficient scrutiny and challenge exercised by members during the meetings.

As a result of COVID-19 and associated restrictions, meetings of the Council and its committees have taken place on a wholly remote basis via MS Teams since June 2020. Live streaming of meetings ordinarily open to the public was introduced in October 2020.

The Council has installed hybrid meeting equipment in the Council Chamber to allow a combination of physical and remote attendance and has piloted this during October and November 2021. The pilot was then paused whilst the implications of the Omicron variant of COVID-19 was fully understood. The pilot has since resumed in February 2022 and the Council expect that meetings will revert to a physical format, along with the provision of hybrid facilities for those who wish to access remotely, with the start of the new Administration, guidance and risk assessment permitting. A number of learning points have been taken from the initial pilot in relation to reliability, room temperature, confidentiality, staffing resource, participation by external parties and added value.

The Audit and Scrutiny Committee continues to be a key element of the governance arrangements in place. Each year, it now undertakes a self evaluation of its performance, which has become a standard procedure following our recommendations. The outcome of the 2021 self evaluation, which is consistent with our understanding, was reported to the Committee in September 2021 which concluded that it was performing as expected in the majority of areas, with special strengths identified as:

- A full induction programme is in place for new members, and additional training is provided as part of the wider training and development programme of members;
- Attendance levels since the start of the current Administration range from 71-94%; and
- Positive and constructive relationship with officers of the Council and external auditors.

The development of an annual programme of scrutiny and review work has been identified as an area for focus and included as an improvement action by the Committee and will be taken forward as part of the Committees work during 2022/23.

The Audit and Scrutiny Committee provide oversight and scrutiny of the Strategic Risks through a mid-year update, which was reported to the Committee in November 2021.

# Governance and transparency

## Openness and transparency

The Council continues to stream full Council and Cabinet meetings, and publishes all meeting agendas and minutes on the Council website, thereby continues to demonstrate openness and transparency of decision making and performance information (which is considered further on page 21).

The Council has continued to engage with communities on plans and decisions. This has included being one of the earliest pilots for the “Consul” platform with COSLA which has been used to engage in consultations and debates such as the future of halls, centres and libraries, how the Council spend its budget and climate change.

In February 2022, the Cabinet approved a “Participation Strategy – Statement of Intent” which aims to develop a Participation Strategy for Communities. The Statement of Intent summarises the current main ways in which citizens can take part in local governance. A community consultation will then follow to co-design, co-develop and co-produce a Strategy to wider democratic participation, seeking to reach new ways of connecting with citizens.

### Deloitte view – Governance and transparency

The Council continues to have strong leadership, which has been enhanced in the year with the creation of additional capacity at Head of Service to focus on priorities. The governance arrangements also continue to be robust, with a comprehensive review of the infrastructure to enable hybrid meetings and an effective Audit and Scrutiny Committee. The Council continues to be open and transparent and demonstrates a culture of continuous improvement, with the planned development of the Participation Strategy.

## Following the public pound

The statutory requirements to comply with the Following the Public Pound Code, in conjunction with the wider statutory duty to ensure Best Value, means that Councils should have appropriate arrangements to approve, monitor and hold third parties accountable for public funding provided to them.

Within the Internal Audit plan there is specific time set aside to review “Following the public pound” during the year as part of the work performed. This includes:

- an annual audit of Community Councils accounts' to ensure Council funding is used in accordance with the Council's Scheme of Administration; and
- an annual audit of the accounts of various Tenants and Residents Associations.

We are therefore satisfied that the Council has appropriate arrangements in place to comply with the Following the Public Pound Code.

# Value for money



## Significant risks identified in Audit Plan

The COVID-19 pandemic is expected to continue to have a substantial impact on performance reporting. There therefore remains a risk that the Council is unable to demonstrate that resources are being used effectively with a focus on continuous improvement. We have therefore reviewed the performance reports presented at the Council to assess the extent of openness and transparency during the year, as summarised on the following pages.

## Performance management framework

The Council has a Performance Management Strategy covering 2021 – 2024 “Driving continuous improvement for the people of North Ayrshire”. It sets out how the Councils’ performance management supports a culture of continuous improvement and an overview of planned developments to ensure continuous improvement. It has considered the impact of the COVID-19 pandemic on certain elements of performance management such as team workload, an increase in external reporting and the need to consider how the performance reporting is consumed.

During 2021/22, the Council has replaced its North Ayrshire Performs portal with a new Performance Dashboard which was developed in-house. This provides a more user friendly and accessible way for residents to access performance data. The Council has reported that due to the innovative way that it is presenting its information, it has been approached by several Councils in Scotland and Northern Ireland to provide demonstrations and advice.

## Statutory performance indicators

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. This responsibility links with the Commission’s Best Value (BV) audit responsibilities. In turn, councils have their own responsibilities, under their BV duty, to report performance to the public. The Accounts Commission Statutory Performance Information Direction requires a council to report a range of information in the areas listed on the following page.

# Value for money

## Statutory performance indicators (continued)

### SPI 1: Improving local services and outcomes

- Performance in improving local public services provided by (1) the Council itself and (2) by the council in conjunction with its partners and communities; and
- Progress against desired outcomes.

### SPI 2: Demonstrating Best Value (BV)

- The Council's assessment of how it is performing against its duty of BV, and how it plans to improve against this assessment;
- Audit assessments of how its performance against its Best Value duty, and how it has responded to these assessments; and
- In particular, how it (in conjunction with its partners as appropriate) has engaged with and responded to its diverse communities.

We have evaluated the effectiveness and appropriateness of the arrangements that the Council has in place.

In view of the approach embedded within the Council for a number of years, with performance monitored through the Community Planning Partnership and Local Outcome Improvement Plan, the requirement to report on performance for both the Council and with its partner communities was already embedded practice. As noted on page 20, the approach has been enhanced with the development of the new Performance Dashboard.

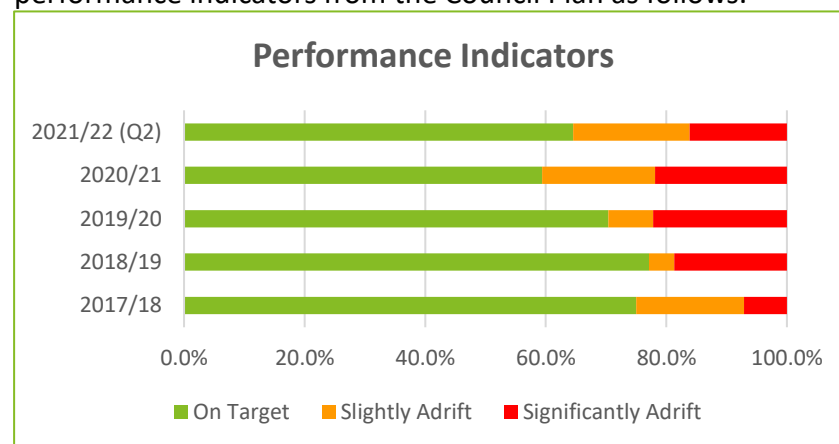
## Performance data

The Council has continued to report performance measures, in particular:

1. A Mid-Year Progress Report 2021/22 against the Council Plan was considered by the Audit and Scrutiny Committee in March 2022.
2. An analysis of the Council's performance within the Local Government Benchmarking Framework (LGBF) based on the 2019/20 data analysis was considered by the Cabinet in November 2021.

We have considered each of these below.

The Mid-Year Progress report 2021/22 has analysed the performance indicators from the Council Plan as follows.



# Value for money

## Performance data (continued)

At a high level, the Performance Indicators are showing a slightly better performance when comparing mid-year 2021/22 with the year-end 2020/21. Clear actions are in place in relation to those indicators that are adrift of target.

The update also confirms that all actions from the Council's Delivery Plan are either on target or slightly adrift at the mid-year point 2021/22 compared to 95.1% at year-end 2020/21.

The layout of the mid-year report has been refreshed to complement the Annual Performance Report layout to help ensure that it as reader friendly as possible. In addition:

- The "Key Highlights" sections are now named "Key Activities" to incorporate updates on areas where teams are experiencing challenges as well as positive outcomes.
- Summaries of overall Council Plan actions are included in the Performance Summary section. Sub-action detail is only included where a sub-action is causing an action to adrift of target.
- Summaries of Council Plan indicators and actions are presented as pie charts for clarity.

The LGBF 2019/20 Data Analysis, being the most recent data that is available, provided benchmarking data on 97 indicators covering a wide range of key service areas. Due to the large scope of the LGBF, not all indicators are priority areas for the Council so variation in performance is to be expected.

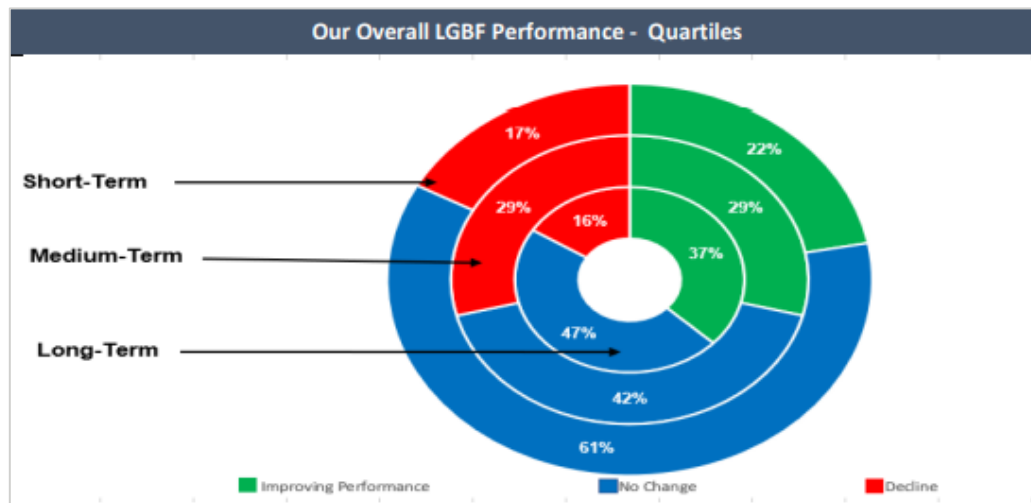
The report provided to Cabinet provides a summary of performance only as it was concluded that as the data relates to a period prior to the pandemic, as well as the subsequent delay in the release of the data, it would not be appropriate to detail improvement activity based on the 2019/20 performance. Directorates are using the information alongside learning from the pandemic to look at individual improvements at service level.

A summary of how North Ayrshire Council compares across all local authorities is shown on the next page. In the short term, 22% of indicators have improved their quartile, with only 17% declining. In the long-term, 84% of indicators have either improved or not changed their quartile.

# Value for money (continued)

## Performance data (continued)

### LGBF Performance



#### Deloitte view – Value for money

The Council continues to have a clear and robust performance management framework in place which has been enhanced in the year with the Performance Management Strategy and new Performance Dashboard. It has continued to report its performance against the priorities within the Council Plan and also against the LGBF, with clear actions in place to address indicators that are adrift of target.

The Council also continues to have robust arrangements in place to comply with the SPI Direction, including its public performance reporting requirements.

# Best value

It is the duty of the Council to secure **Best Value** as prescribed in Part 1 of the Local Government in Scotland Act 2003. We have a statutory duty to be satisfied that the Council have made proper arrangements for securing BV.

## Duty to secure Best Value

1. It is the duty of the Council to make arrangements which secure Best Value.
2. Best Value is continuous improvement in the performance of the Council's functions.
3. In securing Best Value, the Council shall maintain an appropriate balance among:
  - a) The quality of its performance of its functions;
  - b) The cost to the Council of that performance; AND
  - c) The cost to persons of any service provided by the Council for them on a wholly or partly rechargeable basis.
4. In maintaining that balance, the Council shall have regard to:
  - a) Efficiency;
  - b) Effectiveness;
  - c) Economy; AND
  - d) The need to make the equal opportunity requirements.
5. The Council shall discharge its duties in a way that contributes to the achievement of sustainable development.
6. In measuring the improvement of the performance of an Council's functions, regard shall be had to the extent to which the outcomes of that performance have improved.

2021/22 is year six of the extended six-year approach to auditing BV in councils. BV audit work is integrated with the annual audit and have worked closely with Audit Scotland's Performance Audit and Best Value ('PABV') team to plan, perform and report on the BV audit work.

A key feature of the approach to auditing BV is the Controller of Audit providing a Best Value Assurance Report ('BVAR') to the Accounts Commission for each Council once over the audit appointment. The BVAR for North Ayrshire Council was published in June 2020. This concluded that the Council has a number of arrangements in place to secure best value. We have followed up on the progress with the recommendations as part of the annual audit work, considering the pace and depth of continuous improvement. A summary of the progress against each recommendation is reported on pages 25 to 28.

Our BV audit work is integrated into our audit approach, including our work on the audit dimensions discussed on pages 5 to 23. Through our annual audit work, discussed further within this report, the Council continues to have a number of arrangements in place to secure best value, including an established governance framework, strong leadership, and a comprehensive performance management framework.

The Council recognises that it must deliver services within the financial resources available and, as noted elsewhere in this report, and in common with other councils, continued work will be required to deliver long-term financial sustainability. it is positive to note that the development of the Sustainable Change Programme and the Recovery and Renewal Investment.

## Deloitte view – Best Value

The Council has robust arrangements in place to secure best value and has a clear understanding of areas which require further development.



# Best Value (continued)

## Best Value Assurance Report

We have assessed the Council's progress against each of the recommendations made, as summarised in the table below.

Recommendation – August 2020	2021/22 update
<p>The Council should fully develop and deliver detailed transformation plans to meet the current estimated funding shortfall. To achieve this, it should ensure sufficient arrangements are in place to support, monitor and deliver the expected outcomes. This includes:</p> <ul style="list-style-type: none"><li>• developing the transformation themes into projects and further developing the governance arrangements to ensure the council has the skills needed to;</li><li>• implement the next stage of transformation; and</li><li>• developing a robust benefits realisation tracker to assess whether the council has achieved its aims.</li></ul>	<p>The Transformation and Renewal Programme continues to be progressed. The broad outline of the programme was included in the Budget report to Council on 4th March 2021. The Governance structure which supports the programme is in place through Transformation Boards, aligned to the Council Plan themes of Inspiring Place, Aspiring Communities and A Council for the Future, as well as through the Executive Leadership Team. All the individual projects / activities have been assigned to individual owners and a new Sustainable Change Programme for 2022/23 and beyond (rather than Transformation and Renewal programme) was discussed by the ELT in November 2021 with further discussions in January 2022 prior to the start of the new financial year.</p> <p>A new monitoring framework to track progress has been developed. This provides a medium-to-long term (10 years) framework which is split across agreed budget programme activity (approved on 4th March 2021) and budget pipeline activity i.e. projects / activities which continue to be progressed and developed. The impact on how this activity addresses the anticipated budget gap is also reflected in the framework. Importantly, the framework also captures any workforce implications for delivery and also the full time equivalent impact of any anticipated savings as well as capturing the anticipated key outcomes.</p>

# Best Value (continued)

## Best Value Assurance Report (continued)

Recommendation – August 2020	2021/22 update
<p>The Council must evolve workforce planning across all services, and clearly align service workforce plans to the transformation projects, in order to:</p> <ul style="list-style-type: none"><li>• identify the numbers, cost and skills of the current and desired workforce; and</li><li>• effectively facilitate the transition from the current workforce composition to the desired workforce.</li></ul>	<p>Workforce planning discussions recommenced in 2021 and have been updated at six monthly intervals for the majority of services. These meetings ensure that workforce planning is aligned with challenges, service reviews and the transformation agenda. In addition, the monitoring framework for transformation has been implemented and includes workforce information linked to transformation activity. Heads of Service have two workforce planning meetings, Workforce Plan and Workforce Costs. The Workforce Plan covers the workforce demographics, transformation, PESTLE analysis and service review activity which helps shape the desired future workforce. The Workforce Costs meeting provides information on absence costs, overtime, vacancies etc. as well as key information that Heads of Service need to inform their planning in relation to their current and desired future workforce</p>
<p>The Council should work with locality partnerships to make clear what the intended impacts are of locality plans and make them publicly available.</p>	<p>Extensive work was undertaken in 2020 and 2021 on the refresh of locality partnership priorities. This led to five locality partnerships agreeing their ongoing priorities at their June 2021 meetings. A focus of this work was devising priorities which target local inequalities, as a result they are now clearer on the impact they want to achieve, e.g. Kilwinning moving from “traffic and parking” to “alleviating poverty and promoting equality of access to opportunities”. The Arran Locality Priorities are being assessed on the recent islands plan and LOIP community engagements.</p> <p>Once the plans to support each locality’s priorities are agreed, these will be published on the Community Planning website. This will add to the existing wide range of locality partnership information available such as meeting papers which include local progress updates, the current locality partnership priorities and impact summaries</p>

# Best Value (continued)

## Best Value Assurance Report (continued)

Recommendation	2021/22 update
<p>The Council should review its Public Reporting online portal, North Ayrshire Performs, to make it more user friendly and accessible.</p>	<p>The Council has replaced its North Ayrshire Performs portal with a new Performance Dashboard developed in-house by the Corporate Policy, Performance and Elections Team and launched on 28th February 2021.</p> <p>The dashboard provides a much more user friendly and accessible way for our residents to access our performance data. It reviewed the information available to ensure it is as concise and relevant as possible; that it contains a link to the LGBF Benchmarking Tool; and includes our contact details. It also ensured the layout is in line with our corporate and Annual Performance Reporting branding and can be updated with any changes.</p> <p>The dashboard is available from the performance pages within the North Ayrshire Council website <a href="http://www.north-ayrshire.gov.uk/performance">www.north-ayrshire.gov.uk/performance</a> and linked to within the six monthly Council Plan performance reports.</p> <p>Due to the innovative way the council is presenting its information, it has been approached by several councils in Scotland including Midlothian Council and Aberdeenshire Council as well as Lisburn and Castlereagh City Council in Northern Ireland, to provide demonstrations and advice. It has worked closely with the GIS and Analytics Team to provide support on more technical areas such as Power BI licensing and integrating Power BI with performance management systems. As the dashboard was developed in-house the Council has full control of its evolution and will continue to make improvements based on general feedback as well as learning from the informal network being established through our demonstrations.</p>

# Emerging issues

## Climate change

### Background

In our 2020/21 report, we set out a high level assessment of the work that the Council has done in relation to preparing for the impact of climate change against our baseline expectations. This concluded that climate change is clearly on the Council's agenda, recognised as a strategic risk and the Environmental Sustainability and Climate Change Strategy has set key targets to achieve net-zero carbon emissions across North Ayrshire.

