



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, 28 January 2020** 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 Minutes

The accuracy of the Minutes of the Ordinary Meeting of the Audit and Scrutiny Committee held on 12 November 2019 and the Special Meeting held on 26 November 2019 will be confirmed and the Minutes signed in accordance with Paragraph 7 (1) of Schedule 7 of the Local Government (Scotland) Act 1973 (copy enclosed).

3 North Ayrshire Integrated Joint Board (IJB) Budget Monitoring Period 8

Submit report by the Chief Finance and Transformation Officer on the financial position of the North Ayrshire IJB and on progress with plans to reduce the projected overspend for 2019-2020 (copy enclosed).

4 Town Centre Regeneration

Submit report by the Executive Director (Place) providing an update on footfall data in town centres and on planned activity to promote their regeneration (copy enclosed).

5 Climate Change

Submit report by the Executive Director (Place) providing an update on progress in tackling climate change (copy enclosed).

- 6 External Audit Plan 2019/2020**
Submit report by the Executive Director (Finance and Corporate Support) informing the Committee of the External Audit Plan for 2019/20 (copy enclosed).
- 7 Internal Audit Reports Issued**
Submit report by the Executive Director (Finance and Corporate Support) on the findings of Internal Audit work completed between October and December 2019 (copy enclosed).
- 8 Urgent Items**
Any other items which the Chair considers to be urgent.
- 9 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.
- 10 Corporate Fraud Reports Issued**
Submit report by the Executive Director (Finance and Corporate Support) on the finding of the corporate fraud investigations completed between October and December 2019 (copy enclosed).

Audit and Scrutiny Committee Sederunt

Marie Burns (Chair)
Margaret George (Vice Chair)
Joy Brahim
Alan Hill
Tom Marshall
Donald Reid
John Sweeney

Chair:

Apologies:

Attending:

IRVINE, 12 November 2019 - At a Meeting of the Audit and Scrutiny Committee of North Ayrshire Council at 10.00 a.m.

Present

Marie Burns, Margaret George, Joy Brahim, Alan Hill, Tom Marshall, Donald Reid and John Sweeney.

In Attendance

L. Friel, Executive Director and P. Doak, Senior Manager (Internal Audit, Risk and Fraud) (Finance and Corporate Support); R. Arthur, Interim Head of Service (Connected Communities), (Communities); C. Cameron, Chief Finance and Transformation Officer (Health and Social Care Partnership); and A. Fraser, Head of Democratic Services, N. Sugden, Policy and Performance Officer, and E. Gray, Committee Services Officer (Chief Executive's Service).

Chair

Councillor Burns in the Chair.

Apologies

None.

1. Declarations of Interest

There were no declarations of interest by Members in terms of Standing Order 10 and Section 5 of the Code of Conduct for Councillors.

2. Minutes

The Minutes of the Ordinary Meeting of the Audit and Scrutiny Committee held on 10 September 2019 and the Special Meeting held on 24 September 2019 were confirmed and the Minutes signed in accordance with Paragraph 7 (1) of Schedule 7 of the Local Government (Scotland) Act 1973.

Councillor Brahim joined the meeting at this point.

3. Health and Social Care Partnership (HSCP) Budget Monitoring

Submitted a report by Caroline Whyte, Chief Finance and Transformation Officer on the HSCP projected outturn for the financial year as at August 2019. The budget monitoring report and appendices which were presented to the IJB on 24 October 2019 were attached as an appendix to the report.

Members asked questions and were provided with further information in relation to:-

- the budget recovery plan and whether assurances could be given that the actions taken will be effective in reducing the current overspend;

- the difference between Fostering, Fostering Xtra and Private Fostering and the reasons behind the different rates which are paid for each;
- the possibility of including the number of service users when presenting the costs associated with care at home packages in future reports;
- the practice of commissioning beds in care homes and the impact which this has on the budget; and
- the potential impact of Scottish Government policy changes and the process and timescales for implementation of Scottish Government policies.

The Committee agreed to (a) note the financial position with regard to the Health and Social Care Partnership; and (b) continue to receive regular update reports throughout financial year 2019/2020. request that a special meeting of the Committee be arranged to examine the finances of the HSCP and their recovery plan in more detail, and invite the Director of Health and Social Care to attend.

4. Audit Scotland: Principles for Community Empowerment

Submitted a report by the Executive Director (Interim) (Communities) on the new Audit Scotland approach to Community Empowerment. The Principles for Community Empowerment document, which aims to raise awareness of community empowerment and promote a shared understanding across scrutiny bodies, was set out at Appendix 1 to the report.

Members asked questions and were provided with further information in relation to:-

- North and South Ayrshire Councils being invited to represent local authorities on the Community Empowerment Advisory Group and the message this sends about the work already being carried out in Ayrshire in terms of community empowerment; and
- staffing levels in the Communities directorate and whether they are adequate to manage future workloads.

The Committee agreed to note the new Audit Scotland approach to Community Empowerment.

5. Public Performance Reporting

Submitted a report by the Head of Democratic Services on 2018/19 Public Performance Reporting and the draft Annual Public Performance Report 2018/19. The Annual Performance Report Summary was set out at Appendix 1 to the report, the Annual Performance Exception Report at Appendix 2 and the full draft Annual Performance Report 2018/19 at Appendix 3.

Discussion took place around the trend of decreasing footfall in town centres across North Ayrshire and the different contributing factors including business rates, out of town shopping centres, internet shopping and rental costs.

The Committee agreed to (a) note (i) the status of the Council's performance indicators at Appendices One and Two to the report; and (ii) the Annual Public Performance Report 2018/19 set out at Appendix Three; and (b) request that a report by the Head of Service (Economic Development and Regeneration) be brought to a future meeting on the state of town centres in North Ayrshire.

6. National Scrutiny Plan 2019/2020

Submitted a report by the Executive Director (Finance and Corporate Support) on the National Scrutiny Plan. The plan identifies three areas of planned scrutiny activity for North Ayrshire Council during 2019/2020 which are a best value audit (Audit Scotland/Deloitte), a review of career information, advice and guidance services (Education Scotland) and a review of services for people who are homeless (Scottish Housing Regulator). A link to the full plan was provided in the report.

The Committee agreed to note (i) the National Scrutiny Plan and (ii) the scrutiny work which is scheduled for North Ayrshire Council in 2019/20.

7. Internal Audit and Corporate Fraud Action Plans: Quarter 2 Update

Submit report by the Executive Director (Finance and Corporate Support) on progress made by Council Services in implementing the agreed actions from Internal Audit and Corporate Fraud reports as at 30 September 2019. Full details of the seven actions which were not completed within the agreed timescales were set out at Appendix 1 to the report.

The Senior Manager (Internal Audit, Risk and Fraud) noted that the number of overdue actions has fallen in comparison to previous years and that the current outstanding actions are of low priority.

That the Committee agreed to note (i) the current position with the implementation of Internal Audit and Corporate Fraud actions; and (ii) that those Services which have not implemented actions within the previously agreed timescales will be challenged.

8. Internal Audit Plan 2019/20: Mid-Year Update

Submitted a report by the Executive Director (Finance and Corporate Support) on progress made in delivering the 2019/20 Internal Audit Plan. The Internal Audit Quarter 2 Progress Report was set out at Appendix 1 to the report.

The Senior Manager (Internal Audit, Risk and Fraud) provided details of two audits which have been removed from the plan (Welfare Reform and Universal Credit and Property Asset Management) and one which has been added from the reserve audit list (Additional Special Needs Schools).

That the Committee (a) notes the mid-year position and (b) approves the withdrawal of two audits from the plan.

9. Corporate Fraud Team: Mid-year Progress

Submitted a report by the Executive Director (Finance and Corporate Support) which provided a mid-year progress report on the work of the Corporate Fraud Team.

Discussion took place around a case detailed in the report which, following a referral by the corporate fraud team to the Procurator Fiscal, resulted in a £750 being issued to a letting agent who breached the Housing (Scotland) Act 2006 by facilitating the occupation of an unregistered house in multiple occupation. Members questioned whether this level of fine will be seen as a deterrent for other letting agents and what action can be taken by other regulatory bodies including the Licensing Committee.

The Committee agreed to note the work carried out by the Corporate Fraud Team between April and September 2019.

10. Strategic Risk Register 2019/2020: Mid-Year Update

Submitted a report by the Executive Director (Finance and Corporate Support) which provided a mid-year update on the progress with actions related to the Strategic Risk Register. The Strategic Risk Report 2019/20 with detailed actions was provided at Appendix 1 to the report.

Members asked questions and were provided with further information in relation to:-

- the formula used for calculating a total risk score and who is responsible for assigning numeric values to the likelihood and impact of each risk;
- why climate change does not appear on the risk register despite the Council declaring a climate emergency in October 2019;
- the evaluation process for climate change as a risk to North Ayrshire and why flood prevention appears to be the main focus over other issues associated from climate change; and
- risk associated with the financial position of the Health and Social Care Partnership and a number of contributing factors including the delay of the opening of Trindlemoss.

The Committee agreed to (a) note the mid-year update on the 2019/20 Strategic Risk Register; (b) request that a report by the Director of Place be brought to a future meeting on the Council's overall approach to climate change; and (c) request that a special meeting of the Committee be arranged to examine the finances of the HSCP and their recovery plan in more detail, and invite the Director of Health and Social Care to attend.

11. Internal Audit Reports Issued

Submitted a report by the Executive Director (Finance and Corporate Support) on the findings of Internal Audit work completed between August and September 2019. Details of internal control reviews around music tuition, the Transport Hub and Better Off North Ayrshire were provided as Appendix 1 to the report.

The Senior Manager (Internal Audit, Risk and Fraud) highlighted the new style of report which consists of a shorter report and an action plan for each audit. The new style should allow officers to spend less time writing reports and therefore allocate more time to audit work.

The Committee agreed to note the outcomes from the Internal Audit work completed as set out in the report.

12. Urgent Items

Councillor Hill raised the issue of the use of permitted development by the Council and questioned whether this is an area which the Committee should receive a report on in the future. Reference was made to a development a Flatt Road, Largs where work was carried out under permitted development legislation and resulted in the erection of a 40ft chimney which was not clear in the plans due to the omission of elevation drawing.

Councillor Hill felt that the Committee should be made aware of how often development has been carried out under this legislation; what circumstances have led to this legislation being used; and what scrutiny has been carried out to date.

Officers advised that Council housing developments are permitted development under the Town & Country Planning (General Permitted Development) (Scotland) Order 1992 providing they comply with the Local Development Plan. Otherwise planning permission is required. The Cabinet, at its meeting on 29 October 2019, considered the Strategic Housing Investment Plan 2020-25 and noted that all future Council housing developments will now obtain a 'Certificate of Lawful Use Development' from the Council's Planning Service. This will provide a certificate that each site within the SHIP has been considered against the full terms of the adopted Local Development Plan.

The Committee agreed to note the information provided by officers.

The meeting ended at 11.20 a.m.

Audit and Scrutiny Committee
27 November 2019

IRVINE, 27 November 2019 - At a Special Meeting of the Audit and Scrutiny Committee of North Ayrshire Council at 1.30 p.m.

Present

Marie Burns, Margaret George, Joy Brahim, Alan Hill, Tom Marshall, Donald Reid and John Sweeney.

In Attendance

C. Hatton, Chief Executive; L. Friel, Executive Director (Finance and Corporate Support); S. Brown, Director and C. Cameron, Chief Finance and Transformation Officer (Health and Social Care Partnership), T. Bowers, Head of Service (Mental Health) and A. Sutherland, Head of Children, Families and Criminal Justice (North Ayrshire Health and Social Care Partnership) and A. Little, Committee Services Officer (Chief Executive's Service).

Chair

Councillor Burns in the Chair.

1. Declarations of Interest

There were no declarations of interest by Members in terms of Standing Order 10 and Section 5 of the Code of Conduct for Councillors.

3. North Ayrshire Integrated Joint Board Financial Position

Submitted report by Caroline Whyte, Chief Finance and Transformation Officer on the financial position of the North Ayrshire Integrated Joint Board and plans to mitigate the current projected overspend.

The budget monitoring report and appendices for Period 6, which were presented to the IJB on 21 November 2019, were attached as Appendix 1 to the report. Appendix 2 provided Supplementary Demand Pressure Information and the Integration Authorities financial performance for Quarter 1 of financial year 2019/20 was outlined at Appendix 3. Audit Scotland's report on NHS in Scotland 2019 was provided at Appendix 4. Appendix 5 presented the Scottish Government's Medium-Term Health and Social Care Financial Framework (October 2018) report. The Scottish Parliament's Health and Sport Committee's report – Looking ahead to the Scottish Government – Health Budget 2020-21 (October 2019) was attached at Appendix 6. Appendix 7 outlined the Health and Social Care Partnership "thinking differently doing better" Engagement Resources.

The Committee received a presentation on the North Ayrshire Integration Joint Board 2019/20 budget and Transformation Update, which provided information on:-

- The context of the Partnership's financial position noting that the HSCP do not anticipate being able to repay any of its debt to the Council in 2019/20;

- The national position for IJBs in respect of their quarter 1 projected outturns;
- North Ayrshire 65+ and older age groups population census information, including estimates and continuity projections;
- Budget pressures and the net investment position;
- Previous approved savings plans, delivered savings and the shortfall in savings achieved;
- 2019/20 savings that included targeted, achieved and remaining savings;
- Key areas for 2019/20 savings;
- Transformation plans;
- Older people managed waiting lists;
- The Recovery Plan;
- Budget risks and risks and challenges; and
- Features supporting health and social care integration.

Members asked questions and were provided with further information in relation to:-

- A review of Learning Disabilities adult community packages that is being undertaken by a dedicated review team, co-ordinated on a prioritised list to ensure all reviews are up to date and appropriate and equitable levels of care are being provided;
- Adult Community support framework which will present additional opportunities for reviews and payment only for the actual hours of care delivered;
- The Improvement Plan that has more checks and balances in place to ensure the projections are more accurate and figures are more current;
- Projections for Care Home placements and Children's Residential Placements that would have been met if the demands had not increased;
- Various demands that cannot be forecast, such as 6 children from the same family requiring foster care and unplanned secure and remands placements as well as decisions made by the Children's Panel;
- Thinking Differently, Doing Better that is all about people and making people's experience of health and social care services in North Ayrshire better;
- The use of community facilities and social supports to assist people to remain at home and part of their community, whilst reducing the need for services such as day care;
- Supported Accommodation models supported by technology that will reduce 24-hour care for adults in the community;
- Work with colleagues in Education and Housing to support young people to remain in school and at home and to bring back to their communities young people who have been in residential placements;
- Four Scottish IJBs that are underspent and work that is planned to learn lessons from their achievements, including a visit that is planned to Angus Council;
- A range of factors such as differing financial settlements, service costs and reserve levels that make comparisons between Scottish IJBs complex
- The Primary Care Plan that will join up services and improve hospital aftercare;
- Weekly cross-service progress meeting that are held to track progress and ensure progress is achieved within the required timescales and the Recovery Plan that provides a target for Managers to achieve;

- A whole system approach, including new models of working that will maximise the capacity of teams, coupled with a change in how we deliver services that takes time to embed and realise savings and
- Anticipation that main pressure for 2020/21 will centre around learning disability and care at home.

The Committee commented on the significant progress by other Council services in achieving their planned savings. Funding the overspend by the Health and Social Care Partnership has had a financial impact on the Council's budget and other Council services and could not be sustained

The Committee agreed to (a) note the report; and (b) continue to receive IJB financial monitoring reports to each meeting of the Committee, including progress on delivery of savings and the Recovery Plan with further information on the anticipated position at the start of 2020/21.

The meeting ended at 3.05 p.m.

NORTH AYRSHIRE COUNCIL

28 January 2020

Audit & Scrutiny Committee

Title: **North Ayrshire IJB – Budget Monitoring Period 8**

Purpose: To provide an update on the financial position of the North Ayrshire IJB and progress with plans to reduce the projected overspend for 2019-20.

Recommendation: It is proposed that the Committee notes the attached report and the financial position of the HSCP together with the actions being taken by the partnership to reduce the projected overspend.

1. Executive Summary

- 1.1 The Audit and Scrutiny Committee agreed to receive regular reports on the financial performance of the North Ayrshire IJB. The Committee requested a further update on the financial position of the partnership following a reported projected overspend for 2019-20 and a special meeting was held on 27 November 2019 to scrutinise the position in more detail.
- 1.2 The budget monitoring report as at November 2019 notes a forecast year-end overspend of £2.524m for the North IJB, an improvement of £0.445m from the previous period reported position. This net projected overspend consists of a projected overspend of £2.607m in social care services partly offset by a projected underspend of £0.083m in health services.
- 1.3 The Integration Scheme requires the IJB to approve and implement a financial recovery plan to address any forecast overspend. A financial recovery plan was approved by the IJB in September 2019. The plan includes actions to address the areas of overspend to help work towards financial balance this year whilst also delivering a recurring benefit to contribute to financial sustainability in future years.
- 1.4 Whilst the financial position is improving, this is not at the pace required to provide assurance that financial balance can be delivered by the year-end. Realistically the IJB will not be in a position as planned to make this year's £1.486m instalment towards repayment of the outstanding debt to North Ayrshire Council and are at this stage focussing on ensuring the final outturn position is limited to £1.5m, to ensure there is no increase to the overall debt position at the year-end.

2. Background

2.1 The North Ayrshire IJB financial position has been challenging since the start of the year, with a significant projected overspend projected since the first reporting period. This is reflective of the challenges in delivering savings against a backdrop of continuing to prioritise and meet new and existing demand for services.

2.2 Included in Appendix 1 is the IJB Budget Monitoring report as at November 2019, the report includes detail of variances, progress with savings and plans to mitigate the projected overspend. The most notable points are:

- A forecast year-end overspend of £2.524m for the North Ayrshire HSCP, of this £2.607m relates to Social Care Services with a projected underspend of £0.083m in Health Services partly offsetting the overspend;
- The position has moved favourably by £0.445m since period 7. The main areas of improvement are the updating of assumptions for the future level of care at home services and plans to reduce the numbers of children's residential placements. Partly offsetting this is a lower than anticipated reduction to Learning Disability Care packages alongside a reduced level of invoice variations for care packages and an increase in demand for fostering services;
- The 2019-20 budget includes an overall savings requirement of £6.134m, a total of £3.179m of savings have been delivered to date. There is an estimated shortfall of £0.448m in relation to Learning Disability sleepovers, delays in the opening of the Trindlemoss service and the rollout of MDT's, all of which will still be delivered but not within the originally planned timescales;
- The Integration Scheme requires the IJB to implement a financial recovery plan to address any forecast overspend, the report includes the plan which was approved by the IJB in September, the estimated impact is an improvement of £1.996m and as at November £0.711m of this is included with confidence in the projected position;
- The savings plans and work being undertaken during 2019-20 to recover the financial position for the IJB are not solely focussed on the current year but also on the future sustainability of services, with a focus on addressing pressure areas delivering a recurring benefit to ensure a sustainable position moving into 2020-21. Areas of pressure which have been addressed through the current focussed work include Care Home Placements and Children's Residential Placements, the ongoing areas of pressure and risk are Care at Home services and Learning Disability community packages, both of which are reducing but it is unclear at this stage if this will be to a sufficient level to ensure sustainability moving into next year. The IJB will require to consider the updated position as part of 2020-21 budget planning;

- Whilst the financial position is improving, this is not moving at the pace required to provide assurance that financial balance can be delivered by the year-end. Realistically the IJB will not be in a position as planned to make this year's instalment of the debt repayment to the Council and the focus is on ensuring the final outturn position is limited £1.5m, to ensure no increase to the overall debt position at the year-end. This was highlighted to the Audit and Scrutiny Committee and the IJB in November;
- The position in North Ayrshire reflects the challenges being faced by health and social care systems across the country. The report includes the updated national position for IJBs across Scotland where at Q2 for 2019-20 25 out of 31 Integration Authorities are reporting an overspend position totalling £86.3m, the main contributing factors being delays in delivering planned savings and demographic service pressures or increases in demand for services;
- The overall position for the IJB has not shifted significantly throughout the year but there has been significant movement within services. At times the financial benefit of actions taken to improve the financial position have been offset by increasing pressures and demands on other areas of service and this has impacted on the overall financial position of the partnership. Many of the delegated services, particularly for social care, are demand led and for some services these are very specialist and high cost. This leads to a greater risk of being able to plan for and respond to in-year demands for services.