In March 2022, Audit Scotland published a report [Addressing climate change in Scotland | Audit Scotland \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/publications/Addressing%20climate%20change%20in%20Scotland) drawing together the key themes identified across a range of published recommendations for Scotland and set out a high level summary of the key improvements that need to be made across the public sector if Scotland is to reach its climate change ambitions of a just transition to net zero and adapting to improve resilience to the effects of the global warming we are already experiencing. We have summarised each of these key themes below, along with the suggested actions. We recommend that the Council carry out a self assessment against each of these points and develop an action plan to help focus on where further work is required.

### Key themes

### Suggested actions

**Leadership** – public bodies should make responding to climate change a core value and key outcome.

Public bodies can lead the way through developing procurement framework and contracts with economic, social and environmental requirements and with developing and maintaining standards and regulations.

**Governance** – climate change plans need to have robust governance arrangements to ensure a clear approach to delivery which allows collaboration and integration and can address and resolve any conflicts between partners, priorities and policies. It also needs to support fast-paced changes to plans, technologies and policies.

Good governance ensures accountability and transparency. It requires:

- Monitoring, evaluating, reporting and verifying plans with clear timeframes;
- Feedback mechanisms to review how things work as they are being implemented;
- Processes for how projects will be upscaled and alternatives proposed where projects are not delivering what is expected; and
- Effective scrutiny, oversight and challenge by elected members and non-executive board members.

# Emerging issues (continued)

## Climate change (continued)

Key themes	Suggested actions
<b>Community empowerment to develop local solutions</b> – actions to address climate change could potentially have an unequal impact on some people and communities. Climate change should become a priority issue that public bodies and their partners engage with local communities on.	Incorporating climate resilience and net zero targets into existing local plans and initiatives, such as city and regional deals and participatory budgeting, will make it easier for public bodies to work with communities and support faster progress,
<b>Behavioural change</b> – clearer information on the environmental impact of people’s choices is needed for all of us to make informed decisions, particularly around sustainable diet, waste and travel.	<p>There is a need for clear plans to influence societal change and help people adapt to climate change and smooth transition to net zero.. Greener options need to be attractive in terms of quality and affordability.</p> <p>Public bodies should make efforts to sustain some of the changes in behaviours beneficial to emission reduction that emerged in the COVID-19 lockdowns, such as remote working, replacing business travel with videoconferencing and online collaboration, and broader lifestyle choices including more walking and cycling.</p>
<b>Alignment of policy and spend</b> – the type of leadership outlined on the previous page, would support the alignment of all policy and funding decisions. However, the challenge is significant.	<p><b>Policy alignment</b> – all policies should be reviewed individually and holistically to identify conflicts or incoherence with climate change ambitions and be amended as required. The complex landscape, and sheer number of strategies and plans that will play a part in delivering net zero and reducing the impacts of climate change makes this challenge harder at all levels of public sector.</p> <p><b>Alignment of spend</b> – budgets and spend (both capital and revenue) should align with climate change ambitions. Public bodies will also need to ensure all future funding and investment decisions are based on their contribution to climate change ambitions and an inclusive, net zero carbon economy.</p>

# Emerging issues (continued)

## Climate change (continued)

Key themes	Suggested actions
<b>Robust planning for net zero, mitigation and adaption</b> – robust cross-sector plans are essential, but experts recognise the challenge is colossal.	<p>As urgent action is required, climate change plans need innovative thinking to address the inherent tensions between doing things thoroughly and doing things quickly. Lessons could be learnt from the public sector’s response to the COVID-19 pandemic. Climate change planning needs to happen collaboratively, with a range of private and public sector bodies, third sector organisations, and communities, as well as simultaneously in different geographical areas. Climate experts should also be involved in planning.</p> <p>Plans should provide clarity in delivery and implementation with sufficient detail and clear timelines.</p>

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Audit and Scrutiny Committee and the Council discharge their governance duties.

### The scope of our work

We described the scope of our work in our audit plan.

### Use of this report

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.


### What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



**Pat Kenny, CPFA**  
**For and on behalf of Deloitte LLP**  
Glasgow | 13 May 2022



## Sector developments





# Local government in Scotland

## Financial overview 2020/21

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### Background and overview

The Accounts Commission published its Local government in Scotland financial overview 2020/21 in March 2022. This covers the first full year that makes clear the impact of COVID-19. It also looks ahead to the medium-to-longer term financial outlooks for Councils.

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### Key messages

#### Local government finances 2020/21

- The Covid-19 pandemic persisted throughout 2020/21, with the Scottish Government increasing funding to councils by £1.5 billion to support them in dealing with the impacts of the pandemic.
- When Covid-19 funding is excluded, there has been a real terms underlying reduction of 4.2 per cent in local government funding since 2013/14.
- The underlying increase in Scottish Government funding of £358 million in 2020/21 was 1.1 per cent in real terms. But, over half of this increase is due to specific grants. Ring-fenced funding helps support delivery of key Scottish Government policies but constrains a proportion of the total funding and resources and removes any local discretion over how councils can use these funds.
- Councils' income from customers and clients was affected by Covid-19 restrictions and fell by £0.5 billion.
- In 2020/21, all councils reported surpluses and increased their usable reserves. The total increase in reserves was £1.2 billion (46 per cent). This increase was mainly due to late Covid-19 funding, which was unspent at 31 March 2021.
- Councils administered a further £1.4 billion of Covid-19 grants on behalf of the Scottish Government in 2020/21, putting additional pressure on finance staff across councils.

#### Medium and longer-term outlook for local government finances

- Scottish Government capital funding to councils is expected to fall again in 2021/22.
- Uncertainty over the amount of funding available for Covid-19 recovery at the end of 2020/21 led to difficulties in setting budgets, and many councils established updated Covid-19 budgets in autumn 2021.
- Covid-19 resulted in revised medium-term financial plans, but longer-term planning will need to be updated as Covid-19 uncertainty diminishes.

# Local government in Scotland (continued)

## Financial overview 2020/21 (continued)

Key observations	Audit Scotland Recommendations
<b>Reserves</b> – Most of the increase in the general fund is committed to Covid-19 recovery.	Elements of Covid-19 funding that are being carried forward in general earmarked and unearmarked reserves in the accounts should be clearly identified.
<b>Financial management and transparency</b> - Management commentaries in councils accounts have improved, but many are still not complying with previous recommendations on transparency	We recommend again that councils review and improve how they comply with these key expectations of transparency, in particular: <ul style="list-style-type: none"><li>• Is the outturn against budget position for the year clearly shown, and are the reasons for significant variances obvious?</li><li>• Is the outturn reported in the narrative reconciled to the movement in the general fund contained in the financial statements, and are major differences explained?</li><li>• Is progress against agreed savings reported?</li></ul>
<b>Budgets for 2021/22</b> - The uncertainty over the funding position for Covid-19 at the end of 2020/21 led to issues in budget setting and many councils established Covid-19 budgets in autumn 2021	We expect councils to agree spending plans and timescales for Covid-19 recovery reserves with the relevant decision making committee.
<b>Medium and long-term financial planning</b> - Covid-19 resulted in revised medium-term financial plans, but longer-term planning will need to be updated as Covid-19 uncertainty diminishes.	All councils will now need to revise medium-term financial plans to reflect additional financial pressures and updated funding arrangements and to account for updated savings requirements and financial assumptions. Councils should also review longer-term planning as Covid-19 uncertainty diminishes.

### Next steps

The Council should consider each of the above recommendations and incorporate into plans where not already considered. The full report is available through the following link: [Local government in Scotland: Financial overview 2020/21 | Audit Scotland \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/local-government-in-scotland-financial-overview-2020-21)

# The future of infrastructure: A survey of infrastructure trends

Deloitte insights

## Background and overview

A new economic reality calls for infrastructure reimagined: more digital, more sustainable, more equitable. From broadband to bike lane's, Deloitte centre for government insight has asked experts how infrastructure will change. Some of the key highlights are summarised below, with the full article available here [Future of infrastructure | Deloitte Insights](#)

### The pandemic is shifting demand

- Many respondents expect more work from home, more broadband, and more transportation options. However, only 4% believe that there will be fewer people living in cities.

### Cybersecurity a top concern

- As government shift to more digital infrastructure, cyber risk becomes a concern. About 76% of global infrastructure leaders expect greater focus on data security over the next three years.

### Technology will reshape infrastructure

- Many respondents expect artificial intelligence, cloud computing, and cybersecurity to reshape infrastructure – a clear signal that infrastructure is going digital.

### Green infrastructure is in demand

- About 60% of respondents globally said that they plan to invest in urban places for walking, cycling, socialising and eating.

### Infrastructure's biggest obstacle? Talent

- Interestingly, respondents see talent shortage as a bigger obstacle to executing infrastructure projects than budget constraints or regulatory barriers.



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**NORTH AYRSHIRE COUNCIL****31 May 2022****Audit and Scrutiny Committee**

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**Title:** **Accounts Commission's Report: Local Government in Scotland: Financial Overview 2020/21**

**Purpose:** To inform the Audit and Scrutiny Committee of the findings of the recently published report.

**Recommendation:** That the Committee i) notes the findings of the recent Accounts Commission report, and (ii) notes the current position of North Ayrshire Council in relation to the findings.

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**1. Executive Summary**

- 1.1 The Accounts Commission published its 2020/21 financial overview of local government in Scotland in March 2022. The report provides a high-level independent analysis of the financial performance of local authorities during 2020/21. A link to the report is attached below;

[Local Government Financial Overview Report](#)

- 1.2 The report analyses the annual accounts produced by local authorities, together with the reports of each body's external auditors, to identify their relative performance, highlight the challenges faced and assess their responses to these challenges. The report has a summary of key findings with more detail provided in four parts;
- Part 1 - Councils' income in 2020/21;
  - Part 2 - Councils' financial position in 2020/21; and
  - Part 3 - Councils' financial outlook.
- 1.3 Appendix 1 provides Council relevant feedback on each of the key messages identified.

**2. Background****General Fund**

- 2.1 The report provides a high-level independent analysis of the financial performance of local authorities during 2020/21 and their financial position at the end of that year

2.2 A summary of the key messages is provided within the report with further information provided in 3 main sections:

- Part 1 - Councils' income in 2020/21;
- Part 2 - Councils' financial position in 2020/21; and
- Part 3 - Councils' financial outlook.

2.3 The key messages for Councils are summarised below:

- Councils received an additional £1.5 billion in Scottish Government funding to address the impacts of the Covid-19 pandemic;
- There has been an underlying real terms reduction in local government funding of 4.2% since 2013/14;
- More than half of all additional funding received during 2020/21 was ringfenced to support the delivery of Scottish Government policies, removing local discretion over how these funds could be used;
- Council income from customers and clients reduced by £0.5 billion as a result of Covid-19 restrictions;
- All Councils increased their usable reserves as a result of late Covid-19 funding which was unspent at 31 March 2021;
- Councils administered £1.4 billion of Covid-19 grants on behalf of the Scottish Government, putting additional pressure on Council staff;
- Capital expenditure reduced by more than 20% as a result of Covid-19 restrictions; and
- Covid-19 pressures contributed to greater and more frequent errors in Councils' unaudited accounts.

2.4 In addition, the report identifies a number of issues in relation to the medium and longer term outlook for local government finances, including:

- Scottish Government capital funding to Councils is expected to fall in 2021/22;
- Uncertainty over Covid related funding during 2020/21 led to difficulties in setting 2021/22 budgets; and
- Covid-19 resulted in revised medium term plans but longer term financial plans will need to be updated as the uncertainties arising from Covid-19 diminish.

2.5 An update on the position for North Ayrshire Council is noted below:

- The impact of Scottish Government funding in relation to both the impact of Covid-19 and underlying Council funding is summarised in part 1 of appendix 1;

- Council reported £66m of General Fund Usable Reserves at 31 March 2021. This was an increase of £31.5m as detailed in part 2 of appendix 1;
- During 2020/21 the Council administered £40m of business grants plus a further £14.8m of Non Domestic Rates Covid related reliefs on behalf of the Scottish Government;
- The rephasing of £26.4m of Capital projects as a result of Covid related restrictions was reported to Council during 2020/21;
- The annual report of the Council's external auditors was presented to the Audit and Scrutiny Committee on 27 September 2021. This report identified no materials issues or errors in the unaudited accounts;
- Council approved the Capital Investment Programme 2022/23 to 2030/31 on 2 March 2022 which outlined the Council's investment plans and assumed levels of capital funding for the next nine years. This included assumed General Capital Grant funding of £9.8m each year;
- Council approved the General Services Revenue Estimates 2022/23 to 2024/25 on 2 March 2022 which provided Members with an overview of the Council's anticipated financial position on the General Fund revenue budget for the next three financial years and confirmed an additional investment of £1.7m to develop an energy based community support model to provide sustainable support to residents; and
- The Long Term Financial Outlook 2021/22 to 2030/31 was approved by Council on 16 December 2020 and provides the cornerstone of the Council's strategic financial framework and establishes a sound basis for the development of the Council's medium term financial plans and annual budgets. This is scheduled for a full review during 2023/24.

### **3. Proposals**

- 3.1 It is proposed that the Committee i) notes the findings of the recent Accounts Commission report, and (ii) notes the current position of North Ayrshire Council in relation to the findings.

### **4. Implications/Socio-economic Duty**

#### **Financial**

- 4.1 The Accounts Commission report highlights the reliance of local government on Scottish Government grant funding and the need for the development of robust medium and longer term financial plans to develop sustainable solutions to support recovery following the Covid-19 pandemic and bridge the anticipated funding gap. North Ayrshire Council develops medium term financial plans on a three year rolling basis and Council has approved a Long Term Financial Outlook covering the next 10 year period. The financial sustainability of the Council, including the impact of the Covid-19 pandemic, is monitored regularly and reported to Cabinet throughout the year.

## **Human Resources**

- 4.2 As part of a sustainable financial strategy the Council continues to actively manage the size of its workforce. Regular communication and consultation takes place with the workforce and Trade Unions.

## **Legal**

- 4.3 None.

## **Equality/Socio-economic**

- 4.4 Equality impact assessment are carried out for all options identified as part of the medium and long term financial plans.

## **Climate Change and Carbon**

- 4.5 None.

## **Key Priorities**

- 4.6 In addressing the financial challenges which it faces, the Council seeks to minimise the impact on delivering its key priorities.

## **Community Wealth Building**

- 4.7 None.

## **5. Consultation**

- 5.1 Executive Directors are consulted in the development of the Medium and Long term Financial plans and the development of investment and recovery and renewal strategies.

**Mark Boyd**  
**Head of Service (Finance)**

For further information please contact **David Forbes, Senior Manager (Strategic Business Partner)**, on **01294 324551** or **DavidForbes@north-ayrshire.gov.uk**.

## **Background Papers**

None



## Local Government in Scotland Financial Overview 2020/21

### Part 1 Councils' Income on 2020/21

Ref	Key Message	NAC Feedback
I1	The Covid-19 pandemic persisted throughout 2020/21, with the Scottish Government increasing funding to councils by £1.5 billion to support them in dealing with the impacts of the pandemic.	In 2020/21 NAC received £29.4m additional General Revenue funding and £4.5m additional specific revenue grants in relation to Covid pressures.
I2	The underlying increase in Scottish Government funding to councils of £358 million in 2020/21 was 1.1 per cent in real terms. But, over half of this increase is due to specific grants, which are now £710 million. Ring-fenced funding helps support delivery of key Scottish Government policies, such as expanding early learning and childcare services, but constrains a proportion of the total funding and resources and removes any local discretion over how these funds can be used by councils.	During 2020/21 the level of non Covid related Scottish Government funding received by NAC increased by £15.9m, equivalent to a 1.0% reduction in real terms. £5.6m of this increase was due to additional specific grants, primarily in relation to the expansion of Early Learning and Childcare.
I3	When Covid-19 funding is excluded, there has been a real terms underlying reduction in local government funding of 4.2 per cent since 2013/14.	Between 2013/14 and 2020/21 the level of non Covid related Scottish Government funding received by NAC increased by £34.3m. This was equivalent to a 4.1% reduction in real terms

## Part 2 Councils' financial position in 2020/21

Ref	Key Message	NAC Feedback
P1	Savings plans were mostly delivered across councils, but with significant variation.	<p>The 2020/21 General Services Revenue Estimates included savings targets of £4.439m across all services. Although the majority of savings were delivered in year, several were impacted by the Covid-19 pandemic. These were offset by other underspends within the services and will be further developed once all restrictions are lifted.</p> <p>The impacted savings included: Review of Facilities Management in Schools £0.155m; Property Rationalisation £0.140m; increased fee income linked to the Capital Programme £0.093m; increased factoring income £0.119m; and other minor savings £0.097m.</p>
P2	All councils increased their usable revenue reserves, mainly due to late Covid-19 funding which was unspent at 31 March 2021. The total increase was £1.2 billion	Total General Fund Reserves increased by £31.5m between 2019/20 and 2020/21, including £17.9m of Covid related funding, £8.0m of commitments delayed because of Covid related restrictions and £2.5m of agreed investment in recovery and renewal programmes.
P3	Capital expenditure reduced by more than 20 per cent in 2020/21 due to Covid-19	The total value of General Fund capital projects rephased during 2020/21 as a result of Covid restrictions was £26.4m, 33% of the original planned expenditure.
P4	Councils administered a further £1.4 billion of Covid-19 grants on behalf of the Scottish Government. The need to administer payment of these grants quickly to support the local economy put additional pressure on finance staff across councils.	<p>NAC administered £40m of business grants during 2020/21, plus a further £14.8m of Non Domestic Rates Covid related reliefs.</p> <p>Several sections across the Council were involved in the administration of these grants, including Revenues, Legal and Business Development. Where additional funding for administration was provided by the Scottish Government, the timescales involved did not allow for the recruitment or training of additional staff.</p>

P5	Covid-19 pressures contributed to greater and more frequent errors in councils' unaudited accounts. Auditors also reported wider issues relating to Covid-19, including the slowing of progress in some councils' transformation plans, the impact of reduced income on arm's-length external organisations (ALEOs) and what that means for their financial sustainability, identified weaknesses in internal control systems, and adverse impacts on long-term planning and capacity.	<p>No material errors were reported in the NAC annual accounts for 2020/21 which were completed and audited within statutory timescales. However, a number of adjustments were required to the accounts during the audit phase as a result of late or incomplete guidance from the Scottish Government and Audit Scotland in relation to the treatment of Covid related issues including mobilisation funds provided to the IJB and PPE provided to the Council by the NHS.</p> <p>KA Leisure reported significant reductions in income for the year resulting a trading deficit of £1.9m. A detailed financial recovery plan, including the provision of additional cash flow support from NAC, was approved by Cabinet in February 2021.</p>
P6	In line with the recovery in global stock markets, pension fund investments performed well. In addition, the triennial funding position improved	Although the value of returns on pension scheme assets increased during 2020/21, this was offset by an increase in the value of pension liabilities linked to inflation assumptions. This resulted in a net increase in NAC's share of the Scheme's liabilities of £58.5m for the year.

### Part 3 Councils' Financial Outlook

Ref	Key Message	NAC Feedback
O1	<p>Uncertainty over the amount of funding available for Covid-19 recovery at the end of 2020/21 led to difficulties in setting budgets, and many councils established updated Covid-19 budgets in autumn 2021.</p> <p>.</p>	£16.9m of additional Covid related funding was confirmed on 18 March 2021, after Council had approved the 2021/22 budget. These funds were not recurring and would not have been available to offset savings requirements. However, the majority of funds could not be expended before the end of the financial year and were

		earmarked to support ongoing Covid Recovery and Renewal and Investment activities in 2021/22 and beyond.
O2	Initial Scottish Government revenue funding in 2021/22 has increased by 1.1 per cent in real terms	Following confirmation of funding in relation to the Council Tax freeze in 2021/22, the level of Scottish Government funding for NAC increased by £7.2m, 2.4%. However, the increase in core funding, excluding specific grants and Scottish Government policy commitments was only £2.5m, 0.9%.
O3	Covid-19 resulted in revised medium-term financial plans, but longer-term planning will need to be updated as Covid-19 uncertainty diminishes	<p>NAC's Long Term Financial Outlook was presented to Council in December 2020. This is the cornerstone of the Council's strategic financial framework and identified an estimated funding shortfall of £120m over the next ten years based on best estimates with sensitivity analysis highlighting the implications of changes to the underlying assumptions.</p> <p>The Long Term Financial Outlook is scheduled for a full review during 2023/24.</p>
O4	Scottish Government capital funding in 2021/22 is expected to fall again. This may have a significant adverse impact on councils' investment plans	<p>Excluding ringfenced funding in relation to Flooding projects, NAC's General Capital Grant was reduced by £0.140m, 1%, in 2021/22 and a further £0.022m in 2022/23.</p> <p>However, this has been offset by additional ringfenced capital funding linked to Scottish Government manifesto commitments including Play Park Renewal and Local Bridge Maintenance.</p>

O5	<p>The long-term funding position for councils remains uncertain, with significant challenges ahead as councils continue to manage and respond to the impact of Covid-19 on their services, finances and communities.</p>	<p>NAC approved the 2022/23 to 2024/25 Medium Term Financial Plan on 2 March 2022. This identified indicative budget gaps for 2023/24 and 2024/25 of £10.7m and £8.8m respectively.</p> <p>The Long Term Financial Outlook 2021 -2031 has identified an estimated shortfall of £69m over the period 2025/26 to 2030-31. This is scheduled for a full review during 2023/24.</p> <p>Additional funding received as a result of Covid-19 has been retained for investment across Education, KA Leisure, the HSCP and the general Recovery and Renewal programme to address the long term impact of Covid-19 on the Council and our communities.</p>
O6	<p>In the longer term, uncertainty creates challenges for councils as they seek to address cost and demand pressures that existed before the impact of Covid-19, as well as develop long-term plans with their partners to address complex issues such as child poverty and inequalities, to improve economic growth and to deliver Scotland's net zero ambitions</p>	<p>Work continues across NAC to develop the Council's long term plans. This is supported by earmarked reserves and investment funds approved by Council in relation to financial insecurity, recovery and renewal and sustainability, including a £1.7m non-recurring investment approved by Council to develop an energy based community support model to provide sustainable support to residents.</p>



## NORTH AYRSHIRE COUNCIL

31 May 2022

### Audit and Scrutiny Committee

<b>Title:</b>	<b>Internal Audit Annual Report 2021/22</b>
<b>Purpose:</b>	To provide the Committee with an annual report on the work of Internal Audit during 2021/22 and provide an opinion on the governance, risk management and internal control environment of the Council.
<b>Recommendation:</b>	The Committee is asked to note the content of the annual report and the opinion of the Senior Manager on the Council's governance, risk management and internal control environment.

#### 1. Executive Summary

- 1.1 The Internal Audit Annual Report attached at Appendix 1 provides information on the work carried out during the period of the 2021/22 audit plan. The plan covered a 14-month period from 1 February 2021 – 31 March 2022.
- 1.2 It is the opinion of the Senior Manager (Audit, Fraud, Safety and Insurance) that reasonable assurance can continue to be placed on the adequacy and effectiveness of the Council's systems of governance, risk management and internal control.

#### 2. Background

- 2.1 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor prepares an annual report on the activities of Internal Audit and that the report should contain a view on the adequacy of the Council's governance, risk management and internal control frameworks. The annual report for 2021/22 is attached at Appendix 1 and outlines the role of Internal Audit, the performance of the section during the year and the key audit findings. It also contains the annual internal audit opinion.
- 2.2 The report gives information on the actual performance against the agreed plan. Overall, 752 days of audit work took place, which was 63 days less than budgeted. Section 2 of the annual report provides more information on the reasons for the shortfall and the corrective action which was taken to amend the audit plan.
- 2.3 Section 3 of the report provides information on the assurance level given for each audit and some of the most significant findings. All audit reports published were reported to the Audit and Scrutiny Committee.

- 2.4 All audit findings during the year support and inform the objective opinion of the Senior Manager (Audit, Fraud, Safety and Insurance) on the adequacy of the Council's governance, risk management and internal control environment. The assurance category given to each individual audit informs the overall level of assurance. The annual audit opinion required by PSIAS is included in the attached annual report.
- 2.5 The annual internal audit opinion also contributes to the Annual Governance Statement which is published as part of the Council's annual accounts and is included under separate cover in this Audit and Scrutiny Committee agenda for approval.
- 2.6 Based on the audit work carried out, the opinion of the Senior Manager (Audit, Fraud, Safety and Insurance) is that reasonable assurance can continue to be placed on the adequacy and effectiveness of the Council's systems of governance, risk management and internal control.

### **3. Proposals**

- 3.1 It is proposed that the Committee notes the content of the annual report and the opinion of the Senior Manager on the Council's governance, risk management and internal control environment.

### **4. Implications/Socio-economic Duty**

#### **Financial**

- 4.1 None.

#### **Human Resources**

- 4.2 None.

#### **Legal**

- 4.3 None.

#### **Equality/Socio-economic**

- 4.4 None.

#### **Climate Change and Carbon**

- 4.5 None.

#### **Key Priorities**

- 4.6 The work of Internal Audit helps to support the efficient delivery of the strategic priorities within the Council Plan 2019-2024.

#### **Community Wealth Building**



4.7 None.

## **5. Consultation**

5.1 Council Services are consulted on the findings of Internal Audit throughout the year. No specific consultations have taken place in relation to this annual report.

Mark Boyd  
Head of Service (Finance)

For further information please contact **Laura Miller, Senior Manager (Audit, Fraud, Safety and Insurance)**, on **01294 324524**.

## **Background Papers**

None.

# **INTERNAL AUDIT ANNUAL REPORT**

**2021/22**



**North Ayrshire Council**  
Comhairle Siorrachd Àir a Tuath

## **INTERNAL AUDIT ANNUAL REPORT 2021/22**

### **1 Introduction**

- 1.1** The Council's Section 95 Officer has overall responsibility for Internal Audit in North Ayrshire Council. The Senior Manager (Audit, Fraud, Safety and Insurance) reports to the Section 95 Officer, with the right of access to the Chief Executive and the Chair of the Audit and Scrutiny Committee on any audit matter. These rights of access help ensure the organisational independence of Internal Audit.
- 1.2** During 2021/22, the section operated in conformance with the 'Public Sector Internal Audit Standards (PSIAS)'. The standards define the way in which the Internal Audit section should be established and undertake its functions. The section complied with the PSIAS requirement for an external assessment every five-years; this was last undertaken by Falkirk Council in 2017 through the peer-to-peer review network of the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG). The current external assessment is being carried out by West Dunbartonshire Council and is a work in progress at the time of writing. The outcome from that review, and any associated quality assurance and improvement programme, will be reported at a future meeting of the Audit and Scrutiny Committee.
- 1.3** The Internal Audit section also operated under an 'Internal Audit Charter' which was most recently approved by the Audit and Scrutiny Committee in September 2020.
- 1.4** One of the requirements of the PSIAS is the publication of an annual report. The aim of this annual report is to give an overview of the work carried out during 2021/22. Some information is provided on the resources available to Internal Audit and the performance of the section.
- 1.5** Finally, the report provides an opinion on the overall adequacy and effectiveness of the Council's governance, risk management and internal control frameworks.

### **2 Planned and Actual Activity during 2021/22**

- 2.1** The internal audit plan approved by the Audit and Scrutiny Committee in January 2021 and covering a 14-month period from 1 February 2021 – 31 March 2022, included a plan for 815 audit days. 710 days (87%) were budgeted as 'productive' and allocated for carrying out audit work. A further 105 days (13%) were budgeted for 'non-productive' time: management and strategy, attendance at meetings, administration and staff training and development. Time is determined as 'productive' or 'non-productive' in line with definitions produced by CIPFA.
- 2.2** A mid-year review of the internal audit plan was approved by the Audit and Scrutiny Committee in November 2021. The revised plan included a total of 780 planned audit days. 644 days (83%) were budgeted as 'productive' and a further 136 days (17%) were budgeted as 'non-productive'. The following audits were removed from the plan and deferred to the 2022/23 internal audit plan which was approved by the Audit and Scrutiny Committee in March 2022:
- Museums and Heritage

- Agency staff and workers
- Transport Journeys and Hires
- Building Services Procurement
- Facilities Management Procurement
- Workforce Planning
- Social Care establishments.

**2.3** During 2021/22, 752 workdays took place; this was 63 days below the original audit plan target and 28 days below the revised mid-year target. There are three main reasons for the reduction:

- The former Senior Manager (Audit, Fraud, Safety and Insurance) was promoted to another post within the Council on 7 June 2021. The newly appointed Senior Manager came into post on 19 August 2021. In the interim, the Audit Manager took on the role of Acting Senior Manager for Internal Audit and Corporate Fraud. This had an impact on the audit days available.
- An extension to the temporary change in the Council structure meant that additional time was spent on directly line managing the Insurance Team. This remained the case until March 2022 when the Risk and Insurance Manager returned from secondment.
- Higher than anticipated sickness absence levels were experienced by the Internal Audit Team in February and March 2022.

**2.3** There were 615 actual 'productive' days during 2021/22 and 138 'non-productive' days. At 82% of total actual days, this meant productive days were around 5% below the original percentage target but consistent with the revised mid-year estimate.

**2.4** In line with the Council's defalcation procedures, all instances of suspected fraud and irregularity should be reported to Internal Audit. These are investigated by the specialist Corporate Fraud Team and are not included within this annual report.

### **3 Audit Findings**

**3.1** All audit reports which were finalised during 2021/22 were reported to meetings of the Audit and Scrutiny Committee in September and November 2021, and January, March and May 2022.

**3.2** The assurance levels from each of the audits were as follows:

#### September 2021 Committee

<b>Audit Title</b>	<b>Assurance Level</b>
IJB Governance	Substantial
Supply Teachers	Reasonable
Sustainability	Substantial
Temporary Posts and Contracts	Substantial/Limited
Waste Management	Substantial
Sustainability Payments to Care Providers	Substantial
Aids and Adaptations	Limited
Procurement Cards	Limited

### November 2021 Committee

<b>Audit Title</b>	<b>Assurance Level</b>
Community Alarms	Substantial

### January 2022 Committee

<b>Audit Title</b>	<b>Assurance Level</b>
Payroll Transaction Testing	Reasonable
Procurement of Educational Supplies	Reasonable/Limited
Benefits	Substantial
CCTV in Council Buildings and Vehicles	Limited
Accounts Payable Transaction Testing	Reasonable

### March 2022 Committee

<b>Audit Title</b>	<b>Assurance Level</b>
Facilities Management Overtime Controls	Limited
Procurement Card Follow Up	Reasonable
Performance Indicators	Substantial/Reasonable/Limited

### May 2022 Committee

<b>Audit Title</b>	<b>Assurance Level</b>
General Ledger System	Reasonable
Health and Social Care Partnership Procurement	Substantial
Ayrshire Growth Deal Governance	Reasonable
Secondary Schools	Substantial

### **3.3** The definitions of the assurance levels used by Internal Audit are as follows:

<b>Substantial</b>	The framework of governance, risk management and control is adequate and effective.
<b>Reasonable</b>	Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
<b>Limited</b>	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.
<b>None</b>	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

### **3.4** Detailed below are the most significant findings from the audit work finalised during 2021/22:

### **3.6** In respect of the audit of Aids and Adaptations, nine actions points were raised in the report with the key audit concern relating to the delay in follow-ups being carried out and the lack of evidence that follow-ups had been carried out. Eight of the nine audit

actions have now been completed with the final action due for completion in June 2022.

- 3.7** In respect of the audit of Procurement Cards, four action points were raised with a view to improving general controls around the use of procurement cards. This included training, analysis of spend, and review and approval of transactions. The findings from this audit assignment were followed up by Internal Audit during the year. All actions were found to be implemented, or in the process of being implemented. No further actions were raised by Internal Audit and the revised assurance level was concluded as Reasonable.
- 3.8** Regarding CCTV in Council Buildings and Vehicles, there is a general recognition across the Council that CCTV images are personal data that require protection, however there is a requirement to harmonise practices across the Council to ensure a consistent approach to recording, storing and accessing CCTV images. Work has already commenced in the form of a cross service working group to take forward issues relating to CCTV, including the three actions arising from the internal audit.
- 3.9** Finally, for Overtime Controls in Facilities Management, a number of keying errors were identified as a result of changed notification processes due to COVID-19. It has been recommended that a longer-term solution to overtime is explored to ensure it is claimed, authorised and paid correctly. The service has now commenced this work in the form of a short life working group.
- 3.9** These findings, together with those from other audits carried out and the individual assurance levels detailed above, contribute to the annual internal audit opinion in section 6 of this report.

## **4 Audit Resources**

- 4.1** The Internal Audit section is directly managed by the Team Manager (Internal Audit), who reports to the Senior Manager (Audit, Fraud, Safety and Insurance). The Senior Manager is responsible for Internal Audit, as well as the Corporate Fraud Team, the Risk and Insurance Team and the Corporate Health and Safety Team.
- 4.2** As well as the Team Manager, the Internal Audit team consisted of two part-time Internal Auditors as well as a part-time Computer Auditor.
- 4.3** All staff within the section hold a relevant qualification, either through an institute which is part of the CCAB (Consultative Committee of Accountancy Bodies) or the IIA (Institute of Internal Auditors).

## **5 Performance**

- 5.1** During 2021/22, Internal Audit provided regular updates on work carried out to the Council's Audit and Scrutiny Committee. Elected Members had the opportunity to discuss all Internal Audit reports and question either the Senior Manager or relevant officers from Council services.

**5.2** The Council's performance management system, Pentana, is utilised to follow-up on audit recommendations. Officers with responsibility for implementing recommendations are required to update the Pentana system and updates are provided to the Audit and Scrutiny Committee on a quarterly basis. Where actions are overdue, officers may be required to attend the Committee to update Elected Members on plans to ensure that actions are implemented.

**5.3** A range of performance indicators are used to monitor performance within the section, and these are detailed in the table below, along with the two previous years' actual figures. These are tracked by the Team Manager on a quarterly basis and are discussed with audit staff to review performance and identify opportunities for development.

	<b>2019/20 Actual</b>	<b>2020/21 Actual</b>		<b>2021/22 Target</b>	<b>2021/22 Actual</b>
% of auditor time spent productively	87%	82%		87%	82%
Training days per auditor	3.5 days	4.2 days		3.6 days	5.8 days
Final reports issued	27	22		n/a	22
Audits completed within budgeted days	46%	24%		75%	23%
Draft reports issued within 21 days of fieldwork completion	85%	83%		100%	81%
Final reports issued within 14 days of return of action plan	100%	95%		100%	100%
Actions implemented on time by Council services	80%	68%		80%	83%
Ad-hoc requests for advice from Council services	47 requests	63 requests		n/a	27 requests

**5.4** The 'percentage of auditor time spent productively' remains below the annual target but consisted with the position last year. Due to ongoing COVID-19 restrictions during 2021/22, this position is as expected. The 82% actual remains close to the revised expectations set out in the mid-year review, which estimated a revised actual of 83%.

**5.5** 'Training days per auditor' is higher than target. While 18 days of training was budgeted for the year, the actual number of days training was 29. This was across all members of the Internal Audit team. The reason for the difference was due to staff development in the use of Power BI.