3. Proposals

- 3.1 It is proposed that the Committee notes the current position and that the operational and financial pressures, which are not all unique to North Ayrshire. The Committee is asked to note the impact of delays in delivering savings this year and the plans in place to reduce the projected overspend position, recognising that at this stage in the financial year it is unlikely that financial balance will be achieved.

4. Implications

Financial:	The implications are outlined in the attached report.
Human Resources:	The implications are outlined in the attached report.

Legal:	The implications are outlined in the attached report.
Equality:	The implications are outlined in the attached report.
Environmental & Sustainability:	The implications are outlined in the attached report.
Key Priorities:	The implications are outlined in the attached report.
Community Benefits:	The implications are outlined in the attached report.

5. Consultation

5.1 The attached report outlines the consultation that has taken place. The IJB financial monitoring report is shared with the NHS Ayrshire and Arran and North Ayrshire Council Directors of Finance after the report has been finalised for the IJB.



Stephen Brown
Director Health & Social Care Partnership

For further information please contact **Caroline Cameron** on **01294 324954**.

Background Papers

Appendix 1 – IJB Financial Monitoring Report – Period 8

Integration Joint Board
19 December 2019

Subject:	Budget Monitoring – Month 8 (November 2019)
Purpose:	To provide an update on financial performance to November 2019, including the projected outturn for the 2019-20 financial year.
Recommendation:	It is recommended that the IJB: <ul style="list-style-type: none"> a) Note the projected year-end overspend of £2.524m; b) Note the changes in funding as detailed in section 2.12 and Appendix E; and c) Note the North Ayrshire IJB position in the context of the national financial position for Integration Authorities across Scotland.

Glossary of Terms	
NHS AA	NHS Ayrshire and Arran
HSCP	Health and Social Care Partnership
MH	Mental Health
CAMHS	Child & Adolescent Mental Health Services
BRAG	Blue, Red, Amber, Green
UNPACS	UNPACS, (UNPlanned Activities) – Extra Contractual Referrals
CRES	Cash Releasing Efficiency Savings
NES	NHS Education Scotland – education and training body
NRAC	NHS Resource Allocation Committee

1.	EXECUTIVE SUMMARY
1.1	The report provides an overview of the financial position for the partnership and outlines the projected year-end outturn position informed by the projected expenditure and income commitments, these have been prepared in conjunction with relevant budget holders and services. This report reflects the position at the November period end and is as current and up to date as can practicably be reported.
1.2	The projected outturn is a year-end overspend of £2.524m for 2019-20 which is a favourable movement of £0.445m from the previous reporting period. There is scope for this position to fluctuate due to in-year cost and demand pressures and assumptions in relation to funding and the achievement of savings. A financial recovery plan was approved by the IJB in September to work towards delivering financial balance. The plan includes actions to address the areas of overspend to help work towards financial balance this year whilst also delivering a recurring benefit to ensure financial sustainability in future years. Alongside the specific actions outlined in the financial recovery plan services will continue to deploy tight financial management controls to support bringing expenditure back into line with budget. We are in the process of meeting individually with budget managers across the partnership to help identify any further opportunities to reduce the projected overspend.

1.3	<p>The main areas of pressure continue to be learning disability care packages, care at home, looked after children, and adult in-patients within the lead partnership. There has been a favourable movement in the position which mainly relates to updating assumptions for the future level of care at home services and plans to reduce the number of children's residential placements. Partly offsetting these reductions is a lower than anticipated level of invoice variances in Learning Disability care packages and an increase in demand for fostering services.</p>
1.4	<p>Whilst the financial position is improving, this is not moving at the pace required to provide assurance that financial balance can be delivered by the year-end. It will be extremely challenging to recover this overspend by this point in the financial year, there would be a significant impact of short-term decisions and actions that would require to be taken to fully recover this position. Those actions would inevitably have longer term consequences, both financially and for individual people's outcomes and would not necessarily address the areas where we continue to have financial and operational pressures.</p> <p>North Ayrshire Council continue to hold £1.486m on behalf of the IJB to allow the repayment of the outstanding debt of £5.139m to the Council over the next 3-4 years. Realistically the IJB will not be in a position as planned to make this year's instalment and the IJB should focus on ensuring the final outturn position is limited to £1.5m, to ensure that there is no increase to the overall debt position at the year-end. The adjusted projected outturn position offset by the debt repayment budget is £1.038m.</p>
1.5	<p>Across Scotland Integration Joint Boards are facing similar financial challenges, whilst there are different individual local circumstances there are similarities with the factors contributing to financial pressures. The total budget delegated for Health and Social Care services to IJBs across Scotland is £9.3bn. The most recent collated Q2 position for 2019-20 reports that 25 out of 31 IJBs are reporting an overspend position totalling £86.3m, the main areas contributing to this are delays in delivering planned savings and demographic service pressures or increase in demand for services.</p> <p>With the exception of prescribing costs which in North Ayrshire are underwritten by the Health Board, these are all pressures recognised for the North Ayrshire IJB. The partnership continue to actively engage in national networks, best practice forums and review examples of good practice and transformation from other areas.</p>
2.	CURRENT POSITION
2.1	<p>The report includes an overview of the financial position including commitments against the available resource, explanations for the main budget variances, an update on progress in terms of savings delivery and actions required to work towards financial balance.</p>
	FINANCIAL PERFORMANCE
2.2	<p>Against the full-year budget of £243.165m there is a projected overspend of £2.524m (1%). An integrated view of the financial position should be taken; however, it is useful to note that this overall position consists of a projected overspend of £2.607m in social care services offset by a projected underspend of £0.083m in health services.</p> <p>The Integration Scheme outlines that there is an expectation that the IJB takes account of the totality of resources available to balance the budget in year.</p>

	Appendix A provides the financial overview of the partnership position. The sections that follow outline the significant variances in service expenditure compared to the approved budgets with detailed analysis provided in Appendix B.
2.3	<p>Community Care and Health Services</p> <p>Against the full-year budget of £68.215m there is a projected overspend of £0.894m (1.3%) which is a favourable movement of £0.381m. The main reasons for the projected overspend are:</p> <ul style="list-style-type: none"> a) Care home placements including respite placements – projected to overspend by £0.089m (£0.001m favourable movement). Permanent placements will continue to be managed to bring the budget back into line. The projection can vary due to factors other than the number of placements e.g. the impact of interim funded places and outstanding requests for funding, this will require to be monitored closely. The overspend in permanent placements is partly offset by a projected over-recovery of Charging Order income of £0.200m which is based on income received to date and improved processes to track the charging orders. The care home budget has moved into a sustainable position and if this can be maintained over the winter period the opening position for the budget for 2020-21 will be an underspend. The IJB will be provided with an update as part of budget setting in March 2020 aligning the future resources with the Strategic Commissioning Plan for Care Homes. b) Independent Living Services are projected to overspend by £0.265m (adverse movement of £0.035m) which is due to an overspend on physical disability care packages within the community and residential packages. There will be further work undertaken with the implementation of the Adult Community Support framework which will present additional opportunities for reviews and will ensure payment only for the actual hours of care delivered. c) Packages of care are projected to underspend by £0.094m which is a favourable movement of £0.004m. This is due to delays in new packages offsetting the use of supplementary staffing for existing packages, this has improved from the 2018-19 position. d) Care at home is projected to overspend by £0.530m which is a favourable movement of £0.363m. The movement is due to updating the assumptions as follows: <ul style="list-style-type: none"> i. A favourable movement due to an assumption on the number of hours potentially to be refunded following an internal review of the hours provided and an ongoing contractual issue with a commissioned provider ii. A favourable movement due to planned reviews to the year-end with a target for hours to reduce by 50 per week. This reduction will allow for capacity to be freed up in the internal service to facilitate hospital discharge and manage waiting lists and a reduction in cost from commissioned services. <p>The overspend for in-house services relates to providing additional hours to cover a service that a provider handed back and the in-house service had to increase capacity to ensure the safety of vulnerable service users within the community of the North Coast locality and also the need to facilitate patient discharges from Crosshouse Hospital. The service currently has, between hospitals and community a managed waiting list of individuals waiting on a care</p>

at home package or an increase in their existing care package. The additional cost of clearing this waiting list (part year costs) would be approximately £0.6m.

The planned action around reviews to reduce purchased care and maximise the capacity of the in-house service will reduce the ongoing overspend in care at home, despite this based on current plans there may remain an overspend moving into 2020-21. This will be addressed as part of the 2020-21 budget planning alongside consideration of demand pressure funding and savings to ensure a sustainable position moving forward.

- e) Long Term Conditions (Ward 1), projected overspend of £0.279m (adverse movement of £0.005m) which is mainly due to an overspend in employee costs to ensure staffing levels are at a safe level. This is a recurring pressure for which funding requires to be identified. This will be reviewed during 2019-20 along with other wards. Ward 2 is projected to be £0.010m underspent (adverse movement of £0.010m) but this is subject to continuing to receive £0.504m of funding from East HSCP for their patients, East have indicated their intention to reduce the number of commissioned beds, this is not anticipated to be implemented during 2019-20.
- f) Community Care employee costs are projected to overspend by £0.147m (favourable movement of £0.046m) due to supernumerary / unfunded posts and the non-achievement of payroll turnover. Some of these posts have been allocated to the care at home service and others have still to be allocated to the appropriate service to manage the costs within the delegated budget.
- g) Locality services employee costs are projected to overspend by £0.153m (favourable movement of £0.008m) due to a projected shortfall in payroll turnover targets.
- h) Carers Act Funding is projected to underspend by £0.268m (no movement) based on the currently committed spend. This could fluctuate depending on the number of carers' support plans undertaken and the level of demand/services identified from these plans. An allocation of £117k has previously been allocated to offset an overspend on care home respite placements.
- i) Intermediate Care (excluding Models of Care) is projected underspend by £0.092m (favourable movement of £0.003m) due to vacancies.
- j) Intermediate Care and Rehab Models of Care is projected to overspend by £0.247m (no movement) which represents the full year funding impact of the model. The projected overspend is based on the posts which are currently filled, with an assumption that any vacancies would be held until a longer-term decision on funding investment is taken.
- k) Aids and adaptations – are projected to underspend by £0.200m per the approved recovery plan.
- l) District Nursing – is projected to underspend by £0.055m due to vacancies.

2.4

Mental Health Services

Against the full-year budget of £76.122m there is a projected overspend of £1.308m (1.7%) which is an adverse movement of £0.448m. The main reasons for the projected overspend are:

- Learning Disabilities – projected overspend of £1.217m (adverse movement of £0.240m), of which £0.617m is in relation to community care packages, £0.330m for direct payments and £0.355m for residential placements. These overspends are partially offset by vacant posts. The projection assumes that savings of £0.289m will be made before the year end. The main reason for the adverse movement is a revision to the level of assumed invoice variations as several care packages have now been reviewed and it has become clear that the level of variation has been lower than expected and lower than in previous years. Community Learning Disability Care packages are proving to be one of the most challenging areas to address overspends, as the care packages are aligned to meet an individual's assessed needs. The recovery plan includes the prioritised review of all packages. Progress with the reviews has been slower than planned due to the implementation of the Adult Community Support Contract and also a number of packages that have been reviewed, particularly the higher cost packages, have concluded that no change is possible at this time. This work is ongoing and will continue to be a fluid position until the year-end, the financial implications for 2020-21 will require to be considered as part of the budget process for next year.
- Community Mental Health – is projected to underspend by £0.166m (favourable movement of £0.043m) mainly due to vacancy savings and an underspend in care packages.
- Addictions – is projected to be underspent by £0.104m (adverse movement of £0.006m) due to vacant posts.
- Lead Partnership for Mental Health – overall projected overspend of £0.361m (adverse movement of £0.325m) which consists of:

Overspends:

- Adult inpatients £0.620m (adverse movement of £0.020m) - mainly due to the delay in closing the Lochranza ward on the Ailsa site. The ability to close Lochranza is dependent on discharging at least two patients from South Ayrshire. South HSCP have been advised that the Lochranza ward will close, the projection also assumes subsequent redeployment costs.
- Psychiatry £0.145m (adverse movement of £0.120m) – overspend primarily due to agency costs. Agency staff are used in the absence of being able to recruit permanent posts. The adverse movement is due to the Medical Pay Award (£0.160m) which was not funded.
- UNPACS £0.399m (£0.117m adverse movement) – based on current placements which increased by one and an increased charge from the state hospital for the period April to August 2019.
- Elderly inpatients £0.200m (£0.100m adverse movement) - due to holding vacancies in relation to reconfiguring the wards. This resulted in using supplementary staff in the interim.

	<p><i>Underspends:</i></p> <ul style="list-style-type: none"> CAMHS £0.228m (£0.042m adverse movement) – due to vacancies and delays with recruitment. This is after applying £0.150m of payroll turnover. Psychology £0.253m (£0.053m favourable) – due to vacancies. This is after applying £0.150m of payroll turnover. Adult Community Mental Health £0.100m (£0.002m favourable movement) - due to vacancies. MH Pharmacy £0.132m (£0.028m adverse movement) – underspend due to continued lower substitute prescribing costs. MH Admin £0.155m (favourable movement of £0.016m) - due to vacancies.
2.5	Children & Justice Services
	<p>Against the full-year budget of £35.671m there is a projected overspend of £1.260m (3.5%) which is a favourable movement of £0.155m. The main reasons for the projected overspend are:</p> <ul style="list-style-type: none"> a) Residential Schools and Community Placements – projected overspend of £1.101m (£0.285m favourable movement). The projection is based on the current number of placements and estimated discharge dates for each placement. There are currently 20 external residential placements and 2 secure placements. The reported projection assumes the secure placements end in January 2020, 4 discharges by end of December with the remaining 16 assumed to be in place until March 2020. These assumptions are based on individual plans for children. There is no provision for any increase in placements. The service are working with housing colleagues to develop alternatives for older children in care to free up local care capacity to support the reduction in external residential placements. This work ties in with future plans to further reduce the requirement for residential placements and if the planned timescales are met by March 2020 then the budget will be back into a sustainable position and on track to deliver further savings moving into 2020-21. b) Looked After Children Placements – projected overspend of £0.203m (adverse movement of £0.120m) due to the current increased demand for fostering, adoption and kinship placements. External placements were made as there were no internal foster carers available. Unless additional internal foster carers are recruited there will be a continued need to use external foster placements. A recruitment campaign is planned to attract more in-house foster carers. c) Children with Disabilities Employee Costs – projected overspend £0.087m (favourable movement of £0.005m) as the turnover target will not be met.
2.6	Allied Health Professionals
	AHP services are projected to underspend by £0.069m due to vacancies.
2.7	Management and Support Costs

	<p>Against the full-year budget of £8.867m there is a projected underspend of £0.690m (7.8%) which is an adverse movement of £0.055m. The underspend relates to the potential delay in commitment for pressure funding set aside in the 2019-20 budget, the most significant element of this is linked to the delay in opening of the Trindlemoss development. The requirement for this funding will need to be closely monitored and may require to be delegated to services as and when required.</p>																								
2.8	<p>Primary Care and Prescribing</p> <p>Prescribing is the responsibility for the Health Board to fund and under the terms of the Integration Scheme the Health Board continues to underwrite the prescribing position across the three Ayrshire IJBs. At month 7 prescribing is projected to be £1.383m overspent (no movement). This is not included in the projected outturn due to the NHS underwriting the risk of overspend.</p>																								
2.9	<p>Movement in Projected Outturn Position</p> <p>The table below shows the overall movement in the projected outturn position throughout the financial year:</p> <div><table><caption>Estimated data for Movement in Projected Outturn</caption><thead><tr><th>Month</th><th>Social Care (Overspend)</th><th>Health (Overspend)</th><th>Total (Overspend)</th></tr></thead><tbody><tr><td>June</td><td>2,900</td><td>-100</td><td>2,800</td></tr><tr><td>July</td><td>2,200</td><td>-100</td><td>2,000</td></tr><tr><td>Aug</td><td>2,300</td><td>-100</td><td>2,200</td></tr><tr><td>Sept</td><td>3,000</td><td>-100</td><td>2,900</td></tr><tr><td>Nov</td><td>2,500</td><td>-100</td><td>2,500</td></tr></tbody></table></div> <p>The partnership financial position has been challenging since the start of the year, with a significant projected overspend projected in the first reporting period. This is reflective of the challenges in delivering savings against a backdrop of continuing to prioritise and meet existing and new demand for services.</p> <p>The IJB approved a balanced budget for 2019-20 in March 2019. The budget was underpinned by a requirement to deliver savings of £6.1m and to manage a number of in-year unfunded pressures. Whilst the budget and savings plans are completely aligned to the IJB's Strategic Plan and ambitions within that to change how we deliver health and social care services, we have never underestimated the challenge in delivering service change across all services at pace whilst continuing to meet new demand for services. So many of the delegated services, particularly for social care, are demand led and for some services these are very specialist and high cost. This leads to a greater risk of being able to plan for and respond to in-year demands for services.</p>	Month	Social Care (Overspend)	Health (Overspend)	Total (Overspend)	June	2,900	-100	2,800	July	2,200	-100	2,000	Aug	2,300	-100	2,200	Sept	3,000	-100	2,900	Nov	2,500	-100	2,500
Month	Social Care (Overspend)	Health (Overspend)	Total (Overspend)																						
June	2,900	-100	2,800																						
July	2,200	-100	2,000																						
Aug	2,300	-100	2,200																						
Sept	3,000	-100	2,900																						
Nov	2,500	-100	2,500																						

Whilst the financial position is improving, this is not moving at the pace required to provide assurance that financial balance can be delivered by the year-end. It will be extremely challenging to recover this overspend by this point in the financial year, there would be a significant impact of short-term decisions and actions that would require to be taken to fully recover this position. Those actions would inevitably have longer term consequences, both financially and for individual people's outcomes and would not necessarily address the areas where we continue to have financial and operational pressures.

North Ayrshire Council continue to hold £1.486m on behalf of the IJB to allow the repayment of the outstanding debt of £5.139m to the Council over the next 3-4 years. Realistically the IJB will not be in a position as planned to make this year's instalment and the IJB should focus on ensuring the final outturn position is limited to £1.5m, to ensure that there is no increase to the overall debt position at the year-end. The adjusted projected outturn position offset by the debt repayment budget is £1.038m.

2.10

Savings Progress

- a) The approved 2019-20 budget included £6.134m of savings.

RAG Status	Position at Budget Approval £m	Position at Period 7 £m
Red	-	0.270
Amber / Red	-	1.683
Amber	2.980	1.002
Green	3.154	3.179
TOTAL	6.134	6.134

- b) The projected year-end outturn position assumes:

- i) £0.270m of the Red savings in relation to reducing LD sleepovers (£0.215m) and the roll out of MDTs (£0.055m) will not be delivered as planned and this is reflected in the overall projected outturn position; and
- ii) The £0.328m risk of savings relating to Trindlemoss is partially reflected (£0.178m) in the projected overspend position as there is ongoing work to establish the deliverability of the saving given that the savings were based on the service being operational from September.