**5.6** Actual performance against the 'audits complete in budgeted days' indicator remains significantly below target and not yet back to pre-pandemic levels. This reflects the completion of individual audit assignments rather than the audit plan as a whole. Most audits which were over budget only exceeded the target by one or two days; those audits which were more considerably over target was due to wider scope than anticipated (Aids and Adaptations, Procurement Cards, CCTV, and Procurement of Educational Supplies).

**5.7** Ad-hoc requests for advice are outwith the control of Internal Audit however are noted to be lower than in previous years. The previous year of 2020/21 was significantly higher as a result of more advice arising around changed processes and procedures relating to covid arrangements in light of new working practices. In May 2022,

International Internal Audit Awareness Month, communications have been utilised to further remind services of the availability of Internal Audit for advice and consultancy.

- 5.8** The Internal Audit section also calculates 2 annual performance indicators which are required by the CIPFA Directors of Finance group. These are as follows:

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
Productive days achieved per audit plan	96.72%	86.47%	85.36%
Cost of Internal Audit per £1m of net expenditure	£510.97	£529.51	£tbc

- 5.9** It should be noted that the figures in the table at 5.8 are for the financial year 2021/22. This differs from the audit plan year which covered a 14-month period. The figures at table 5.6 are therefore pro-rated to bring them into line with the financial year for the CIPFA return.
- 5.10** The 'productive days achieved per audit plan' remain considerably lower than pre-covid levels; the reasons for this are outlined at 2.3 above. It should be noted that this indicator reflects back to the original internal audit plan as the base point. If the productive days were compared with the mid-year plan, the percentage of productive days achieved per the audit plan is 94.71%.
- 5.11** The 'cost of Internal Audit per £1m of Council net expenditure' was £529.51 in 2020/21, a slight increase from £510.97 in 2019/20 but still well below the target of £850. The 2021/22 figure cannot be calculated until the closure of the Council's draft annual accounts and will be reported at a later date.

## **6 Opinion**

- 6.1** This statement on the adequacy and effectiveness of the framework of governance, risk management and internal control is based on the audit work performed during 2021/22 as reported above. It also draws on the experience of audit work carried out in earlier years as well as assurances received from management and external audit findings.
- 6.2** Internal Audit staff have carried out work, both on a corporate basis and within each of the Service groups and, subject to the comments in section 3 above, the conclusion drawn from that work was that most of the anticipated governance, risk management and internal control frameworks were in place and operating effectively.
- 6.3** Where Internal Audit identified opportunities for improvement, the responses received from managers continued to be positive and there was commitment to implementing Internal Audit's recommendations.
- 6.4** On this basis, it is my opinion that reasonable assurance can be placed on the adequacy and effectiveness of the Council's systems of governance, risk management and internal control.

**Laura Miller**  
**Senior Manager (Audit, Fraud, Safety and Insurance)**  
**31 May 2022**



## NORTH AYRSHIRE COUNCIL

31 May 2022

### Audit and Scrutiny Committee

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**Title:** Annual Governance Statement 2021-22

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**Purpose:** To seek approval of the Council's Annual Governance Statement for 2021-22 which will be included within the draft Annual Accounts.

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**Recommendation:** That the Committee approves the draft Annual Governance Statement which is attached at Appendix 1.

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#### 1. Executive Summary

- 1.1 The Council's Annual Governance Statement outlines the governance framework which is in place and changes which have been made to strengthen the framework during 2021-22.
- 1.2 Approval of the Statement will ensure that the Council complies with the requirements of the Local Authority Accounts (Scotland) Regulations 2014.

#### 2. Background

- 2.1 North Ayrshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently, and effectively to achieve Best Value.
- 2.2 The Council is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 2.3 The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'.
- 2.4 The Local Authority Accounts (Scotland) Regulations 2014 require that local authorities prepare an Annual Governance Statement, in accordance with proper practices in relation to internal control, and that this Statement should be approved by the Audit Committee or equivalent.

- 2.5 Following approval of the Annual Governance Statement, it requires to be signed by the Leader of the Council and the Chief Executive prior to its inclusion within the Council's draft annual accounts.
- 2.6 The Annual Governance Statement, which is attached in full at Appendix 1 to this report, explains how the Council complies with the Code of Corporate Governance. It identifies the main components of the Corporate Governance Framework which are in place, including the system of internal control, and details the changes which have taken place to the framework during 2021-22.
- 2.7 The Statement also identifies improvement actions which are planned to the governance framework during 2022-23. It concludes with an assurance statement by the Leader of the Council and the Chief Executive.

### **3. Proposals**

- 3.1 It is proposed that the Committee approves the draft Annual Governance Statement which is attached at Appendix 1.

### **4. Implications/Socio-economic Duty**

#### **Financial**

- 4.1 None.

#### **Human Resources**

- 4.2 None.

#### **Legal**

- 4.3 Approval of the Annual Governance Statement will ensure that the Council complies with the requirements of the Local Authority Accounts (Scotland) Regulations 2014.

#### **Equality/Socio-economic**

- 4.4 None.

#### **Climate Change and Carbon**

- 4.5 None.

#### **Key Priorities**

- 4.6 Good governance arrangements help to underpin the delivery of the Council's key priorities.

#### **Community Wealth Building**

- 4.7 None.

## **5. Consultation**

- 5.1 No consultation has been required during the preparation of the Annual Governance Statement.

Mark Boyd  
Head of Service (Finance)

For further information please contact **Laura Miller, Senior Manager (Audit, Fraud, Safety and Insurance)**, on **01294 324524**.

### **Background Papers**

None.

# Annual Governance Statement

## Scope of Responsibility

North Ayrshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively to achieve Best Value.

The Council is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016). A copy of the local code is available on the Council's website, or a copy can be obtained from the Chief Executive's Service, North Ayrshire Council, Cunninghame House, Irvine KA12 8EE.

This statement explains how North Ayrshire Council complies with the Code of Corporate Governance and meets the requirements of the 'Code of Practice for Local Authority Accounting in the UK: A Statement of Recommended Practice', in relation to the Statement on the System of Internal Financial Control.

## The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values by which the authority is directed and controlled. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services and the achievement of key outcomes.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively.

## The Governance Framework

The Council's Framework is built around the seven core principles and 21 sub-principles that set out the key building blocks of good governance:

Core Principle	Sub Principles
A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law	<ul style="list-style-type: none"> <li>Behaving with integrity</li> <li>Demonstrating strong commitment to ethical values</li> <li>Respecting the rule of law</li> </ul>
B. Ensuring openness and comprehensive stakeholder engagement	<ul style="list-style-type: none"> <li>Openness</li> <li>Engaging comprehensively with institutional stakeholders</li> <li>Engaging with individual citizens and service users effectively</li> </ul>
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits	<ul style="list-style-type: none"> <li>Defining outcomes</li> <li>Sustainable economic, social and environmental benefits</li> </ul>
D. Determining the interventions necessary to optimise the achievement of the intended outcomes	<ul style="list-style-type: none"> <li>Determining interventions</li> <li>Planning interventions</li> <li>Optimising achievement of intended outcomes</li> </ul>
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it	<ul style="list-style-type: none"> <li>Developing the entity's capacity</li> <li>Developing the capability of the entity's leadership and other individuals</li> </ul>

Core Principle	Sub Principles
F. Managing risks and performance through robust internal control and strong public financial management	<ul style="list-style-type: none"> <li>Managing risk</li> <li>Managing performance</li> <li>Robust internal control</li> <li>Managing data</li> <li>Strong public financial management</li> </ul>
G. Implementing good practices in transparency, reporting and audit to deliver effective accountability	<ul style="list-style-type: none"> <li>Implementing good practice in transparency</li> <li>Implementing good practices in reporting</li> <li>Assurance and effective accountability</li> </ul>

The Code of Corporate Governance Statement 2021/22 was approved by the Audit and Scrutiny Committee on 19 January 2022. It aligns to the framework and demonstrates how the Council is ensuring good governance and transparent accountability.

The key features of the governance framework that was in place during 2021/22 are below:

- The Cabinet was the key decision-making Committee, comprising the Leader of the Council, the Depute Leader and members of the Administration, each with a specific portfolio of duties. An Education Cabinet comprised the same members and included church and teaching profession representatives. The Audit and Scrutiny Committee, which is chaired by an opposition member, was in place to consider all matters in relation to Internal and External Audit, Risk Management, Scrutiny and Performance, as well as receiving reports on the findings of external scrutiny bodies. A 'Policy Advisory Panel' consisting of all elected members assisted in the preparation of policy proposals for consideration and approval by Cabinet.
- Strategic decision-making is governed by the Council's key constitutional documents including standing orders, scheme of administration, scheme of delegation to officers and financial regulations and associated codes of financial practice.
- The Council has six Locality Partnerships, covering Irvine, Kilwinning, the Three Towns, Arran, the North Coast and the Garnock Valley. Chaired by a local Elected Member, the Partnerships provide the opportunity for Elected Members, Community Planning Partners and local community representatives to consider the priorities for each area.
- The Council, together with NHS Ayrshire and Arran, established an integrated Health and Social Care Partnership (HSCP), which has been in place since April 2015. The HSCP has established a governance framework and an integrated senior management structure to support delivery of its key objectives.
- The Council's mission, vision and key priorities are outlined in the Council Plan 2019-2024 which is underpinned by a delivery plan and a range of performance indicators. Regular interim reports are provided on progress towards meeting the Council Plan priorities.
- A 'People Strategy' entitled 'Our People Connect' is in place to support the delivery of the Council Plan and its strategic priorities by focussing on developing the right culture and helping the Council transform to be a leaner, more efficient and higher performing organisation where people can develop and thrive.
- The Performance Management Strategy 2021-24 focuses firmly on embedding a performance management culture throughout the Council. Regular reporting to Elected Members takes place and a wide range of performance information is available on the North Ayrshire Performance Dashboard.
- The Council has adopted a 'Code of Conduct' for all its employees. Elected Members adhere to the national 'Code of Conduct for Councillors' and a register of interests is in place.
- The approach to risk management is set out in the Risk Management Strategy: "Risk Focus". The Council's strategic risk register is refreshed annually and for 2021/22 was approved by Cabinet in February 2021. A mid-year update was provided to the Audit and Scrutiny Committee in November 2021.
- Each Head of Service has a Workforce Plan in place for their portfolio of services which considers challenges and issues, the transformation agenda and to support career development and succession planning.
- The Council has in place a development programme for all Elected Members. Leadership and Development programmes are also established for strategic leaders and first line and middle

managers across the Council, through the Leadership Academy approach. A full Member's induction programme took place during May 2022 for all recently elected Members.

- The 'Our Time to Talk' approach is in place to ensure that managers and employees take time to discuss how each employee is getting on at work; this focusses on the employee's contribution to the team, their wellbeing and any development needs that contribute towards meeting the team's objectives or the employee's career aspirations.
- The ICT Asset Management Approach 2021-2024 supersedes the previous 2018-2021 plan. The approach is linked to the ICT Technology Strategy and depicts the impact on hardware, software and application assets. The Council's approach to asset management planning is based on CIPFA guidance which covers six core classes of assets: property, open space, housing, roads, fleet, and ICT.
- A Capital Programme and Assets Group (CPAG), consisting of senior officers from across Council services and chaired by the Head of Finance, is in place. This group monitors the delivery of the Council's capital programme, helping to ensure that projects are delivered on time and within budget. The work of this group is supported by Service Project Boards.
- The Council has a long-term financial outlook, which covers the period 2021/22 to 2030/31. This sets out the scale of the potential financial challenge and the approach to pro-actively address it, ensuring financial sustainability of the Council.
- The Council has Internal Audit and Corporate Fraud teams to carry out independent and objective reviews of governance and internal control arrangements and investigate allegations of fraud and error both within and against the authority.
- An Information Governance framework is in place which complies with the General Data Protection Regulation (GDPR), supported by a central team of staff within Democratic Services. A corporate training module is in place to support ongoing training, development and awareness.
- The Council has a robust Corporate Health, Safety and Wellbeing Policy to help ensure it complies with health and safety legislation.
- An annual report is prepared for Cabinet by the Council's statutory Chief Social Work Officer.
- The Council has a two-stage Complaints Procedure, which provides a transparent and standardised process for customers who wish to complain and enables the Council to manage complaints more effectively and to identify any service improvements which may be required.

The governance framework has been in place at North Ayrshire Council throughout the year ended 31st March 2022.

### **The System of Internal Financial Control**

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by Chief Officers within the Council. In particular, the system includes:

- Financial regulations and codes of financial practice.
- Comprehensive budgeting systems.
- Regular reviews of periodic and annual financial reports that indicate financial performance against the forecasts.
- Setting targets to measure financial and other performance.
- Clearly defined capital expenditure guidelines.
- Formal project management disciplines.

The Council's financial management arrangements conform to the governance requirements of the CIPFA statement on 'The Role of the Chief Financial Officer in Local Government (2016)'.

Regarding the entities incorporated into the Group Accounts, the Council is not aware of any weaknesses within their internal control systems and has placed reliance on the individual Statements of Internal Financial Control where appropriate.

## **Review of Effectiveness of the Governance Framework**

North Ayrshire Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness of the framework is informed by the work of the Executive Leadership Team who have responsibility for development and maintenance of the governance environment, the annual report by the Senior Manager (Audit, Fraud, Safety and Insurance) and reports from the Council's external auditors Deloitte LLP, Audit Scotland and other review agencies.

The Section 95 Officer has overall responsibility for Internal Audit in North Ayrshire Council. The Senior Manager (Audit, Fraud, Safety and Insurance) is responsible for the management of the section and reports directly to the Section 95 Officer on all audit matters, with the right of access to the Chief Executive and Chair of the Audit and Scrutiny Committee. The Internal Audit section is fully resourced to deliver its strategic audit plan and complies with the Public Sector Internal Audit Standards (PSIAS) in conducting its audit work. Regular reports were made to the Council's Audit and Scrutiny Committee throughout 2021/22.

As detailed in the 'Internal Audit Charter' that has been adopted by the Council, the Internal Audit function has independent responsibility for examining, evaluating, and reporting on the adequacy of internal control. The Senior Manager (Audit, Fraud, Safety and Insurance) prepares an annual report, including an assurance statement containing a view on the adequacy and effectiveness of the governance, risk management and internal control frameworks. This was reported to the Audit and Scrutiny Committee on 31 May 2022.

The Internal Audit Annual Report 2021/22 highlights a number of findings by the Council's Internal Audit section which indicate some weaknesses in the internal control environment. Action plans are put in place to address control weaknesses on conclusion of each audit and implementation of audit actions is tracked on a quarterly basis by the Council's Audit and Scrutiny Committee. None of these are considered material enough to have a significant impact on the overall control environment and it is the opinion of the Senior Manager (Audit, Fraud, Safety and Insurance) that the Council's systems of internal control continue to provide reasonable assurance against loss.

The Council's internal audit arrangements conform to the governance requirements of the CIPFA statement on 'The Role of the Head of Internal Audit (2019)'.

## **Significant Governance Developments during 2021/22**

A Best Value Audit Review was conducted by Audit Scotland and Deloitte LLP in January and February 2020. The report was presented to the Accounts Commission in June 2020 and to the meeting of North Ayrshire Council in September 2020. The report was extremely positive and provided significant assurance that the Council complies with its statutory duty to secure Best Value. In March 2022, progress against the best value audit recommendations was reported to the meetings of both North Ayrshire Council and the Audit and Scrutiny Committee. The reports identify that the four recommended actions are now complete.

A management restructure was carried out in the Place Directorate in December 2021 to better align the Council's structure to support the delivery of key transformational change in the areas of Land and Property and sustainability and climate change, as set out in the Council's ambitious Environmental Sustainability and Climate Change Strategy 2021-2023.

Children's Services Planning includes the Children's Rights Report and the Child Poverty Action Plan, all of which have been redeveloped for the three years 2020-23.

A Long-term Financial Outlook (covering the period 2021/22 to 2030/31) was approved by the Council in December 2020. This is underpinned by a Medium-term Financial Outlook which is updated annually. The most recent medium-term financial outlook, covering 2022/23-2024/25, was approved by the Council in February 2022. These documents note the scale of the financial challenge which the Council faces and underpin the development of a balanced budget. The Revenue Estimates 2022/23-2024/25 and Capital Investment Programme 2022/23-2030/31 were approved by Council in March 2022.

To ensure ongoing compliance with Sections 193 and 194 of the Local Government (Scotland) Act 1973, the Council appointed the incoming Head of Democratic Services as its Proper Officer following the retirement of the previous postholder. The Head of Democratic Services was also appointed as the Council's Monitoring Officer in terms of Section 5 of the Local Government and Housing Act 1989. These appointments were effective from 19 July 2021.

In terms of Section 3 of the Social Work (Scotland) Act 1968, and following the retirement of the previous postholder, a new Chief Social Work Officer was appointed for the Council effective from 22 December 2021.

The Audit and Scrutiny Committee carried out a self-evaluation in August 2021, using best practice frameworks and a toolkit prepared by officers to facilitate the process. The actions arising from the first self-evaluation in August 2019 were found to have been implemented. A small number of improvement actions were identified during the 2021 process, which will now be conducted on an annual basis.

The Growth and Investment Team was established within North Ayrshire Council in 2019 as part of an organisational restructure to maximise the potential of major programmes of investments in North Ayrshire, including capital projects funded through the Ayrshire Growth Deal. A Growth and Investment Governance Framework was approved by the Audit and Scrutiny Committee in June 2021. The framework sets out the arrangements to support internal programme and project management procedures, and to provide robust and effective programme and project delivery mechanisms. As part of the annual monitoring of progress in delivering the Ayrshire Growth Deal, the process will also consider any issues arising which may give rise to a need to update the governance arrangements.

Extensive work took place with locality planning partnerships in 2021/22 to refresh locality partnership priorities. This led to the five mainland locality partnerships agreeing their ongoing priorities. Work on the refresh of the Arran locality priorities is ongoing as this will consider the development of the Island Plan approved by Cabinet in February 2022.