If progress is made to deliver the savings this would improve the overall outturn position or prevent the overspend increasing further.

Some savings have been reclassified as Amber / Red as the budget has been removed from the service area, but these areas are overspending.

The projected financial position assumes that all remaining savings on the plan will be delivered. Progress with savings delivery requires to be closely monitored to ensure the impact on the financial position can be assessed and corrective action taken where necessary. It is essential that if a saving cannot be achieved by the year end that there are plans in place to achieve it moving into 2020-21.

	<p>Appendix C provides an overview of the savings plan, this highlights that at this stage a total of £3.179m of savings have been delivered successfully.</p> <p>The Transformation Board is in place to provide oversight and governance to the programme of service change. A focus of the Board is to ensure plans are in place to deliver savings and service change, with a solution focussed approach to bringing programmes back on track.</p>
2.11	<p>Financial Recovery Plan</p> <p>The Integration Scheme requires the implementation of a recovery plan if an overspend position is being projected, to take action to bring overall service delivery back into line with the available resource. The previously approved financial recovery plan is included in Appendix D.</p> <p>This includes specific targeted actions with a focus on addressing the pressure areas, the actions will not only improve the projected overspend this year but will also address recurring overspends in service areas moving into future years. The plan requires the IJB support as whilst many of the actions are operational management decisions there may be some resistance from service users and communities to any changes to care packages and services.</p> <p>The plan will be monitored closely and is underpinned by more detailed plans with clear actions for high risk service areas. One of the most significant risk areas is Learning Disabilities, a more detailed plan with all actions including tracking progress with reviews is co-ordinated between the service and finance and transformation team. Weekly cross-service progress meetings are being held to track progress and to ensure progress at pace.</p> <p>The further actions noted below were subsequently noted to be undertaken:</p> <ol style="list-style-type: none"> 1) Care at Home – review feedback from the Thinking Differently Doing Better sessions to identify the main ‘themes’ that can be taken forward to maximise capacity, including visits, assessment and review process, electronic communication with staff. Since September almost all of the communication with staff has moved to an electronic format. 2) Learning Disability – continue the focussed work with weekly progress updates. Hold a development session with the learning disability team to ensure that progress made to date is embedded moving forward. Progress the responder service on a geographical cluster basis with Trindlemoss being the piloted area. 3) In house fostering – grow the number of in-house foster carers through a recruitment campaign (advertising, radio and social media campaign). Review the terms and conditions for foster carers. A recruitment campaign is being designed and will be launched in the coming weeks. 4) Children’s Residential Placements – work with housing colleagues to develop alternatives for older children in care to ensure local capacity can be used to reduce the numbers of external placements.

	<p>The plan includes actions to address the areas of overspend to help work towards financial balance this year whilst also delivering a recurring benefit to ensure financial sustainability in future years. Alongside the specific actions outlined in the financial recovery plan services will continue to deploy tight financial management controls to support bringing expenditure back into line with budget. We are in the process of meeting individually with budget managers across the partnership to help identify any further opportunities to reduce the projected overspend.</p>
2.12	<p>Financial Risks</p> <p>The 2019-20 budget setting paper noted unfunded pressures which could present a risk to the projected outturn position. This included:</p> <ul style="list-style-type: none"> a) Paid as if at work is a pressure relating to health employed staff and the payment of a holiday pay element for regular additional payments, e.g. overtime. The cost across the Health Board is estimated to be £1.4m but is unclear at this stage what the cost will be for each service, for North Ayrshire this is estimated to be around £0.15m. When the cost pressure value is known the partnership will look to services to fund from within existing resources where possible. It is anticipated that this will be paid in December. b) There is a potential pressure in relation to GP practices in difficulty. This is a dynamic pressure which we will look to manage in-year. If this cannot be achieved, then the default position would be to fund the North fair share of this (circa £0.2m) from any underspend in the Primary Care Improvement Fund (PCIF). At month 7 there are no GP practices in difficulty. <p>In addition to these pressures there is a potential reduction to the funding available for Ward 2 in Woodland View as East HSCP are reviewing the number of beds they want to commission from the ward. It is unlikely that this will be implemented during 2019-20 due to the limited notice given re the intent to reduce.</p>
2.13	<p>Budget Changes</p> <p>The Integration Scheme states that <i>“either party may increase it’s in year payment to the Integration Joint Board. Neither party may reduce the payment in-year to the Integration Joint Board nor Services managed on a Lead Partnership basis....without the express consent of the Integration Joint Board”</i>.</p> <p>Appendix E highlights the movement in the overall budget position for the partnership following the initial approved budget.</p> <p>Reduction Requiring Approval:</p> <ul style="list-style-type: none"> a) Transfer £0.010m to Communities for Youth Participatory Budgeting. <p>Future Planned Changes:</p> <p>Further areas which are outstanding and will be included in future reports include:</p> <ul style="list-style-type: none"> 1) Transfer of hub funding to the Communities Directorate (approx. £57k) 2) The transfer of the Douglas Grant and Redburn rehab wards from acute services to the North HSCP. The operational management of these wards has already

	<p>transferred to the partnership, but the due diligence undertaken on the budget has highlighted a funding shortfall. It has been agreed with NHS Ayrshire & Arran that the financial responsibility will not transfer until balance is found. In the meantime, we are managing services and working to reduce the projected overspend prior to any transfer.</p>
2.14	<p>Lead Partnerships</p>
	<p><i>North Ayrshire HSCP</i> Services managed under Lead Partnership arrangements by North Ayrshire Health and Social Care Partnership are projected to be £0.361m overspent. Full detail on the underspend is given in section 2.4 above. This position is shared across the 3 partnerships on an NRAC allocation basis and is reflected in Appendix A.</p>
	<p><i>South Ayrshire HSCP</i> Services hosted and/or led by the South Partnership are forecast to be £0.288m overspent (adverse movement of £0.063m). The Community Equipment Store was funded with an additional £0.280m as part of the budget for this year, however it continues to be a source of pressure and represents the majority of the overspend. It should be noted that expenditure is volatile depending on the timing of purchases. This issue is being discussed by SPOG.</p>
	<p><i>East Ayrshire HSCP</i> Services managed under Lead Partnership arrangements by East Ayrshire Health and Social Care Partnership are projected to marginally overspend by £0.046m in total. This is a favourable movement on the month 4 projected overspend £0.288m. The overall Primary Care Lead Partnership marginal projected overspend is £0.006m (£0.266m at month 4) and this projected variance includes additional year-to-date payments within Primary Medical Services to GP practices currently experiencing difficulty (mainly practices that the NHS Board was administering due to previous GPs handing back contracts). The GP practices in difficulty issue is extremely fluid however negotiations with practices are completed with them returning to independent contractor status on 1 September 2019. Additional Ayrshire Urgent Care Services costs resulting from increased rates being paid to attract GPs over certain periods (which can prove challenging to fill without financial incentives). A non-recurring allocation of £0.370m has been included within the AUCS budget from the GP Out of Hours fund. This funding is not yet confirmed beyond 31 March 2020 and will potentially result in an additional financial pressure going forward.</p>
	<p>Further work is being taken forward to develop a framework to report the financial position and impact of risk sharing arrangements across the 3 partnerships in relation to hosted or lead service arrangements. This is to ensure the IJB are fully sighted on the impact for the North Ayrshire partnership. The IJB will be kept informed of progress with this work which is being progressed by the Ayrshire Partnership Finance Leads.</p> <p>At month 7 the impact of the Lead Partnerships has been calculated based on the average NRAC share which is the method that was used in previous years and has been agreed by the Ayrshire Finance Leads. The NRAC shares are: North 36.6%, South 30.5% and East 32.9%</p>
2.15	<p>Set Aside</p>

	<p>The Integration Scheme makes provision for the Set Aside Budget to be managed in-year by the Health Board with any recurring over or under spend being considered as part of the annual budget setting process. The 2019-20 set aside budget for North HSCP is £30.094m, based on expenditure in 2018-19. The acute directorate, which includes the areas covered by the set aside budget, is overspent by £7.8m after 7 months.</p> <p>58 additional and unfunded beds were open at the 31st March 2019. Crosshouse and Ayr hospitals have experienced a high level of demand and delayed discharges, resulting in increased operational pressures and additional expenditure.</p> <p>During 2018-19 the North Partnerships use of the set aside resources was £30.094m against the NRAC 'fair share' of £28.697m which is £1.127m above the 'fair share'. There is an expectation that the North Partnership will move towards its 'fair share'. The Models of Care programmes including the Intermediate Care and Rehab investment and the Palliative End of Life proposals being developed represent agreed or potential investment in community services with a view to reducing acute beds. This is in effect a mechanism to reduce the set aside resources. Currently however the funding for the ICR model is not able to be released from the acute set-aside budget due to service pressures and the overall overspend in acute services.</p>
2.16	<p>National Position</p> <p>Across Scotland Integration Joint Boards are facing similar financial challenges, whilst there are different individual local circumstances there are similarities with the factors contributing to financial pressures. The total budget delegated for Health and Social Care services to IJBs across Scotland is £9.3bn. The most recent collated Q2 position for 2019-20 reports that 25 out of 31 IJBs are reporting an overspend position totalling £86.3m, the main areas contributing to this are delays in delivering planned savings and demographic service pressures or increase in demand for services. The overview report provided to the Scottish Government is included as Appendix F.</p> <p>Key highlights include:</p> <ul style="list-style-type: none"> • The challenge to deliver savings, in particular planned reductions in services not materialising due to increased demand being experienced • Increased activity of acute services • Additional demand for services and the increasing complexity of health and social care needs across older people, adult and children's services • The timeline to implement new models of service delivery taking longer than originally anticipated • Ongoing challenges associated with identifying further cost reduction and savings opportunities • Prescribing cost pressures; and • Staffing costs including the cost of locums. <p>With the exception of prescribing costs which in North Ayrshire are underwritten by the Health Board, these are all pressures recognised for the North Ayrshire IJB. The partnership continue to actively engage in national networks, best practice forums and review examples of good practice and transformation from other areas.</p>