A Community Learning and Development Plan for 2021-2024 was approved by Cabinet in September 2021. The plan sets out the governance arrangements to ensure the voices, needs and aspirations of communities informs the operational delivery and targeting of resources. The plan fits within the landscape of Community and Locality Planning and in acknowledgement of these interdependencies the governance arrangements include reporting to Community Planning and Locality Partnerships.

Under the Equalities Act 2010 and the Specific Duties (Scotland) Regulations 2012, the Council has a duty to produce Equality Outcomes at least every four years. As part of the Council's four-year review of outcomes, Cabinet approved the Equality Outcomes for 2021-2025.

In November 2021, Cabinet approved the Council's response to "A National Care Service for Scotland – Consultation". The consultation followed on from a Scottish Government commissioned Independent Review of Adult Social Care (IRASC) which proposed the creation of a national care service (NCS) for Scotland. The Council's consultation response was provided to the Scottish Government on 2 November 2021 following engagement with Elected Members.

### **Covid-19 Governance Arrangements**

Council Committees continued to meet virtually throughout 2021/22. To ensure full public transparency remained in place during this period, meetings were either broadcast live or recorded and uploaded to allow the public to view proceedings while Covid-19 restrictions prevented physical meetings with public attendance.

Throughout the pandemic the Emergency Management Team (EMT), chaired by the Chief Executive, and attended by Executive Directors and Heads of Service, continued to meet. The Leader of the Council attended these meetings as an observer. The frequency of meetings reflected the needs of Council services and partner organisations at various stages and pressure points during the pandemic.

### **Planned Actions for 2022/23**

The Council has a number of planned actions for 2022/23 which will help to further strengthen the governance framework:

- Progress the workstreams in the new Sustainable Change Programme for 2022/23 and monitor and govern progress through the Transformation Board, chaired by the Chief Executive.
- Developing and implementing processes and software which will enable 'hybrid' Committee meetings to be held utilising both physical and remote attendance.
- With the local Council elections on 5 May 2022, formation of the new Council and elected members. This will include a review of Council committee structures and elected member representation.



- Formation of a Vacancy Scrutiny Panel including the Executive Directors of Place and Communities and the Head of Finance and Head of People and ICT. The main purpose is to strengthen current workforce planning arrangements.

### **Assurance**

Subject to the above, and based on the assurances provided, we consider the governance and internal control environment operating during 2021/22 to provide reasonable and objective assurance that any significant risks impacting on the achievement of our actions will be identified and actions taken to avoid or mitigate their impact. Systems are in place to continually review and improve the governance and internal control environment and action plans are in place to address identified areas for improvement.

Craig Hatton  
Chief Executive  
May 2022

Councillor Marie Burns  
Leader of the Council  
May 2022



## NORTH AYRSHIRE COUNCIL

31 May 2022

### Audit and Scrutiny Committee

<b>Title:</b>	<b>Accounting Policies 2021/22</b>
<b>Purpose:</b>	To seek the Audit and Scrutiny Committee's approval of the accounting policies which will be adopted in the preparation of the Council's annual accounts for the year to 31 March 2022.
<b>Recommendation:</b>	That the Audit and Scrutiny Committee approves the accounting policies as detailed in Appendix 1.

#### 1. Executive Summary

- 1.1 The annual accounts for the 2021/22 financial year summarise the Council transactions during the year and its position at the year end of 31 March 2022. Under the Local Authority Accounts (Scotland) Regulations 2014, the Council is required to prepare an annual Statement of Accounts and Section 12 of the Local Government in Scotland Act 2003 requires that these accounts are prepared in accordance with the proper accounting practices.
- 1.2 These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"), supported by International Financial Reporting Standards (IFRS). These are issued jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) and are designed to give a "true and fair view" of the financial performance of the Council.
- 1.3 The accounting policies to be adopted by North Ayrshire Council are reviewed on an annual basis in line with the CIPFA Code and submitted to the Audit and Scrutiny Committee for review in advance of the financial statements being prepared.
- 1.4 There have been no material changes to the accounting policies for 2021/22.
- 1.5 Pending confirmation of revised guidance from CIPFA / LASAAC, it is proposed that the preparations for the adoption of IFRS 16 Leases proceed with a view to implementing the required changes from 1 April 2022.

## **2. Background**

- 2.1 Accounting policies are defined in paragraph 3.3.2.1 of the Code as ‘the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements’.
- 2.2 Councils are required to select accounting policies and apply changes to accounting policies in accordance with International Accounting Standard 8 - Accounting Policies.
- 2.3 The Council is required to adopt the accounting policies most appropriate to its particular circumstances for the purpose of giving a true and fair view. The accounting policies adopted should be reviewed regularly to ensure that they remain appropriate and consider the required treatment of any new policies relevant to the Council’s particular circumstances. Sufficient information should be disclosed in the financial statements to enable users to understand the accounting policies adopted and how they have been implemented.
- 2.4 The draft accounting policies proposed for adoption are detailed in Appendix 1.
- 2.5 CIPFA / LASAAC had previously announced changes to the treatment of leases and similar arrangements in line with International Financial Reporting Standard (IFRS) 16 Leases with effect from 1 April 2022. In response to concerns raised in relation to issues arising in England and Wales, CIPFA / LASAAC has announced that the mandatory adoption of this standard will be postponed until 1 April 2024. However draft guidance has suggested that local authorities are encouraged to adopt this standard early, where appropriate. Pending confirmation of the final guidance from CIPFA / LASAAC, it is proposed that North Ayrshire Council continues with its ongoing preparations for the adoption of this standard from 1 April 2022.
- 2.6 IFRS 16 introduces a single lessee accounting model which seeks to improve comparability between leased and purchased assets operated by Councils. Under the new standard, the Council is required to recognise all right of use assets and lease liabilities, with the exception of short-term (less than 12 months) and low value leases (less than £10,000), on the balance sheet.
- 2.7 IFRS 16 will be adopted without retrospective restatement: this means that when it is implemented in 2022/23, the Council will recognise the cumulative impact of applying the standard as at 1 April 2022, with all adjustments to opening balances at that date taken through the General Fund. Officers are in the process of quantifying the implications of this standard. However, North Ayrshire Council’s operating lease obligations are not extensive and the adjustments to the opening balances are not expected to be material.

## **3. Proposals**

- 3.1 It is proposed that the Audit and Scrutiny Committee approves the accounting policies as detailed in Appendix 1

#### **4. Implications/Socio-economic Duty**

##### **Financial**

4.1 None.

##### **Human Resources**

4.2 None.

##### **Legal**

4.3 None.

##### **Equality/Socio-economic**

4.4 None.

##### **Environmental and Sustainability**

4.5 None.

##### **Key Priorities**

4.6 This report directly supports the Council Plan 2019 to 2024 by maximising resources and providing value for money to support financially sustainable delivery models.

##### **Community Wealth Building**

4.7 None.

#### **5. Consultation**

5.1 No consultation was required in the preparation of this report.

**Mark Boyd**  
Head of Service (Finance)

For further information please contact **David Forbes, Senior Manager (Strategic Business Partner)**, on **01294 324551**.

##### **Background Papers**

None

## Accounting Policies 2021-22

### General Principles

The Accounts summarise the Council's transactions for the 2021-22 financial year and its position at the year-end of 31 March 2022. The Council is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 2014 and Section 12 of the Local Government in Scotland Act 2003 requires that they are prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, supported by International Financial Reporting Standards (IFRS) and statutory guidance under Section 12 of the 2003 Act.

The accounting convention adopted in the financial statements is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### A Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Suppliers' invoices paid in the two weeks following the year-end have been included together with specific accruals in respect of further material items, provided the goods and services were received prior to 31 March.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. The de minimis level for recognition of such transactions has been agreed at £5,000, therefore all known transactions of £5,000 or above have been included.
- Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### B Allocation of Central Support Costs and Recharges to Capital

A proportion of net central support services is allocated to services outwith the general fund. The balance of the net central support services is reported on the basis of how the services are structured and how the Council operates, monitors and manages financial performance.

### C Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

### D Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or performance. When a change is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior years are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

**E Charges to Revenue for Non-Current Assets**

Services are charged with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, revaluation and impairments losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the Council in accordance with the Statutory Repayment of Loans Fund Advances. This is known as the Loans Fund Principal Repayment. Depreciation, revaluation and impairment losses and amortisation are replaced by the Loans Fund Principal Repayments in the General Fund Balance by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

**F Employee Benefits****Benefits Payable during Employment**

Short-term employee benefits are those due to be settled wholly within 12 months of the year end. They include such benefits as salaries, wages, overtime and paid annual leave for current employees and are recognised as an expense in the year in which employees render service to the Council. All salaries and wages earned up to 31 March are included in the financial statements irrespective of when the payment was made. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following year, being the period in which the benefits will be taken. Such accruals are required, under statute, to be reversed out of the General Fund Balance by a credit to the Accumulating Compensated Absences Adjustment Account in the Movement in Reserves Statement.

**Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the relevant services line in the CIES at the point when the offer of termination can no longer be withdrawn by the Council. Where termination benefits include the enhancement of pensions, the General Fund balance is charged with the amount payable by the Council to the pension fund or pensioner in the year.

**Post-Employment Benefits**

The Council participates in two separate pension schemes:

- The Scottish Teachers' Pension Scheme administered by the Scottish Government; and
- The Local Government (Scotland) Pension Scheme administered by the Strathclyde Pension Fund.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned while employees work for the Council. However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme. No liability for future payments of benefits is recognised in the Balance Sheet and the Education and Youth Employment services line in the CIES is charged with the employer's contributions payable to the Teachers' Pension Scheme in the year.

### **The Local Government Pension Scheme**

The Local Government Pension Scheme (LGPS) is accounted for as a defined benefits scheme.

The liabilities of Strathclyde Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the 'projected credit unit method', i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate as advised by the actuaries, Hymans Robertson.

The assets of Strathclyde Pension Fund attributable to North Ayrshire Council are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price;
- Unquoted securities – professional estimate;
- Unitised securities – current bid price; and
- Property – market value.

The change in the net pension liability is analysed into the following components:

#### **Service Costs:**

- Current service cost – the increase in liabilities as a result of service earned by employees this year. This is allocated in the CIES to the services for which the employees worked.
- Past service cost (including curtailments) – the increase in liabilities as a result of changes to the scheme, including amendments or curtailments, where the changes impact on the service earned by employees in previous years. These costs are charged to the Surplus or Deficit on the Provision of Services in the CIES.
- Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability or asset that arises from the passage of time. This is charged to the Financing and Investment Income and Expenditure line in the CIES, calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period – taking into account any changes in the net defined benefit liability or asset during the period as a result of contribution and benefit payments.

#### **Remeasurements:**

- Return on plan assets – excludes amounts included in net interest on the net defined liability (asset). This is charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. This is charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Strathclyde Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities. This is not accounted for as an expense.



Statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement or pension enhancement termination benefits and replace them with charges for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

**Discretionary Benefits**

The Council also has restricted powers to make discretionary awards to retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff, including teachers, are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

**G Events After the Reporting Period**

These are events, both favourable and unfavourable, that occur between the end of the reporting period (31 March) and the date when the financial statements are authorised for issue.

The Statement of Accounts are adjusted to reflect events where they provide evidence of conditions that existed at the end of the reporting period.

Where events indicate conditions, which arose after the reporting period, which would have had a material effect, the Statement of Accounts are not adjusted but a disclosure is made in the notes of the nature of the event and the estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

**H Financial Instruments****Financial Liabilities**

Financial liabilities are recognised on the balance sheet when the Council becomes party to the contractual provisions of a financial liability. Liabilities are initially measured at fair value and then carried at amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate of the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the balance sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Costs associated with debt restructuring (premiums and discounts) are charged to the Financing and Investment Income and Expenditure line in the CIES in the year of repayment of the original debt in accordance with accounting regulations.

Where premiums and discounts have been charged to the CIES, regulations permit the costs of restructuring to be released to revenue over the period of the replacement loan. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

**Financial Assets**

Financial assets are classified and measured based on the reasons, or business model, for holding the financial assets and the characteristics of the anticipated cash flows. There are three main classes of financial assets measured at:

- Amortised cost;
- Fair value through profit or loss (FVPL); and
- Fair value through other comprehensive income (FVOCI).

The Council's business model is to hold assets to collect contractual cash flows and our financial assets are therefore classified as amortised cost.

#### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised costs are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial asset and are initially measured at fair value and then carried at amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, the Council has made a loan to a charitable body at less than market rates (soft loan). When a soft loan is made, a loss is recorded in the CIES (charged to the appropriate service) for the present value of the interest that will be foregone over the life of the loan, resulting in a lower amortised cost than the outstanding principal. The value of the interest foregone is then added back amortised back to the amortised cost of the loan on the Balance Sheet and credited to the Financing and Investment Income and Expenditure line in the CIES on an annual basis until the loan is repaid.

Any gains or losses which arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

#### Expected Credit Loss Model

Potential impairment losses on Financial Assets Measured at Amortised Cost are determined using the Expected Credit Loss Model.

Impairment losses are calculated to reflect the expectation that the future cash flows may not take place because the borrower may default on their obligations. Credit risk plays a crucial part in assessing the potential losses. Where risk has increased significantly since an asset was recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. Only lifetime losses are recognised for trade receivables (debtors).

For any identified impairment losses, a charge is made to the Financing and Investment Income and Expenditure line in the CIES.

#### Financial Assets Measured at Fair Value through Profit and Loss

Financial Assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial asset and are initially measured and carried at fair value. Fair value gains and losses are recognised in the Surplus or Deficit on the Provision of Services as they emerge.

Fair value measurements of the financial assets are based on the following techniques:

- Instrument with quoted market process – the market price; and
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

Any gains and losses which arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

The Council does not currently have any Financial Assets measured at Fair value through Profit and Loss.

## **I Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the CIES until conditions attached to the grant have been satisfied.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (for revenue grants) or Taxation and Non-Specific Grant Income (for non-ring-fenced revenue grants and all capital grants).

Capital grants are then reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account.

Capital grants which are used and amounts previously posted to the Capital Grants Unapplied Account which have now been applied, are transferred to the Capital Adjustment Account.

## **J Heritage Assets**

A heritage asset is defined as a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

The Council holds heritage assets consisting of civic regalia and silverware, historical artefacts, fine art and public artworks. The assets are held at valuation and no depreciation is charged on the assets. Expenditure to maintain the assets is written off to the Comprehensive Income and Expenditure Statement (CIES) in the year of expenditure. Donated heritage assets are reflected in the balance sheet at valuation with a gain equivalent to the value of the asset reported in the CIES in the year of donation.

### **Measurement**

The Council's heritage assets are recognised on the Balance Sheet at values determined by specialist external valuers and by experienced officers within the Connected Communities service. Valuations have been largely undertaken on an insurance basis at retail level. Only items deemed to have a value of £10,000 and above have been disclosed in the Balance Sheet.

### **Disclosure**

Not all of the Council's identified heritage assets will be disclosed in the Balance Sheet. It is not deemed practicable to obtain external valuations for all items defined as heritage assets. These include: Museum and Gallery items with a value of less than £10,000; Castles; Monuments and War Memorials.

## **K Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that it will bring benefits to the Council for more than twelve months. Intangible assets are measured initially at cost. Amounts are not revalued, as the fair value of the assets held by the Council cannot be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life (generally between 5 and 10 years) to the relevant service line(s) in the CIES.

## **L Interest in Companies and Other Entities**

The Council has interests in companies and other entities which have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's single entity accounts, these interests are recorded as financial assets at cost, less any provision for losses.

**M Internal Transactions**

Internal transactions between operational segments of the Council are included within the management accounts for budgetary control purposes only. All internal transactions between services have been excluded from the service expenditure analysis within the Comprehensive Income and Expenditure Statement resulting in reductions in both the gross expenditure and gross income reported, with no overall net impact.

**N Inventories**

Inventories include consumable stock and work-in-progress and are recognised in the Balance Sheet at the lower of cost and net realisable value. The valuation of work-in-progress has been made at cost plus an appropriate proportion of overheads, together with attributable profits and allowances for foreseeable losses.

**O Investment Properties**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but reviewed annually and revalued regularly to ensure their carrying value reflects market conditions at the year-end.

**P Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

**The Council as Lessee**

North Ayrshire Council currently has no finance leases where the Council is the lessee.

Rentals paid under operating leases, for vehicles and plant, are charged to the appropriate service account in the CIES as an expense of the services benefiting for use of the leased equipment.

**The Council as Lessor**

North Ayrshire Council has no finance leases where the Council is the lessor.

The Council rents out property on cancellable operating leases only. Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet.

**Q Property, Plant and Equipment**

Assets that have physical substance and are held for use in the supply of services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

All valuations of land and buildings are carried out by Royal Institution of Chartered Surveyors (RICS) qualified valuers, with the exception of valuations of council dwellings which are based on beacon values calculated by the District Valuer. Both valuations are in accordance with the methodologies and bases of estimation as set out in the professional standards of RICS.

**Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis. Expenditure that merely maintains the condition of an asset (i.e. repairs and maintenance) is charged as an expense when it is incurred.

The Council has a de minimis level of £10,000 for expenditure to be classed as capital. Land and Buildings with a valuation below £10,000 are not recognised on the Council Balance Sheet.

**Measurement**

Assets are initially measured at cost, comprising:

- The purchase price; and
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value.

Assets are carried on the Balance Sheet using the following measurement bases:

- Council Dwellings - Fair value, determined using the basis of existing use value for social housing (EUV-SH);
- Other Land and Buildings - Fair value, determined by the amount that would be paid for the asset in its existing use (existing use value - EUV).
- Vehicles, Plant and Equipment - depreciated historical cost
- Infrastructure Assets - depreciated historical cost
- Community Assets - depreciated historical cost
- Surplus Assets - fair value based on market value in highest and best use
- Assets Under Construction - historical cost
- Investment Properties (Common Good and Trusts only) - fair value based on market value in highest and best use

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value.