3.	PROPOSALS
3.1	<u>Anticipated Outcomes</u>
	<p>Continuing to implement and monitor the financial recovery plan will allow the IJB to work towards financial balance for 2019-20 whilst ensuring these plans align with securing financial sustainability in future years, thereby limiting the financial risk the funding partners, i.e. NAC and NHS AA.</p> <p>The transformational change programme will have the greatest impact on the financial sustainability of the partnership, the IJB require to have a clear understanding of progress with plans and any actions that can be taken to bring the change programme into line.</p>
3.2	<u>Measuring Impact</u>
	Updates to the financial position will be reported to the IJB throughout 2019-20.
4.	IMPLICATIONS
Financial:	<p>The financial implications are as outlined in the report.</p> <p>Against the full-year budget of £243.575m there is a projected overspend of £2.524m (1.3%). The report outlines the action being taken and proposed action to reduce the projected overspend.</p> <p>There are a number of assumptions underpinning the projections which could change as we progress through the year. We will continue to work with services to ensure the most accurate and reliable position is reported.</p> <p>The financial recovery plan details planned actions to reduce the projected overspend, delivery of the plan is being closely monitored.</p> <p>The main areas of financial risk which may impact on this position are highlighted in the report.</p> <p>North Ayrshire Council hold £1.486m on behalf of the IJB to allow the repayment of the outstanding debt of £5.139m to the Council over future years. This resource is not currently included in the projected outturn position, at this stage with the rate of financial recovery is it unlikely that the IJB will be in the position to make the planned debt repayment for 2019-20.</p>
Human Resources:	None
Legal:	None
Equality:	None
Children and Young People	None
Environmental & Sustainability:	None
Key Priorities:	None

Risk Implications:	Within the projected outturn there are various over and underspends including the non-achievement of savings which need to be addressed on a recurring basis to ensure financial sustainability in future years. The Financial Recovery Plan is focussed on those areas which will help the current year financial position but also support ongoing future financial sustainability of the partnership.
Community Benefits:	None

Direction Required to Council, Health Board or Both	Direction to :-	
	1. No Direction Required	
	2. North Ayrshire Council	
	3. NHS Ayrshire & Arran	
	4. North Ayrshire Council and NHS Ayrshire & Arran	√

4.	CONSULTATION
4.1	<p>This report has been produced in consultation with relevant budget holders and the Partnership Senior Management Team.</p> <p>The report is shared with the Director of Finance for NHS Ayrshire and Arran and the Executive Director Finance and Corporate Support for North Ayrshire Council.</p>
5.	CONCLUSION
	<p>It is recommended that the IJB:</p> <p>a) Note the projected year-end overspend of £2.524m; b) Note the changes in funding as detailed in section 2.12 and Appendix E; and c) Note the North Ayrshire IJB position in the context of the national financial position for Integration Authorities across Scotland.</p>

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Partnership Budget - Objective Summary	2019/20 Budget									Over/ (Under) Spend Variance at Period 6 £'000	Movement in projected budget variance from Period £'000
	Council			Health			TOTAL				
	Budget	Outturn	Over/ (Under) Spend Variance	Budget	Outturn	Over/ (Under) Spend Variance	Budget	Outturn	Over/ (Under) Spend Variance		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		
COMMUNITY CARE AND HEALTH	55,103	55,829	726	13,112	13,280	168	68,215	69,109	894	1,275	(381)
: Locality Services	25,454	25,616	162	4,561	4,435	(126)	30,015	30,051	36	140	(104)
: Community Care Service Delivery	26,081	27,164	1,083	0	0	0	26,081	27,164	1,083	1,356	(273)
: Rehabilitation and Reablement	1,765	1,548	(217)	1,946	2,043	97	3,711	3,591	(120)	(125)	5
: Long Term Conditions	1,443	1,167	(276)	4,595	4,807	212	6,038	5,974	(64)	(61)	(3)
: Integrated Island Services	360	334	(26)	2,010	1,995	(15)	2,370	2,329	(41)	(35)	(6)
MENTAL HEALTH SERVICES	24,246	25,500	1,254	51,876	51,930	54	76,122	77,430	1,308	860	448
: Learning Disabilities	18,427	19,727	1,300	511	428	(83)	18,938	20,155	1,217	977	240
: Community Mental Health	4,454	4,392	(62)	1,611	1,507	(104)	6,065	5,899	(166)	(43)	(123)
: Addictions	1,365	1,381	16	1,345	1,225	(120)	2,710	2,606	(104)	(110)	6
: Lead Partnership Mental Health NHS Area Wide	0	0	0	48,409	48,770	361	48,409	48,770	361	36	325
CHILDREN & JUSTICE SERVICES	32,061	33,278	1,217	3,610	3,653	43	35,671	36,931	1,260	1,415	(155)
: Intervention Services	3,786	3,843	57	325	368	43	4,111	4,211	100	46	54
: Looked After & Accomodated Children	16,325	17,339	1,014	0	0	0	16,325	17,339	1,014	1,278	(264)
: Fieldwork	4,713	4,838	125	0	0	0	4,713	4,838	125	120	5
: CCSF	322	288	(34)	0	0	0	322	288	(34)	(20)	(14)
: Criminal Justice	2,627	2,627	0	0	0	0	2,627	2,627	0	0	0
: Early Years	394	364	(30)	2,868	2,868	0	3,262	3,232	(30)	(48)	18
: Policy & Practice	3,894	3,979	85	0	0	0	3,894	3,979	85	40	45
: Lead Partnership NHS Children's Services Area Wide	0	0	0	417	417	0	417	417	0	(1)	1
PRIMARY CARE	0	0	0	47,170	47,170	0	47,170	47,170	0	0	0
ALLIED HEALTH PROFESSIONALS				5,131	5,062	(69)	5,131	5,062	(69)	(60)	(9)
MANAGEMENT AND SUPPORT COSTS	7,034	6,516	(518)	1,833	1,661	(172)	8,867	8,177	(690)	(635)	(55)
CHANGE PROGRAMME	1,025	953	(72)	964	964	0	1,989	1,917	(72)	(50)	(22)
TOTAL	119,469	122,076	2,607	123,696	123,720	24	243,165	245,796	2,631	2,805	(174)
Return Hosted Over/Underspends East	0	0	0		0	(119)			(119)	(12)	(107)
Return Hosted Over/Underspends South	0	0	0		0	(110)			(110)	(11)	(99)
Receive Hosted Over/Underspends South	0	0	0		0	105			105	82	23
Receive Hosted Over/Underspends East	0	0	0		0	17			17	105	(88)
REVISED PROJECTED OUTTURN	119,469	122,076	2,607	123,696	123,720	(83)	243,165	245,796	2,524	2,969	(445)

	Budget £000's	Outturn £000's	Over/ (Under) Spend Variance £000's	
COMMUNITY CARE AND HEALTH	68,215	69,109	894	
Locality Services	30,015	30,051	36	<p>Older People permanent care homes - projected overspend of £0.089m based on 816 placements. Respite care is projected to be online.</p> <p>Income from Charging Orders - projected over recovery of £0.200m'</p> <p>Independent Living Services :</p> <ul style="list-style-type: none"> * Direct Payment packages- projected overspend of £0.105m on 65 packages. * Residential Packages - projected overspend of £0.012m based on 35 packages. * Community Packages (physical disability) - projected overspend of £0.148m based on 49 packages <p>NHS Packages of Care - projected underspend of £0.094m due to use of supplementary staffing offset by slippage in other packages.</p> <p>District Nursing - projected underspend of £0.055m due to vacancies.</p>
Community Care Service Delivery	26,081	27,164	1,083	<p>Care at home</p> <ul style="list-style-type: none"> - in house service - projected overspend of £0.240m based on the current level of contracted costs remaining until the year end. Care at home staff have been incurring additional hours as there are moratoria on four of the purchased care providers. - Purchased Care at home - projected overspend of £0.290m. This is after reducing the budget by £0.500m to reflect the agreed 19-20 saving and assumes that the number of hours provided will reduce by 50 per week until the end of 19-20. It also assumes a refund from a provider in relation to an ongoing query on their costs. <p>Direct Payments - projected underspend of £0.042m based on 31 packages continuing until the year end.</p> <p>Transport costs - projected overspend of £0.072m due to increase in staff mileage within care at home.</p> <p>Admin costs - projected overspend of £0.091m mainly due to mobile phone equipment.</p> <p>Supplies and Services - projected overspend of £0.133m in relation to uniforms and other supplies.</p> <p>Voluntary Organisations - projected overspend £0.088m mainly in relation to the Alzheimer service.</p>

	Budget £000's	Outturn £000's	Over/ (Under) Spend Variance £000's	
Rehabilitation and Reablement	3,711	3,591	(120)	<p>Employee costs - projected underspend £0.157m due to vacancies.</p> <p>Intermediate Care and Rehab Models of Care - projected to overspend by £0.247m which is the full year funding impact.</p> <p>Aids and Adaptations - projected underspend of £0.200m per the approved recovery plan</p>
Long Term Conditions	6,038	5,974	(64)	<p>Ward 1 - projected overspend of £0.279m due to the use of supplementary staffing.</p> <p>Ward 2 - projected underspend of £0.010m assuming £0.504m of funding transfers from East HSCP in relation to Kirklandside patients.</p> <p>Elderly CMHT - underspend of £0.061m due to vacancies.</p> <p>Carers Act Funding - projected underspend of £0.268m based on the committed spend. This could fluctuate depending on the volume of carers' assessments undertaken and the level of demand/services identified from these assessments. This underspend will be used in the first instance to cover the projected overspend on care home respite placements.</p>
Integrated Island Services	2,370	2,329	(41)	Outwith the threshold for reporting
MENTAL HEALTH SERVICES	76,122	77,430	1,308	
Learning Disabilities	18,938	20,155	1,217	<p>Residential Packages - projected overspend of £0.355m based on 41 current packages.</p> <p>Community Packages (inc direct payments) - projected overspend of £0.947m based on 296 current packages less 3.75% invoice variances. The projection assumes savings of £0.490m will be achieved (£0.201m achieved to date) and that any new packages or increases to current packages will be cost neutral. The direct payments projection is based on 41 current packages with a net increase of 2 to the year end less £0.102m recovery of unspent balances.</p> <p>Employee costs - projected underspend £0.083m mainly due to vacant posts</p>
Community Mental Health	6,065	5,899	(166)	Employee costs - projected underspend £0.134m mainly due to vacant posts
Addictions	2,710	2,606	(104)	<p>Employee costs - projected underspend £0.120m due to vacant posts</p> <p>ADP - projected online position as any underspend will be carried forward into 2020/21.</p>