Assets included in the Balance Sheet at fair value are revalued on a rolling 5-year programme, with the exception of Surplus Assets and Investment Properties which are revalued annually. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, the revaluation loss is accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- Where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### Impairment

Assets are assessed at each year-end to establish whether there is any indication that an asset may be impaired. Where indications exist, and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- Where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

**Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction). Investment Properties and Assets Held for Sale are not subject to depreciation.

Depreciation is charged on a straight-line basis over the useful life of the assets (as advised by a suitably qualified officer). Depreciation is charged in the year of acquisition but not in the year of sale.

Where a Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. For the purposes of component accounting the Council considers significant components being those with a cost that is at least 20% of the overall cost of the asset. Individual assets shall be disregarded for component accounting where their carrying value is below £2m.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

**Disposals**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES. Gains in fair value are recognised only up to the amount of any previously recognised losses. Depreciation is not charged on Assets Held for Sale.

Property, land and buildings are classified as 'held for sale' when the following criteria are met:

- The property is available for sale in its present condition;
- The sale is highly probable;
- The asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value;
- The sale is expected to qualify for recognition as a completed sale within one year.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the CIES as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

To comply with statutory guidance, this gain or loss is excluded when determining the General Fund balance within the Movement in Reserves Statement.

**R Public Private Partnership (PPP) / NPD and similar contracts**

PPP / NPD and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PPP / NPD contractor. As the Council is deemed to control the services that are provided under its PPP / NPD schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For North Ayrshire Council Schools PPP contract, the liability was written down by an initial capital contribution of £1.743 million.

The amounts payable to the PPP/ NPD operators each year are analysed into four elements:

- Service charges and lifecycle replacement costs – value of services including cleaning and janitorial services, repairs and maintenance, energy, non domestic rates and insurances debited to the relevant service in the CIES;
- Interest payments – the interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the CIES;
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the CIES;
- Liability repayment– repayment of the principal owed to the PPP operator, applied to write down the Balance Sheet liability.

**S Provisions, Contingent Liabilities and Contingent Assets****Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, and measured at the best estimate, at the balance sheet date, of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year; where it becomes less than probable that a transfer of economic benefits will be required (or a lower settlement than anticipated is made); the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

**Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation, whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not definite that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

**Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the balance sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

**T Reserves**

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus/Deficit on the Provision of Services in the CIES. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and do not represent usable resources for the Council; these reserves are explained in the relevant notes.

**U Revenue Expenditure Funded from Capital Under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset is charged as expenditure to the relevant service in the CIES in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

**V VAT**

All income and expenditure excludes amounts relating to VAT, as all VAT collected is payable to HM Revenue and Customs and net VAT paid is fully recoverable by the Council.

**W Fair Value Measurement**

The Council values some of its non-financial assets, such as Surplus Assets and Investment Properties (Common Good Funds and Trusts only), and some of its financial instruments at Fair Value. Fair Value is the price that would be received either on the sale of an asset or to transfer a liability in an orderly transaction between market participants at the measurement date. The Fair Value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset; or
- In the absence of a principal market, in the most advantageous market for the asset.

The Council measures the Fair Value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the Fair Value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which Fair Value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.



## NORTH AYRSHIRE COUNCIL

31 May 2022

### Audit and Scrutiny Committee

<b>Title:</b>	<b>Corporate Fraud Team Annual Report 2021/22</b>
<b>Purpose:</b>	To provide the Audit and Scrutiny Committee with an update report on the work of the Corporate Fraud Team during 2021/22.
<b>Recommendation:</b>	That the Committee notes the work carried out by the Corporate Fraud Team.

#### 1. Executive Summary

- 1.1 The Corporate Fraud Team provides the Council with the capacity to investigate fraud both within and against the organisation.
- 1.2 Committee receives bi-annual updates on the work of the team. A mid-year update for 2021/22 was provided in November 2021 and this report provides an overview of the key achievements during the full year.

#### 2. Background

##### Investigation Work

- 2.1 Referrals for investigation have been made to the team from a number of different sources, including Revenues and Benefits and Housing, members of the public and other agencies and local authorities. The publicity used by the team, including posters and leaflets, advertising on Council vans and contact information on the Council website, continues to be successful in generating a stream of referrals.
- 2.2 Investigations have been carried out across a range of areas including employee-related matters as well as Council Tax, Discretionary Housing Payments, Scottish Welfare Fund, Blue Badges and Housing tenancy issues. Although responsibility for investigating Housing Benefit fraud now lies with the DWP Single Fraud Investigation Service (SFIS), issues may be identified by the Corporate Fraud Team which can result in changes being made to benefits in payment. Joint working with the DWP paused during the COVID-19 pandemic, however DWP have intimated that they will be looking to recommence this work. This formal joint working arrangement is in place for cases where there are suspected frauds relating to both DWP benefits and Council Tax Reduction.

- 2.3 The team investigates all tenancy abandonments which are referred by Housing. While Housing focus on recovering the tenancy, the Corporate Fraud Team can add value by locating the missing tenant, which can often lead to changes to benefits or discounts in payment elsewhere, as well as enabling Housing to recover costs associated with house clearances and cleaning.
- 2.4 Employee-related investigations are the subject of a separate report to the appropriate Service and the findings are also reported to the Audit and Scrutiny Committee as each investigation is finalised.

### Outcomes 2021/22

- 2.5 The team received 280 referrals for investigation during 2021/22 (2020/21: 265 referrals). All referrals made to the team are investigated although many can subsequently prove unfounded.
- 2.6 Like many Council Services, the Corporate Fraud Team continued to work in different ways throughout 2021/22. Property visits were suspended for the full year, and face-to-face interviews were only carried out in the most exceptional cases.
- 2.7 Despite this, 284 cases were closed during 2021/22 (2020/21: 287 cases). These can be categorised as follows:

<b>Outcome</b>	<b>Number of Cases</b>
Closed with no issues identified	128
Referred to another agency (including SFIS) or Council Service for investigation	74
Closed with results achieved (fraud, error or other recovery/action)	82
<b>TOTAL</b>	<b>284</b>

- 2.8 Fraud and error totalling £0.175m were identified and are categorised in the table below:

<b>Category</b>	<b>Value (£000)</b>
Housing Benefit	14
Council Tax (including CTR, Single Person Discount and other recoveries)	59
Covid-19 grants	16
Discretionary Housing Payments	2
Non-Domestic Rates	2
Housing	28
Procurement/Accounts Payable	40
Other	14
<b>TOTAL</b>	<b>175</b>

- 2.9 In addition to the financial outcomes noted above, other outcomes/benefits were noted as follows:

- 32 tenancies were recovered by Housing with assistance from the Corporate Fraud Team. Associated financial recoveries are included within the table at 2.8 above.

- Six warning letters were issued for blue badge misuse, with two of these badges being recovered.
- Two cases were referred to the Crown Office and Procurator Fiscal Service (COPFS) for them to consider prosecution.

#### Pro-active Work

- 2.10 Two data matching exercises are currently underway using data from the council tax and payroll systems, the aim of which is to identify any anomalies in the council tax accounts of council employees.
- 2.11 Some work from these exercises is still in progress, however the results at the end of 2021/22 were as follows:
- four cases of council tax arrears where recovery has commenced (£0.004m)
  - 28 cases with single person's discount anomalies (£0.026m).

#### National Fraud Initiative (NFI)

- 2.12 The latest biennial National Fraud Initiative (NFI) commenced in October 2020 with the submission of data sets to the Cabinet Office. The team co-ordinates the Council's participation in the NFI. Data matches were received between February and September 2021 and passed to the appropriate teams for further investigation.
- 2.13 This exercise was completed on time by the due date of March 2022 and the outcomes will be reported to a future meeting of the Audit and Scrutiny Committee once Audit Scotland publish their 2020/21 outcomes report in summer 2022.

### **3. Proposals**

- 3.1 It is proposed that the Committee notes the work carried out by the Corporate Fraud Team.

### **4. Implications/Socio-economic Duty**

#### **Financial**

- 4.1 None.

#### **Human Resources**

- 4.2 None.

#### **Legal**

- 4.3 None.

#### **Equality/Socio-economic**

- 4.4 None.

### **Climate Change and Carbon**

4.5 None.

### **Key Priorities**

4.6 The work of the Corporate Fraud Team helps to support the efficient delivery of the strategic priorities within the Council Plan 2019-2024.

### **Community Wealth Building**

4.7 None.

## **5. Consultation**

5.1 No consultation has been required in the preparation of this report.

Mark Boyd  
Head of Service (Finance)

For further information please contact **Laura Miller, Senior Manager (Audit, Fraud, Safety and Insurance)**, on **01294 324524**.

### **Background Papers**

None

## NORTH AYRSHIRE COUNCIL

31 May 2022

### Audit and Scrutiny Committee

<b>Title:</b>	<b>Internal Audit and Corporate Fraud Action Plans: Quarter 4 update</b>
<b>Purpose:</b>	To advise the Audit and Scrutiny Committee on the progress made by Council Services in implementing the agreed actions from Internal Audit and Corporate Fraud reports as at 31 March 2022.
<b>Recommendation:</b>	That the Committee (a) notes the current position with the implementation of Internal Audit and Corporate Fraud actions; and (b) challenges those Services that have not implemented actions within the previously agreed timescales.

#### 1. Executive Summary

- 1.1 The CIPFA document 'Audit Committee Principles in Local Authorities in Scotland' highlights that Audit Committees should monitor and review the progress made in implementing audit recommendations.
- 1.2 Service managers are responsible for ensuring that agreed actions arising from Internal Audit and Corporate Fraud reviews are implemented. This provides assurance that identified control weaknesses have been addressed and are being managed effectively.
- 1.3 All actions are monitored on the Pentana system and service managers are responsible for updating Pentana as they progress each action. This enables Internal Audit to monitor progress on a 'real-time' basis and address any delays in implementation.
- 1.4 This report details the position at 31 March 2022.

#### 2. Background

- 2.1 The last report to the Audit and Scrutiny Committee on 8 March 2022 highlighted that there were 23 actions outstanding at the end of December 2021: four that had not been started or were only partially implemented and 19 where the due date had not yet passed.

- 2.2 In addition to these 23 carried forward actions, there have been 12 new actions agreed, giving a total of 35 action points for review.
- 2.3 Services have completed 17 actions since the last report. All Council Services are required to retain evidence of work carried out in completing their actions and Internal Audit carries out 'spot-checks' on a sample of completed actions on an ongoing basis.
- 2.4 Of the remaining 18 actions, five were either not started or only partially complete at 31 March and the remaining 13 were not due for completion until after that date.
- 2.5 Appendix 1 to this report provides the Committee with full details of the five actions that were not complete within the agreed timescales.

### **3. Proposals**

- 3.1 It is proposed that the Committee (a) notes the current position with the implementation of Internal Audit and Corporate Fraud actions; and (b) challenges those Services that have not implemented actions within the previously agreed timescales.

### **4. Implications/Socio-economic Duty**

#### **Financial**

- 4.1 None.

#### **Human Resources**

- 4.2 None.

#### **Legal**

- 4.3 None.

#### **Equality/Socio-economic**

- 4.4 None.

#### **Climate Change and Carbon**

- 4.5 None.

#### **Key Priorities**

- 4.6 The effective implementation of agreed Internal Audit and Corporate Fraud actions helps to support the efficient delivery of the strategic priorities within the Council Plan 2019-2024.

#### **Community Wealth Building**

4.7 None.

## **5. Consultation**

5.1 Council Services are consulted during the completion of each Internal Audit and Corporate Fraud review and have also provided updates on progress made in implementing action points.

Mark Boyd  
Head of Service (Finance)

For further information please contact **Laura Miller, Senior Manager (Audit, Fraud, Safety and Insurance)**, on **01294 324524**.

## **Background Papers**

None.

## Actions due by 31<sup>st</sup> March but not started or partially complete

<b>Code</b>	IA2019IJB001c	<b>Description</b>	HSCP Management should work with officers from East and South Ayrshire HSCPs to progress the risk sharing arrangements at the earliest opportunity		
<b>Priority</b>	1	<b>Latest Note</b>	The pan Ayrshire work on Directions, including lead partnership arrangements is still paused as a result of service pressures from COVID. The plan is to now have these embedded in by December 2022.		
<b>Progress Bar</b>	<div><div>20%</div></div>	<b>Original Due Date</b>	30-Sep-2019	<b>Due Date</b>	31-Mar-2022
<b>Parent Code &amp; Title</b>	IA2019IJB001 IJB Lead Partnership Arrangements			<b>Managed By</b>	Caroline Cameron
				<b>Assigned To</b>	Caroline Cameron

<b>Code</b>	IA2019IJB001d	<b>Description</b>	HSCP Management should work with officers from East and South Ayrshire HSCP's to progress the fair share methodology at the earliest opportunity, including developing detailed Directions with commissioning plans		
<b>Priority</b>	1	<b>Latest Note</b>	The Pan Ayrshire work on Directions, including fair shares and set aside, remains paused due to service pressures arising from the pandemic. This and other elements of the Directions work will be completed by December 2022.		
<b>Progress Bar</b>	<div><div>20%</div></div>	<b>Original Due Date</b>	31-Mar-2019	<b>Due Date</b>	31-Mar-2022
<b>Parent Code &amp; Title</b>	IA2019IJB001 IJB Lead Partnership Arrangements			<b>Managed By</b>	Caroline Cameron
				<b>Assigned To</b>	Caroline Cameron



<b>Code</b>	IA2020PA032a	<b>Description</b>	<p><b>Audit Action:</b> Arran should be aligned with the mainland's processes and procedures.</p> <p><b>Audit Finding:</b> Staff on the mainland and Cumbrae are managing the interment process electronically, whilst staff on Arran continue to use manual records.</p> <p><b>Risk:</b> Business continuity issues due to operating a completely separate system on Arran; manual records are not backed-up in the same way that electronic records are.</p>		
<b>Priority</b>	2	<b>Latest Note</b>	<p>We have a quote now from the software provider to upgrade the software to the remote option. We have passed the quote to IT to check it suits requirements and what paperwork is required from them regarding data protection etc. Arran will be included in this. Fiona Porter has requested an update from IT regarding the suitability and requirements of the quote from the software provider. Target date for completion is 31<sup>st</sup> July 2022.</p>		
<b>Progress Bar</b>	<div><div>95%</div></div>	<b>Original Due Date</b>	31-Mar-2021	<b>Due Date</b>	31-Mar-2022
<b>Parent Code &amp; Title</b>	IA2020PA032 Bereavement and Burial Services			<b>Managed By</b>	Thomas Reaney
				<b>Assigned To</b>	Mark McNeil

<b>Code</b>	IA2021PA009b	<b>Description</b>	<p><b>Audit Action:</b> The team should liaise with the Transformation team to streamline this part of the process and reduce the number of times the same information must be keyed.</p> <p><b>Audit Finding:</b> The admin team are required to update the budget monitoring spreadsheet, an operational access database and the CareFirst system at each stage of this process for all council tenant jobs. In addition, the access database is not supported by IT Services.</p> <p><b>Risk:</b> Inefficient use of staff time and increased risk of keying errors.</p>		
<b>Priority</b>	2	<b>Latest Note</b>	A draft standard operational spreadsheet has been created and is now being tested. It is planned to complete the action by 6th June 2022.		
<b>Progress Bar</b>	<div><div>50%</div></div>	<b>Original Due Date</b>	31-Dec-2021	<b>Due Date</b>	31-Mar-2022
<b>Parent Code &amp; Title</b>	IA2021PA009 Aids and Adaptations			<b>Managed By</b>	David Thomson
				<b>Assigned To</b>	Lynn Kirkland

<b>Code</b>	IA2021PA013a	<b>Description</b>	<p><b>Audit Action:</b> The current user manuals/training documents for the key areas should be reviewed and adapted to include the Council's internal process to provide a complete user manual.</p> <p><b>Audit Finding:</b> User manuals have not been updated since 2014/15 or no date is noted. Also, although these documents provide a basic step by step flow of system processes, they have not been adapted to include the Council's internal processes.</p> <p><b>Risk:</b> Manual is out of date and incomplete.</p>		
<b>Priority</b>	2	<b>Latest Note</b>	<p>Significant work has been carried out in the quarter of 2021/22 to ensure a timeline is in place to complete the action by Sept 30th 2022.</p> <p>Internal Audit have been made aware of the slippage and agreed an extension.</p> <p>This action will be completed by 30th Sept 2022 or before.</p>		
<b>Progress Bar</b>	<div><div>55%</div></div>	<b>Original Due Date</b>	31-Mar-2022	<b>Due Date</b>	31-Mar-2022
<b>Parent Code &amp; Title</b>	IA2021PA013 Building Services Systems			<b>Managed By</b>	Yvonne Baulk
				<b>Assigned To</b>	Leigh-Ann Mitchell; Jim Smith



## NORTH AYRSHIRE COUNCIL

31 May 2022

### Audit and Scrutiny Committee

**Title:** Internal Audit Reports issued

**Purpose:** To inform the Committee of the findings of Internal Audit work completed between March and April 2022.

**Recommendation:** That the Committee considers the outcomes from the Internal Audit work completed.

#### 1. Executive Summary

- 1.1 The Council's local Code of Corporate Governance requires effective arrangements to be put in place for the objective review of risk management and internal control. Internal Audit is an important element in this framework as it reviews internal controls and offers Elected Members and officers an objective and independent appraisal of how effectively resources are being managed.
- 1.2 The remit of the Audit and Scrutiny Committee includes the monitoring of Internal Audit activity. The submission and consideration of regular reports assists the Committee in fulfilling this remit.