	Budget £000's	Outturn £000's	Over/ (Under) Spend Variance £000's	
Lead Partnership (MHS)	48,409	48,770	361	<p>Adult Community - projected underspend of £0.100m due to vacancies.</p> <p>Adult Inpatients- projected overspend of £0.620m due to a delay in closing the Lochranza wards.</p> <p>UNPACs - projected overspend of £0.399m which includes the charges from the state hospital (April - August 2019).</p> <p>LDS - assumed online pending completion of the relocation of services to Woodland View.</p> <p>Elderly Inpatients - projected overspend of £0.200m due to use of supplementary staffing after ward closures. This could fluctuate pending the finalisation of the elderly mental health bed redesign.</p> <p>Addictions - projected underspend of £0.025m due to vacancies.</p> <p>CAMHS - projected underspend of £0.228m due to vacancies.</p> <p>MH Admin - projected underspend of £0.155m due to vacancies..</p> <p>Psychiatry - projected overspend of £0.145m due the medical pay award and agency costs.</p> <p>MH Pharmacy - projected underspend of £0.132m mainly within substitute prescribing.</p> <p>Psychology- projected underspend of £0.253m due to vacancies.</p> <p>Action 15 - assumed online position</p>
CHIDREN'S AND JUSTICE SERVICES	35,671	36,931	1,260	
Intervention Services	4,111	4,211	100	<p>Employee costs - projected overspend £0.043m due to incremental drift.</p> <p>Third Party Payments - projected overspend in relation to advocacy and functional family therapy services.</p>

	Budget £000's	Outturn £000's	Over/ (Under) Spend Variance £000's	
Looked After & Accom Children	16,325	17,339	1,014	<p>Looked After Children placements - projected overspend of £0.203m based on the following:-</p> <p>Kinship - projected overspend of £0.071m. Budget for 339 placements, currently 352 placement but projecting 356 placements by the year end.</p> <p>Adoption - projected overspend of £0.001m. Budget for 74 placements, currently 74 placements.</p> <p>Fostering - projected overspend of £0.218m. Budget for 120 placements, currently 138 placements</p> <p>Fostering Xtra - projected underspend of £0.064m. Budget for 32 placements, currently 31 placements but projecting 30 placements by the year end.</p> <p>Private fostering - projected overspend of £0.041m. Budget for 11 placements, currently 12 placements.</p> <p>IMPACCT carers - projected underspend of £0.016m. Budget for 4 placements, currently 2 placements.</p> <p>Residential School placements including community packages - projected overspend of £1.101m. The projection is based on the current number of placements and estimated discharge dates for each placement based on the support from the mainstreamed Challenge Fund project. There are currently 22 placements (inc 2 secure w3hich will end in January). The projection assumes 4 discharges in December with the remaining 16 assumed to be still in a placement at the year end. There is no provision for any increase in placements.</p>
Fieldwork	4,713	4,838	125	<p>Employee costs - projected overspend of £0.102m in relation to non achieved payroll turnover.</p> <p>Various minor overspends on transport and the out of hours service.</p>
CCSF	322	288	(34)	Outwith the threshold for reporting
Criminal Justice	2,627	2,627	0	Outwith the threshold for reporting
Early Years	3,262	3,232	(30)	Outwith the threshold for reporting
Policy & Practice	3,894	3,979	85	Employee costs - projected overspend £0.087m due to the payroll turnover target not being met.
Lead Partnership (CS)	417	417	0	Outwith the threshold for reporting

	Budget £000's	Outturn £000's	Over/ (Under) Spend Variance £000's	
PRIMARY CARE	47,170	47,170	0	Outwith the threshold for reporting
ALLIED HEALTH PROFESSIONALS	5,131	5,062	(69)	Employee costs - projected underspend £0.069m due to vacancies.
MANAGEMENT AND SUPPORT	8,867	8,177	(690)	Projected underspend - this underspend relates to pressure funding awarded as part of the 2019-20 and the pressures have not yet arisen. This funding will be closely monitored and delegated to services as and when required.
CHANGE PROGRAMME & CHALLENGE FUND	1,989	1,917	(72)	Projected underspend - in employee costs due to vacancies and slippage in projects.
TOTAL	243,165	245,796	2,631	

Threshold for reporting is + or - £50,000

Savings reference number	Description	Responsible Senior Management Lead	Deliverability Status at budget setting	Approved Saving 2019/20 £	Deliverability Status Month 7	Net Saving Achieved at Period 7 £
	Health and Community Care					
SP-HSCP-19-02	Roll out of multidisciplinary teams - Community Care and Health	Helen McArthur	Amber	55,000	Red	0
SP-HSCP-19-04	Day Centres - Older People	Helen McArthur	Green	38,232	Green	38,232
SP-HSCP-19-05	Deliver the Strategic Plan objectives for Older People's Residential Services	Helen McArthur	Green	130,350	Amber	0
SP-HSCP-19-09	Care at Home - Reablement Investment	Helen McArthur	Amber	500,000	Amber / Red	0
SP-HSCP-19-12	Assessment and Self Directed Support	Isabel Marr	Green	150,000	Amber / Red	0
NHS - HSCP-9	Packages of Care	Isabel Marr	Amber	150,000	Green	150,000
	Mental Health and Learning Disabilities					
SP-HSCP-19-01	Integration of the Learning Disability team	Jan Thomson	Amber	56,000	Green	56,000
SP-HSCP-19-07	Mental Health - Tarryholme / Trindlemoss (Council element)	Jan Thomson	Amber	328,000	Amber	150,000
NHS - HSCP-1	Trindlemoss (full year impact is £0.370m)* NHS element	Jan Thomson	Amber	250,000	Green	0
SP-HSCP-19-10	LD - Reduction to Sleepover Provision	Jan Thomson	Amber	215,000	Red	25,000
SP-HSCP-19-11	Reprovide Fergushill/Hazeldene at Trindlemoss & redesign commissioned services	Jan Thomson	Green	111,000	Green	0
SP-HSCP-19-06	Adult Community Support - Commissioning of Services	Jan Thomson /Julie Barrett	Green	388,000	Amber / Red	1,500
NHS - HSCP-4	UnPACs - 7% reduction*	R Ralston	Green	200,000	Amber / Red	0
NHS - HSCP-5	Substitute Prescribing - 5% reduction*	R Ralston	Green	135,000	Green	135,000
NHS - HSCP-3	Review of Elderly Mental Health Inpatients*	William Lauder	Green	727,000	Green	0
NHS - HSCP-6	See a 5th bed at Woodland View MH inpatients*	William Lauder	Amber	90,000	Amber / Red	0

	Children, Families and Justice Services					
SP-HSCP-19-03	Fostering - reduce external placements.	Mae Henderson	Green	127,408	Amber	127,408
SP-HSCP-19-08	Children's residential placements (CF)	Mae Henderson	Amber	355,000	Amber / Red	0
	Partnership Wide					
SP-HSCP-19-13	Charging Policy	Lisa Duncan	Green	200,000	Green	200,000
NHS - HSCP-10	Reduce business admin services	Julie Davis	Green	50,000	Green	50,000
NHS - HSCP-11	ICF Project - Partnership Enablers	Michelle Sutherland	Amber	27,000	Green	27,000
NHS - HSCP-12	ICF Project - Buckreddan care home	Michelle Sutherland	Amber	16,000	Amber	8,000
NHS - HSCP-13	Uncommitted ICF Funding	Michelle Sutherland	Green	80,000	Green	80,000
SP-HSCP-19-20	Living Wage	n/a	Green	187,000	Green	187,000
NHS - HSCP-7	Resource Transfer to South Lanarkshire	n/a	Green	40,000	Green	40,000
SP-HSCP-19-14	19/20 impact of 18/19 part year savings	Stephen Brown	Green	113,000	Green	113,000
SP-HSCP-19-15	Respite	n/a	Green	200,000	Green	200,000
SP-HSCP-19-16	Payroll Turnover Target	Stephen Brown	Amber	500,000	Amber	208,333
SP-HSCP-19-17	Lean Efficiency Programme	Stephen Brown	Green	50,000	Amber	0
NHS - HSCP-2	Payroll Turnover Target - Mental Health *	Thelma Bowers	Amber	300,000	Green	300,000
NHS - HSCP-8	Payroll Turnover Target - Other Services	Thelma Bowers	Amber	365,000	Green	365,000
				6,133,990		2,461,473