#### 2. Background

- 2.1 This report provides information on Internal Audit work completed between March and April 2022. Internal control reviews have been completed in respect of the areas detailed in Appendix 1 to this report. The aim of these reviews is to provide assurance that the internal control framework within the areas examined is appropriate and operating effectively.
- 2.2 The findings from each audit assignment have been notified in writing to the Chief Executive, the Section 95 Officer and the relevant Executive Director and Head of Service on the completion of each assignment. Where appropriate, this has included an action plan with recommendations for improving internal control. Appendix 1 includes the report and action plan from each audit.
- 2.3 The findings from four separate audit assignments are detailed at Appendix 1 to this report and the levels of assurance for each are noted in the table below:

<b>Audit Title</b>	<b>Assurance Level</b>
General Ledger System	Reasonable
Health and Social Care Partnership Procurement	Substantial
Ayrshire Growth Deal Governance	Reasonable
Secondary Schools	Substantial

### **3. Proposals**

- 3.1 It is proposed that the Committee considers the outcomes from the Internal Audit work completed between March and April 2022.

### **4. Implications/Socio-economic Duty**

#### **Financial**

- 4.1 None.

#### **Human Resources**

- 4.2 None.

#### **Legal**

- 4.3 None.

#### **Equality/Socio-economic**

- 4.4 None.

#### **Climate Change and Carbon**

- 4.5 None.

#### **Key Priorities**

- 4.6 The work of Internal Audit helps to support the efficient delivery of the strategic priorities within the Council Plan 2019-2024.

#### **Community Wealth Building**

- 4.7 None.

### **5. Consultation**

- 5.1 The relevant Services are consulted on Internal Audit findings during each audit assignment.

Mark Boyd  
Head of Service (Finance)

For further information please contact **Laura Miller, Senior Manager (Audit, Fraud, Safety and Insurance)**, on **01294 324524**.

**Background Papers**

None.

## GENERAL LEDGER SYSTEM

### 1 Background

- 1.1 An audit of the general ledger in 2018/19 focussed on feeder systems, suspense/holding accounts and bank reconciliations. A number of action points were raised, and these have been followed up as part of this audit.
- 1.2 In addition, a review of current Integra log-ins has been undertaken.

### 2 Objectives and Scope

- 2.1 The objective of this audit was to ensure:-
- All management actions raised during the 2018/19 Audit have been completed to a satisfactory level
  - Risks associated with the migration of Integra to the Cloud have been identified and addressed
  - Integra is being timeously updated to remove access rights from leavers.

### 3 Findings

#### Follow-up of previous Audit actions

- 3.1 The action descriptions from the 2018/19 audit were as follows:-

Action	Action Description from 2018/19 report
a	IT Services System Admin should contact Capita to request a solution to either prevent the same feeder file being processed or, at the very least, give a warning to the user that this file has already been processed.
b	An overarching procedure note for the suspense reconciliation checklist spreadsheet should be produced. Relevant staff should familiarise themselves with such procedure notes, to ensure the spreadsheet is properly completed. The checklist should be reviewed on a regular basis and any issues escalated promptly.
c	There should be evidence that reconciliations have been independently reviewed in a timely manner.
d	Consideration should be given to closing the Creditors Grants bank account if it is determined that it is no longer required and the balance is suitably transferred.
e	The Housing Advances bank account should be reviewed and the reconciliations should recommence if this account is still being used.
f	A decision should be made on the historical unreconciled Payroll transactions as per the Payroll bank reconciliation to ensure they are not continually carried forward.
g	Outstanding cheques from Masterpiece should be cancelled and a process put in place for cancelling outstanding cheques since Integra went live.

- 3.3 ICT and Financial Management were able to demonstrate that all the above issues have been addressed, therefore no further action is required.



## **Migration of Integra to the Cloud**

- 3.4** Capita hosts Integra on behalf of the Council.
- 3.5** In November 2021 Capita migrated Integra from their own datacentre to a Microsoft Azure cloud datacentre. Microsoft Azure has been used by the Council for several years to host Office 365 and its Active Directory.
- 3.6** In order to confirm that Capita is taking sufficient steps to ensure the security of the Council's data, Audit obtained a copy of Capita's Integra Security Management Plan.
- 3.7** This plan confirms that it should be read in conjunction with:-
- National Cyber Security Centre (NCSC) Cloud Security Guidance
  - General Data Protection Regulation (GDPR)
  - UK Government Documentation, namely Information Security Standards and Security Policy Framework (including ISO 27001 & ISO 9001 cross reference)

The above indicates that the principles set by the NCSC have been imbedded in Capita's security approach.

## **Review of Integra users**

- 3.8** Audit obtained a list of all general ledger users from the Integra Systems Access Team.
- 3.9** This showed that whilst there are 2,685 general ledger users on Integra, 1,932 of these have never logged on.
- 3.10** The Systems Access Team confirmed that they were asked by eProcurement to ensure all employees with a corporate AD (active directory) account were set up in Integra. This resulted in a high number of new accounts having to be created.
- 3.11** To date, the new Integra function that required the additional users to be set up hasn't been implemented. **(action point a)**
- 3.12** The Integra Systems Access Team receive a monthly leavers report from the CHRIS payroll system. Detailed audit testing identified 140 general ledger user accounts that relate to employees who have left the Council. This list has been passed to the Systems Access Team for action. **(action point b)**
- 3.13** Integra can only be accessed from within the Council's system. There is a separate internal audit of leavers' and movers' IT access currently ongoing.

## **4 Internal Audit Opinion**

- 4.1** Overall, reasonable assurance was obtained in the areas of the general ledger covered by this Audit.

### Definitions of Assurance Levels:

<b>Substantial</b>	The framework of governance, risk management and control is adequate and effective.
<b>Reasonable</b>	Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
<b>Limited</b>	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.
<b>None</b>	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

NB The level of assurance given is at the discretion of Internal Audit.

## KEY FINDINGS AND ACTION PLAN GENERAL LEDGER SYSTEM

<b>Action</b>	a
<b>Finding</b>	A high number of general ledger users have never logged into the system.
<b>Action Description</b>	<p>The Integra System Access Team should liaise with the eProcurement Team to confirm if, and when, the new function is being added to Integra.</p> <p>If it is not going ahead, the System Access Team should stop automatically adding new corporate employees on to Integra and deactivate all users who have had a log-in for more than a defined number of days but have never used it.</p>
<b>Risk</b>	Resources are being used setting up Integra accounts that aren't needed or used; system access is not limited to those who need it.
<b>Priority (1, 2, 3)</b>	2
<b>Paragraph Reference</b>	3.11
<b>Managed by</b>	Fiona Walker, Head of Service (People & ICT) & Mark Boyd, Head of Service (Finance)
<b>Assigned to</b>	Brendan Quigley (Senior Manager, ICT); Suzanne Quinn (Senior Manager, Procurement)
<b>Due Date</b>	31 July 2022
<b>Management Comment</b>	Agreement has been reached with Finance/Procurement that the process of adding new corporate employees to Integra will cease and the unused accounts will be removed.

<b>Action</b>	b
<b>Finding</b>	Not all leavers' accounts have been deactivated on Integra.
<b>Action Description</b>	<p>Integra System Administration should review the list of leavers identified during the Audit and deactivate the relevant accounts on Integra.</p> <p>Monthly leavers reports should be actioned timeously.</p>
<b>Risk</b>	Unauthorised individuals have access to Integra.
<b>Priority (1, 2, 3)</b>	1
<b>Paragraph Reference</b>	3.12
<b>Managed by</b>	Fiona Walker, Head of Service (People & ICT)
<b>Assigned to</b>	Brendan Quigley (Senior Manager, ICT)
<b>Due Date</b>	Complete
<b>Management Comment</b>	As a consequence of this Audit, this highlighted a bug in the system that resulted in notifications of reports not being received by system admin. This has now been resolved and report notifications are being received, and reports are dealt with on a regular basis. All accounts highlighted by this audit have been deactivated.

### Priority Key used in Action Plan

<b>1 (High)</b>	Control weakness where there is a material impact on the achievement of the control objectives, generally requiring prompt attention.
<b>2 (Medium)</b>	Control weakness which needs to be rectified, but where there is no material impact on the achievement of the control objectives.
<b>3 (Low)</b>	Minor weakness or points for improvement.

## **HSCP PROCUREMENT**

### **1 Background**

- 1.1 This audit was undertaken in line with the 2021/22 Audit Plan.

### **2 Objectives and Scope**

- 2.1 The objective of this audit was to ensure:-
- Employees with a personal interest in a Council contract are being identified and excluded from the contract award process
  - Contractual arrangements are in line with the Council's 'Standing Orders Relating to Contracts'
  - Spend processed via Carefirst is being approved prior to its transfer to Integra
  - Procurement card spend is appropriate

### **3 Findings**

#### **Employees with a personal interest in contracts**

- 3.1 As per the Council's Employee Code of Conduct:-  
*"Any employee, or employees, involved in the decision making process must notify their Head of Service by submitting a Declaration of Interests Form if it comes to their knowledge that a contract in which they have a personal or financial interest, whether direct or indirect, has been or is about to be entered into by the Council."*
- 3.2 Reliance is placed on employees highlighting a personal interest, however there is a reminder of the need to confirm any conflicts included within the Request for Procurement Action (RPA) form, which is completed for all procurements over £10k.
- 3.3 Audit asked to review the declaration of interest forms that have been submitted. The Service has confirmed that no forms have been lodged to date.

#### **Standing Orders relating to Contracts**

- 3.4 The Council's Standing Orders relating to Contracts sets out the process for awarding a contract, depending on the anticipated level of spend.
- 3.5 Audit selected a sample of 15 suppliers with varying levels of actual spend and reviewed the contract in place to ensure if complied with Standing Orders.
- 3.6 Only 1 contract was not available for inspection during the Audit. HSCP Contracts & Commissioning were already aware of this issue and were working on correcting it. No other issues were identified from this testing.

#### **Spending approved via Carefirst**

- 3.7 Approximately half of HSCP spend is imported into Integra via Carefirst feeders.

- 3.8** An initial review highlighted that processing and authorising methods within Carefirst vary depending upon the service area, as does the supporting information transferred into Integra.
- 3.9** A detailed review of the processes within Carefirst was not feasible within the budget of this audit, however it has been noted as an area for consideration within future audit plans.

### **Procurement card spend**

- 3.10** Approximately £740k has been spent by HSCP staff on procurement cards between 1 April 21 and 3 March 22. £135k of this total was cash withdrawals.
- 3.11** Audit reviewed a sample of transactions looking for evidence of:-
- Disaggregation of expenditure to avoid card transaction limits, or Standing Orders
  - Inappropriate purchases being made via the card eg computer equipment being bought via cards rather than through the Council's IT team
  - Cash being used for transactions that should be paid for by either invoice or procurement card
- 3.12** 1 instance of cash being withdrawn to pay an invoice was noted during testing. Audit has highlighted this error with the cardholder and management. No other issues were noted.
- 3.13** Audit also reviewed the level of cash withdrawn, but not yet spent - to ensure that excessive amounts aren't being held in Council premises. Cash to the value of approximately 1 months' cash expenditure is being held, which seems reasonable.

## **4 Internal Audit Opinion**

- 4.1** Overall, substantial assurance was obtained with regard to the areas covered by this Audit.

### Definitions of Assurance Levels:

<b>Substantial</b>	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>None</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

NB The level of assurance given is at the discretion of Internal Audit.

## **AYRSHIRE GROWTH DEAL**

### **1 Background**

- 1.1** The Ayrshire Growth Deal consists of a programme of 19 high-profile major development projects across Ayrshire involving public, private and 3<sup>rd</sup> sector partners and attracting funding from both Scottish and UK governments. East Ayrshire Council acts as the lead partner for the deal overall and hosts the Project Management Office (PMO). North Ayrshire Council is the lead partner for 9 of the 19 projects (6 capital, 3 revenue).
- 1.2** The 6 capital projects are managed by the Growth and Investment Directorate. The 3 revenue projects are managed by the Economic Development and Regeneration Service within the Place Directorate. The revenue projects are Ayrshire-wide projects where North Ayrshire Council is the lead partner.
- 1.3** Audit Scotland published a report on Scotland's City Region and Growth Deals in January 2020, making recommendations for improvements to governance arrangements for these deals.

### **2 Objectives and Scope**

- 2.1** The scope of this audit was limited to North Ayrshire Council's role in the projects. It focused on the governance structures across the Council's participation in the deal rather than individual projects.
- 2.2** The main objectives of the audit were to ensure that:
- governance structures and roles and responsibilities of officers and elected members within North Ayrshire Council, in relation to the Ayrshire Growth Deal are clearly defined and communicated in order to enable good governance and strong accountability
  - North Ayrshire Council has adequate risk management arrangements in place in relation to the Ayrshire Growth Deal
  - suitable arrangements are in place to monitor the progress of the Ayrshire Growth Deal programmes within North Ayrshire, including appropriate reporting and scrutiny arrangements
  - there are adequate arrangements in place to ensure that North Ayrshire Council is fulfilling the requirements of the Project Management Office and external funding providers.

### **3 Findings**

#### **Governance Structures, Roles and Responsibilities**

- 3.1** Governance structures for decision-making and monitoring, both for individual projects and the overall Ayrshire Growth Deal programme within North Ayrshire Council, have been established and roles and responsibilities have been defined.



- 3.2** A Governance Framework for the capital projects managed by Growth and Investment lays out the roles and responsibilities of the parties involved in these projects. Two of the revenue projects, Community Wealth Building and Working for a Healthy Economy, have also documented the roles and responsibilities. The third revenue project, Ayrshire Skills Investment Fund, was at an early stage of development at the time of audit work and these have not yet been fully developed.

### **Risk Management**

- 3.3** Risk Registers for all 9 projects have been prepared and input to Pentana. They are reviewed quarterly and presented to Programme Boards, Project Boards and the Council's Executive Leadership Team as well as being included in quarterly submissions to the Scottish Government.
- 3.4** All the risks aside from 3 (out of 190) have at least one mitigating action identified under the heading "Internal Control" in Pentana. It was also noted that a few of the items listed under this heading were possible consequences of the risk occurring (e.g. "reputational damage") rather than mitigating actions to prevent or reduce the impact of the risk. All the risks with missing or unsuitable mitigating actions related to capital projects. **(Action a)**

### **Accountability, Scrutiny and Monitoring**

- 3.5** All the projects must report progress monthly to the PMO. The PMO collates the monitoring information each month and distributes a monitoring report to officers across the 3 Ayrshire councils, including the Chief Executives, Section 95 Officers and Chief Auditors. The Pentana performance management system is being used across the 3 councils to monitor progress against key milestones for all the projects.
- 3.6** The Growth and Investment projects report regularly to the Council's Executive Leadership Team. Reports have also been taken to Cabinet at key stages of some projects and reports on both the overall AGD programme and some individual projects have been presented to the Ayrshire Economic Joint Committee, which includes elected members from all the Ayrshire Councils.
- 3.7** All the projects have regular monitoring meetings of their own steering groups, other than the Ayrshire Skills Investment Fund, which is still at an early stage of development.
- 3.8** The projects are required to comply with HM Treasury Green Book project management methodology. The Green Book requirements include stakeholder engagement and consultation. 6/9 of the projects have undertaken or are planning to undertake some stakeholder engagement and consultation activities, but some of them have not yet reached the stage where this is appropriate.
- 3.9** The PMO has recently developed a Benefits Realisation Plan, which identifies the outcomes, outputs and targets the projects want to achieve. This plan stipulates the data needed to monitor them, the method of data collection and the regularity

of monitoring and reporting which will have to be incorporated into the projects' monitoring and reported arrangements.

### **Requirements of PMO and Funding Organisations**

- 3.10** The Ayrshire Growth Deal Agreement with the UK and Scottish Governments imposes a number of conditions of grant upon the Councils. Furthermore, the 3 Councils have signed a Memorandum of Understanding which places conditions on the parties.
- 3.11** The Council was found to have suitable arrangements in place to meet all the requirements of the UK and Scottish Governments. For the revenue projects where North Ayrshire is the lead partner, clarification is required regarding the responsibilities of each partner and Internal Audit will be working with Economic Development and Regeneration to obtain this clarification.
- 3.12** Overall, North Ayrshire Council was found to have arrangements in place to meet the requirements of the Memorandum of Understanding. However, this document requires a specific process for dealing with Freedom of Information requests whereby relevant requests would be brought to the attention of the Ayrshire Growth Deal Strategic Manager at the PMO. Only the 2 Employability projects stated that they had suitable arrangements in place to meet these requirements.  
**(Action b)**
- 3.13** Hitherto, none of the other funding bodies or partners have imposed any additional conditions on the projects. The projects gave assurance that if any future funding body or partner does impose additional conditions, they will develop arrangements to comply with these conditions.

## **4 Internal Audit Opinion**

- 4.1** Overall, reasonable assurance was obtained with regard to the governance arrangements for the Ayrshire Growth Deal within North Ayrshire Council. Overall good governance arrangements are in place, but some of the projects are still at an early stage of development and therefore it has not been appropriate to fully develop the governance arrangements yet.

### Definitions of Assurance Levels:

<b>Substantial</b>	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>None</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

NB The level of assurance given is at the discretion of Internal Audit.

## KEY FINDINGS AND ACTION PLAN AYRSHIRE GROWTH DEAL

<b>Action</b>	a
<b>Finding</b>	All the risks aside from 3 (out of 190) have at least one mitigating action identified under the heading "Internal Control" in Pentana. It was also noted that a few of the items listed under this heading were possible consequences of the risk occurring (e.g. "reputational damage") rather than mitigating actions to prevent or reduce the impact of the risk. All the risks with missing or inappropriate mitigating actions related to capital projects.
<b>Action Description</b>	Project Managers should be reminded to ensure that they complete the "Internal Control" field when adding risks to the risk register in Pentana. They should be reminded of the type of information to be included in this field i.e. mitigating actions to reduce the likelihood or impact of the risk.
<b>Risk</b>	Actions to mitigate the risk are not identified and undertaken, or it is not possible to monitor whether they are being undertaken because they haven't been recorded.
<b>Priority (1, 2, 3)</b>	2
<b>Paragraph Reference</b>	3.4
<b>Managed by</b>	Karen Yeomans, Director (Growth and Investment)
<b>Assigned to</b>	Lisa Jamieson, Strategy and Programme Manager
<b>Due Date</b>	30 <sup>th</sup> April 2022
<b>Management Comment</b>	Currently working on Risk Registers as part of the Implementation Plan review (due to AGD PMO 07/04/2022). These will be reconciled to ensure Pentana is up to date and mitigating factors identified by IA (3 missing and few with inappropriate mitigation factors) will be checked to have been updated. An email will then be circulated, following on from email issued on 29 Nov 2021 regarding importance of Risk Registers, to remind Project Leads to ensure Internal Control field is completed with suitable narrative.

<b>Action</b>	b(1)
<b>Finding</b>	The Memorandum of Understanding with East and South Ayrshire Councils requires a specific process for dealing with Freedom of Information (Fol) requests whereby relevant requests would be brought to the attention of the Ayrshire Growth Deal Strategic Manager at the PMO. Only the 2 Employability projects stated that they had suitable arrangements in place to meet these requirements
<b>Action Description</b>	Projects should ensure that they have suitable arrangements to identify relevant Fol requests and bring them to the attention of the AGD Strategic Manager.
<b>Risk</b>	Failure to comply with the conditions of the Memorandum of Understanding.
<b>Priority (1, 2, 3)</b>	2
<b>Paragraph Reference</b>	3.12
<b>Managed by</b>	Karen Yeomans, Director (Growth and Investment)

<b>Assigned to</b>	Lisa Jamieson, Strategy and Programme Manager
<b>Due Date</b>	30 <sup>th</sup> June 2022
<b>Management Comment</b>	Currently follow NAC FoI procedures but have not documented how we will report to the PMO regarding and FoI for AGD projects. The G&I Governance Document is currently under review (yearly requirement) and will be updated to include a FoI section aligning with MoU agreement for FoI requests. The Governance Document will be circulated to all officers to ensure compliance with the MoU between all three Ayrshire Councils.

<b>Action</b>	b(2)
<b>Finding</b>	The Memorandum of Understanding with East and South Ayrshire Councils requires a specific process for dealing with Freedom of Information (FoI) requests whereby relevant requests would be brought to the attention of the Ayrshire Growth Deal Strategic Manager at the PMO. Only the 2 Employability projects stated that they had suitable arrangements in place to meet these requirements
<b>Action Description</b>	Projects should ensure that they have suitable arrangements to identify relevant FoI requests and bring them to the attention of the AGD Strategic Manager.
<b>Risk</b>	Failure to comply with the conditions of the Memorandum of Understanding.
<b>Priority (1, 2, 3)</b>	2
<b>Paragraph Reference</b>	3.12
<b>Managed by</b>	Caitriona McAuley, Head of Service (Economic Development & Regeneration)
<b>Assigned to</b>	Jude King, CWB Project Manager
<b>Due Date</b>	Complete
<b>Management Comment</b>	In the event that an FOI relating to the delivery of the AGD CWB project is received by any of the project delivery teams in North, East or South Ayrshire, this will be brought to the attention of the CWB Programme Manager at North Ayrshire Council. This will subsequently be brought to the attention of the PMO for discussion on a response to the FOI. This was raised on the agenda at the Steering Group meeting for the project (20th April 2022) and responsibilities noted in the action points of the meeting minutes which are circulated to all attendees.

### Priority Key used in Action Plan

<b>1 (High)</b>	Control weakness where there is a material impact on the achievement of the control objectives, generally requiring prompt attention.
<b>2 (Medium)</b>	Control weakness which needs to be rectified, but where there is no material impact on the achievement of the control objectives.
<b>3 (Low)</b>	Minor weakness or points for improvement.

## SECONDARY SCHOOLS

### 1 Background

- 1.1 Secondary schools were last audited in 2017/18.
- 1.2 The ongoing risk of coronavirus has meant that this audit has been undertaken remotely – no schools have been physically visited. However, schools have been asked to complete a detailed questionnaire, return various documents and engage in further discussions with Audit where necessary.

### 2 Objectives and Scope

- 2.1 The objective of this audit was to ensure:-
- Staff are aware of all relevant Council governance procedures.
  - All cash is being held securely.
  - Cash withdrawals made via the Procurement Card are being used for appropriate types of expenditure, and all transactions are being properly recorded.
  - school fund income and expenditure is being monitored and reconciled.
  - Accurate inventory records are being kept.
  - Pupil Equity Funding (PEF) spend is being maximised.

### 3 Findings

#### Governance

- 3.1 Headteachers were asked to confirm they were aware of the following procedures:

#### Procedures

- Financial Regulations
- Code of Financial Practice
- Standing Orders relating to Contracts
- Defalcation Procedure
- Acceptable Computer Use Policy
- Procurement card policies

and have completed the following training courses:-

#### Training courses

- Financial Regulations
- Standing Orders relating to Contracts
- Cyber Security Essentials
- GDPR

- 3.2 Not all Headteachers were aware of all of the above. Audit has contacted each Headteacher who has yet to familiarise themselves with procedures, or complete training courses to request these are completed as soon as possible. All Headteachers have agreed to this request.

- 3.3** Schools were also asked to confirm that all relevant staff have completed cash handling training. All schools have confirmed that staff have completed training, with a few members of staff awaiting slots on the training course.

### **Cash Holding**

- 3.4** The level of cash being held in schools had decreased over the last few years.
- 3.5** A cashless catering system operates within schools. Schools can also use this system to allow for cashless payment of school trips, uniform purchases etc.
- 3.6** All schools were asked to detail how cash is stored both during the school day and overnight. They were also asked to provide copies of keyholder registers.
- 3.7** No issues were noted in the responses. Based on the information supplied, all cash is being stored securely.

### **GPC Cash Withdrawals**

- 3.8** All schools withdraw cash via their procurement cards to pay for small incidental items. Cash should only be used when there is no alternative method of payment available, such as invoice or credit card. GPC cash use within schools was found to be low.
- 3.9** Cardholders complete cash spreadsheets detailing how cash has been spent. These spreadsheets should be loaded onto SDOL. Audit found that not all spreadsheets had been uploaded, although they were available directly from the cardholder. A review of these spreadsheets highlighted no inappropriate cash expenditure.
- 3.10** During the course of the Audit, Education HQ agreed to email all cardholders reminding them of their responsibility to upload cash spreadsheets onto SDOL.

### **School Fund**

- 3.11** Schools were asked a number of questions surrounding their management of school fund income and expenditure in order to confirm that:-
- School funds are being kept separate from core school funds
  - An audit trail of all income and expenditure is being maintained via receipts
  - All funds are being accounted for via frequent reconciliations of cash and bank balances
- 3.12** All schools confirmed they are carrying out monthly reconciliations of school fund balances. Schools are normally required to submit copies of independently audited school fund accounts to Education HQ annually – however a number of schools highlighted issues with achieving the submission deadline in 20/21 due to coronavirus. All schools have confirmed that 21/22 accounts will be audited and submitted timeously.
- 3.13** No other issues were noted during testing.

## **Inventory records**

- 3.14** Coronavirus related legislation (such as the need for distancing, keeping pupils in 'bubbles') is likely to have resulted in the realignment of classrooms, resources and equipment.
- 3.15** Whilst some schools have highlighted issues in undertaking detailed inventory checks in 20/21 due to coronavirus, all have confirmed that records will be updated for 21/22.

## **Pupil Equity Fund (PEF)**

- 3.16** All schools were anticipating an underspend of PEF funding as at 31<sup>st</sup> March 22. The impact of coronavirus on the availability of staff, and lead times on resources (particularly IT items) have contributed to this underspend.
- 3.17** Underspends can be rolled forward and used up to the end of the school term (end of June 22).
- 3.18** Audit requested details on how PEF spend is monitored during the year.
- 3.19** Education HQ confirmed that all schools submit a forecast spend at the start of the financial year. Education HQ sends out monthly spend information comparing this forecast to:-
- actual spend to date
  - payroll projections based on staff currently in post, adjusted to reflect any known new starts and/or leavers.
- 3.20** The above monitoring should allow early identification of any over or underspends, thereby allowing schools to adjust their spending plans.

## **4 Internal Audit Opinion**

- 4.1** Overall, substantial assurance was obtained with regard the areas covered by this audit.



### Definitions of Assurance Levels:

<b>Substantial</b>	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
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<b>None</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

NB The level of assurance given is at the discretion of Internal Audit.



## **NORTH AYRSHIRE COUNCIL**

**31 May 2022**

### **Audit and Scrutiny Committee**

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<b>Title:</b>	<b>Participatory Budgeting</b>
<b>Purpose:</b>	To update the Audit and Scrutiny Committee on engagement methods used in Participatory Budgeting events.
<b>Recommendation:</b>	<p>That the Audit and Scrutiny Committee:</p> <ul style="list-style-type: none"><li>a) Reviews the engagement methods used in recent Participatory Budgeting events; and</li><li>b) Approves the recommended engagement methods for use in future events.</li></ul>

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#### **1. Executive Summary**

- 1.1 The Community Empowerment (Scotland) Act 2015, Community Wealth Building and the Scottish Government's Open Government Action Plan all support the greater involvement of local people in democratic and community activities, increased participation in local financial decision-making and, in particular, the increased use of participatory budgeting (PB) approaches.
- 1.2 Participatory budgeting is a democratic way for people to have a direct say on how public money is spent. A PB process gives people the opportunity to identify and discuss what matters to them in their communities and to vote on their priorities. North Ayrshire Council's PB approaches have been recognised as sector-leading awarding, with successful engagement across grant-making, thematic and mainstream PB, using different approaches. PB has been the successful lead into mainstreaming PB, securing community, elected member and partner support.
- 1.3 Concerns were expressed at the meeting of the Audit and Scrutiny Committee on 14<sup>th</sup> September 2021 in relation to the impact of the Covid-19 pandemic as in-person community engagement and voting procedures could not be carried out in the normal way. This report provides an update on engagement methods to be taken now that restrictions have eased.

#### **2. Background**

- 2.1 The Community Empowerment (Scotland) Act 2015, Community Wealth Building and the Scottish Government's Open Government Action Plan all support the greater involvement of local people in democratic and community activities, increased participation in local financial decision-making and, in particular, the increased use of

participatory budgeting (PB) approaches. The Council's Statement of Intent to develop a Participation Strategy and Scottish Government's 'Report of the Institutionalising Participatory and Deliberative Democracy Working Group' are both committed to developing PB further.

- 2.2 Participatory Budgeting is all about giving local people a say. Participatory Budgeting (PB) helps the Council to provide equal opportunities for communities to participate and have their voices heard in service choices which affect them. PB developed in Brazil and is widely used in many countries. In the UK, PB is developing from small scale community grant allocations. Voting is a characteristic of PB and the Council has previously used in-person voting and young people have used digital voting via the Young Scot website. However, the public engagement in both the development of the ideas and expressing views regarding the final outcome is as important.
- 2.3 Locality Partnerships have been pivotal to North Ayrshire's success in moving local decision-making into communities. They have each established their own priorities in relation to addressing local inequalities. Grant awarding PB has been the successful lead into mainstreaming PB, securing community, elected member and partner support. Mainstream PB can play a central role in collectively defining services, post pandemic, which meet the changed (and changing) needs of communities.
- 2.4 The Council's vision for PB is embedded in the vision for radical, participatory democracy in which local people take decisions on the things which affect their lives. Participatory budgeting is part of a range of participatory approaches to share municipal power and influence, including:
  - Increasing transfer of financial decisions, ownership of assets, and power to communities;
  - Setting priorities and delegating the resources of £3m Community Investment Fund, recently topped up with further £3m, to Locality Partnerships;
  - Working collaboratively with Young People through the Joint Cabinet;
  - Partnership working with Older People's Forums and Tennant's Participation Forum;
  - Opening up local government to a wider process of continuous participation; and
  - PB is identified as one of 3 CLD Strategic Plan Priorities.
- 2.5 The benefits to using participatory methods include:
  - Much greater involvement in decision making across the Council;
  - Much more transparent;
  - Reach wider range of groups;
  - Improved trust between Council & communities;
  - Increased democratic participation; and
  - Greater sense of ownership and control
  - Real devolved power to Localities.
- 2.6 North Ayrshire Council has attracted national recognition for its sector-leading work in Locality, Youth and Mainstreaming PB, as noted in the 2020 Best Value Audit Report. It is the only Council in Scotland which achieved the Scottish government target of allocating 1% of its mainstream resources through participatory methods.
  - The percentage of Council budget directed via participatory methods during 2020/21 was 1.13% which is £4,044,679.

- Thematic PB events have included – Alcohol and Drugs Related Death, Community Food and Growing, Tourism, Grounds Maintenance, Roads, Street Lighting and Street Cleaning. PB methods have been used in Capital Programmes such as Lochshore and the HRA Revenue Fund involves tenants in determining aspects of budgets for Housing (Tenant-led) Maintenance, Infrastructure and Repairs.
  - Mainstream PB has included £1.2m libraries and community facilities and £750,000 grounds maintenance budget to participatory budgeting.
  - Different approaches to engage with the public have included a ‘Dragon’s Den’ approach, marketplace presentation, and digital and paper-based voting. In -person events attracted large public support, however, this has not been possible when restrictions on large gatherings were in place.
  - In February 2020, the Cabinet approved a recommendation to allocate all future Youth and Community grants by PB via Locality Partnerships (£154,185).
  - In November 2021, 4,726 young people aged 8-25, cast 14,178 votes for nearly 100 projects for young people, sharing £97,500 across North Ayrshire localities.
  - In the last round of Locality and Arts and Culture PB, in February 2022, £164,000 was allocated to 153 local groups and organisations and 33 local people were involved in short-listing the applications.
- 2.7 Approach is recognised by COSLA, the Local Governance Review Team and the Scottish Government as good practice and earned the council a place in the finals in the 2017 APSE awards.
- 2.8 North Ayrshire Council’s Officers play an active role in national PB Working Groups.
- 2.9 The Covid-19 Pandemic presented challenges in how best to engage with the public in the light of restrictions, staff shortages and building closures. During the pandemic, mainstream PB moved online with increased use of digital channels. It was more difficult.
- 2.10 As discussed in paragraph 2.2, public voting is one characteristic of PB, however the ability of the public to bring forward their projects and to influence the decision-making is a central component of the process. During the 2020/21 PB round referred to by the Audit and Scrutiny Committee the following public participation took place:
- Youth PB: 3500 young people voted;
  - Locality PB: 26 local people took part in the steering group and, (no public vote took place because there was sufficient funding to meet all projects);
  - Locality PB - 107 community groups took part by applying for funding; and
  - Alcohol and Drugs Partnership Thematic PB - 206 people voted, with 616 unique votes.
- 2.11 PB events have to strike a balance between tight deadlines, available resources, wide participation and workload. PB can’t be seen as a stand-alone approach and needs to be built into wider approaches; and the Locality Partnerships and Locality Team have pivotal. As restrictions ease, there are more opportunities to resume in-person events and embed PB in regular service delivery. Digital channels have provided alternatives but are not always inclusive. A further challenge is sustaining public interest in PB and motivating engagement by local groups and organisations, as their resource for PB applications is competing with the variety of external covid-recovery funding.

2.12 In future PB events it is recommended that the Council uses a diverse range of approaches:

- Combine PB events and seek partners, where possible, to create larger funding opportunities and streamline process - making the best use of staff resources and avoiding duplication of effort by groups and organisations and improving processes;
- Pre-engagement stakeholder groups to shape the PB engagement;
- Community stakeholder reference group to steer the process;
- Work closely with stakeholder reference groups and partners to make the best use of collective marketing and communication opportunities;
- Informal, local chit-chat sessions with communities, with a mix of in-person and digital;
- Engagement with hard to reach through regular community activities like Redburn Breakfast Club or community food larders;
- Improved use of CONSUL (an online platform used by the Council and supported by CoSLA), Office 365 tools like MS Forms for auto-generated analysis and ranking tools, Young Scot online platform, focus groups and steering groups on zoom and Facebook and Facebook Live;
- Alerts on Council Tax Billing and e-billing, use of press releases and telephone call-backs;
- Hard copy in public buildings, community setting like libraries; and
- Partnerships with community groups to extend reach.

2.13 Officers have been increasing partnership working and awareness raising with Finance, Council's Senior Leadership with sessions for elected members, Chief Officers and Senior Managers. A PB awareness session has been launched within the Council's Connected Leadership OD programme.

2.14 Mainstream PB can play a central role in collectively defining services, post pandemic, which meet the changed (and changing) needs of communities. Locality Partnerships have all reviewed their priorities and continue to work closely with communities to ensure their priorities are at the heart of PB. Islands have had an additional chance to review and consolidate previous work on local needs to support the development of Island Local Action Plans through a post-pandemic lens. The forthcoming Participation Strategy will identify further ideas for developing PB in its consultation and these will be integrated into future provision.

### **3. Proposals**

3.1 That the Audit and Scrutiny Committee:

- a) Reviews the engagement methods used in recent Participatory Budgeting events; and
- b) Approves the recommended engagement methods for use in future events.

### **4. Implications/Socio-economic Duty**

#### **Financial**

4.1 PB funding is allocated within existing resources.

## **Human Resources**

4.2 PB is resource-intensive and PB development has to be balanced with staff capacity and resources within local group and organisations to engage with PB.

## **Legal**

4.3 None.

## **Equality/Socio-economic**

4.4 The purpose of PB is increase community involvement in local decision-making. North Ayrshire Council has worked with Locality Partnerships to develop its PB approach which will reduce inequalities, increase community cohesion and advance community empowerment.

## **Environmental and Sustainability**

4.5 None.

## **Key Priorities**

4.6 The proposals contained within the report support the North Ayrshire Council Plan priorities:

- Active and strong communities
- Inclusive, growing and enterprising local economy
- People enjoy good life-long health and wellbeing.

## **Community Wealth Building**

4.7 PB increases democratic ownership of local financial decision-making and allocation of resources.

## **5. Consultation**

5.1 The PB proposals contained within this report have been developed with Locality Teams and through various PB events designed with Locality Partnerships, partners and local people, including young people.

Audrey Sutton  
Executive Director of Communities and Education

For further information please contact **Rhona Arthur, Head of Connected Communities**, on **01294 324415**.

## **Background Papers**

[Click here to enter text.](#)