Ref	Service Area	Action	Service Impact	IJB Support	Included in P8 Position £000's	Planned Impact £ 000's	Responsible Officer
Health and Community Care:							
1	Care at Home	Reduction in Care at Home Provision: - reduce weekly hours of purchased provision by between 50 and 100 hours per week, by closing cases for clients admitted to hospital. - review care packages with any reduction in hours closed to offset the overspend. - continue to review the actions of Independent Providers in the use of CM2000 for maximum efficiency - further roll out and embedding of reablement approach in CAH service to allow packages to be reduced	May lead to delays in care at home packages being delivered and may impact on hospital discharges and increase delayed discharges. May have impact on waiting list. Risk of this will be mitigated by ensuring resources are used efficiently, with a risk based approach to allocating resources.		225	200	Helen McArthur
2	Care Homes - Respite Placements	Health and Community Care Service to enforce a policy and criteria in relation to emergency respite in commissioned care home settings: - significant increase in emergency respite where in many cases residents are placed in long term care, action taken to fund long term placements in September - change of practice for social workers in relation to use of respite - provide clarity to commissioned care home providers that respite beds will be used for short term care to ensure expectations of service, care home and service user are aligned	Action has been taken to address current placements to ensure the service delivered is equitable, that the HSCP are appropriately financially assessing residents and that the commissioned care homes are funded for long term care placements. The appropriate use of emergency respite placements will be reinforced to the social work team. The longer term commissioning and use of respite provision for older people is being considered as part of the Care Home Strategy.	v	0	-	Helen McArthur
3	Equipment & Adaptations	Temporary reduction (2019-20 only) in the equipment and adaptations budget. - mirrors the reduction made in 2018/19 to assist with overall financial position, would not be sustainable on a recurring basis as provision of equipment fundamental to keeping people safe at home - priority for equipment provision will be: 1. support for end of life care 2. complete adaptations started or committed to in writing prior to tightened control of expenditure 3. maintain equipment and adaptations in situ and on which service users depend 4. provide essential equipment to support avoidance of hospital admission	Potential delays to equipment and adaptations for service users, this will be kept under review together with any waiting lists and impact on delivery of community based services, including monitoring the costs of any delays in supporting individuals to be supported in the community.		200	200	Helen McArthur

Ref	Service Area	Action	Service Impact	IJB Support	Included in P8 Position £000's	Planned Impact £ 000's	Responsible Officer
Mental Health and Learning Disabilities:							
4	Learning Disabilities	Prioritised Review of Adult Community Packages: - targeted reviews to be carried out immediately, reviews co-ordinated on a prioritised list with a focus on individuals moving service provider following the outcome of the tender exercise and with high cost packages being prioritised - will be supported with significant additional LD social work capacity with additional professional lead, additional social workers and the employment of agency staff to accelerate planned reviews - reviews will ensure the split of personal and non-personal care is appropriate and equitable (to ensure equity of provision and charging) - direct payments to be reviewed to progress claw-back of underspends - incorporates looking at clients where the service provided has been less than than commissioned to formalise re-alignment of care packages based on need.	Service users will be reviewed by a dedicated review team, the outcome should ensure that all reviews are up to date and appropriate and equitable levels of care are being provided. This process may cause some anxiety for service users as there is an expectation that significant reductions can be made to care packages. No reduction will be made to care packages unless deemed to be safe and appropriate by the service, however there may be some resistance to change from service users, their families and advocates.	√	0	750	Thelma Bowers
5	Learning Disabilities	Trindlemoss development finalise the financial impact of the new service (LD day service, complex care unit and supported accommodation): - for 2019/20 require to plan to mitigate delay in savings being achieved - opportunities to further reduce cost of amalgamating day services - identifying supports required for service users in supported accommodation - policy in relation to eligibility and prioritisation for supported accommodation, model of care blueprint for other supported accommodation coming online	The opening of the new service at Trindlemoss (originally planned August 2019) has been delayed due to delays in the building works, this has impacted on the timescales for service users and patients transferring. The service will require to be configured around the affordability of the care and support, taking into account the positive environment and the opportunities the shared accommodation space offers in terms of reducing existing high cost care packages.	√	0	tbc	Thelma Bowers
6	Learning Disabilities	Sleepovers - develop policy in relation to 24 hour care for Adults in the Community: - policy decision to not provide one to one 24 hour sleepover service where there are: * supported accommodation alternatives available; * opportunities for service users to share a service (will be identified by geographically mapping services); or * where technology supports can be provided supported by a responder service. - Recovery plan action and financial impact is based on a plan to deliver a responder service from the Trindlemoss supported accommodation to support removal of sleepovers in the area	This will result in the removal of one to one 24 hour support from service users, an enhanced overnight service will be provided from Trindlemoss to support capacity for response. Individual service user safety will be a priority and the one to one support will only be removed where safe to do so.	√	0	128	Thelma Bowers
7	Learning Disabilities	Transition Cases (Adults aged 65+): - reviews undertaken jointly with LD and Older People's service which will deliver some savings, some work outstanding in relation to these reviews where changes to care packages have been identified - further action to scrutinise outcome of reviews and equity of service provision across client groups, particularly for high cost care packages which are not equitable with community care provided in Older People's services - requires a clear policy decision in relation to transitions of care and funding for community based supports <i>Note that there have been several reviews undertaken which indicate that savings will be made. These savings can be limited in some of the more complex care packages as care is required on a 24/7 basis.</i>	Service users are being reviewed with a view to reducing the cost of packages as the clients transition to the Older People's service. Some reviews for high cost community packages have identified individuals suitable for the criteria of long term care but resistance from service users to change from current care and support. If care packages cannot be reduced the IJB will be asked to agree a policy decision on the level of care provided in such cases.		0	134	

Ref	Service Area	Action	Service Impact	IJB Support	Included in P8 Position £000's	Planned Impact £ 000's	Responsible Officer
8	Adult Community Packages	Adult Resource Group no overall increase in care package provision: - ARG in place for Mental Health and Learning Disability care packages for approval, ARG will no longer be permitted to approve any increase to existing or new care packages unless there has been a reduction in service elsewhere - will require social workers to proactively review caseload and use finite resource available to support whole client group - arrangements will remain in place until the service brings the overall expenditure on community care packages back into line	Service users assessed as requiring a service will have to wait until resource has been identified to fund the care package, this is equitable with waiting lists for other services where resources are limited. This may result in delays in supports being provided but will also ensure that the service is managing, directing and prioritising resources effectively.	√	0		Thelma Bowers
9	All	Self Directed Support: - exploring how to embed this alongside the asset based approach promoted through the HSCP <i>Thinking Different, Doing Better</i> experience into services to change how we deliver services and balance service user and community expectations - undertaking self-evaluation for North Ayrshire against good practice, this will include stakeholder engagement to develop future approach	Positive impact to embed Self Directed Support, with a view to being realistic in managing expectations of services and service users. Address a perceived inequity in how services are delivered and how embedded SDS is across social care services.	√	0	-	Stephen Brown
Children and Families:							
10	Looked After and Accomodated Children	Children's External Residential Placements bring forward planned discharge dates: - overspend due to delays in bringing children back from expensive external residential placements due to timescales slipping, recovery action based on pulling forward all estimated timescales by one month and moving to planned level of 14 placements by March 2020 - scrutiny of detailed plans for individual children, to be reviewed alongside the internal children's houses to free up capacity to bring children back to NA sooner - close working with Education services as shared ambition and requirements to provide educational supports within NA - formalise and reinforce governance arrangements for approval of new external children's placements	Transformation plan to support more looked after children in North Ayrshire is focussed on delivering more positive outcomes for Children. Accelerating plans to move children to different care settings is challenging for the service as these are sensitive complex cases.		286	200	Alison Sutherland

Ref	Service Area	Action	Service Impact	IJB Support	Included in P8 Position £000's	Planned Impact £ 000's	Responsible Officer
Other:							
11	All	Recruitment freeze non-front line posts: - hold recruitment to all vacant non-front line care posts, eg support services, admin support - partnership vacancy scrutiny group remains in place and will ensure posts are not approved for recruitment until the new financial year	Minimal impact on front line services but depending on where vacancies arise during the rest of the year could have an impact on the capcity of support services, in particular to respond to service requests. The HSCP vacancy scrutiny group will ensure consideration is given to the impact on services when recruitment is delayed for individual posts.		0	200	Caroline Whyte
12	All	Moratorium non-essential expenditure: - communication issued to all budget holders (social care and health) with an instruction to delay or cease any areas of discretionary spend (areas including supplies and services, training, third party payments etc) - finance teams will liaise with budget holders as part of regular engagement and budgets will be removed non-recurringly to allow target reduction to be met	Minimal impact on front line services but is a short term one-off approach to reducing expenditure.			184	Caroline Whyte
13	All	Systems improvements re care packages: - Extension of CM2000 to adult services which will enable payment to care providers based on actual service delivered, being rolled out to some providers in advance of new tender - finance working with services to review areas where service delivered differs from that commissioned to improve systems and basis of financial projections, this work also supports ongoing reviews - action plan in relation to improving projections and actions identified from recent internal audit report re Community Based Care, including streamlining systems and processes to remove duplication, scope for error and reliability of information	Significant work required to review systems across social care services where different approaches are used for different service areas, some areas involve duplication of information and systems. Work will result in more assurance re the information reported, including financial projections and will also ensure the partnership has assurance that we only pay for the direct care delivered.		0	-	Thelma Bowers/ Helen McArthur/ Caroline Whyte
TOTAL					711	1,996	

2019-20 Budget Reconciliation

Appendix E

COUNCIL	Period	Permanent or Temporary	£
Initial Approved Budget			95,067
Resource Transfer			23,112
ICF Procurement Posts - Transfer to Procurement	3	T	(85)
FPC under 65's Scottish Government Funding	3	P	702
Transfer to IT WAN circuit Kilwinning Academy	4	P	(3)
Waste Collection Budget	4	P	27
CLD Officer from ADP Budget to E & C	4	T	(31)
Transfer £10k to Communities for Youth PB	7	T	(10)
Challenge Fund Drawdown from Earmarked Funds	7	T	690
Period 8 reported budget			119,469

HEALTH	Period	Permanent or Temporary	£
Initial Approved Budget (based on month 9 of 2018-19)			145,425
Adjustments to reflect month 10 -12 of 2018-19 including non-recurring amounts			(1,845)
Opening baseline budget for 19-20			143,580
Resource Transfer			(23,112)
Superannuation Uplift	3	P	2,994
Voluntary Redundancy Scheme	3	P	271
Post from acute - PA to Clinical Nurse Manager, Long Term conditions	3	P	15
Post from acute - Clinical Nurse Manager, Long Term Conditions	3	P	34
Functional Electrical Stimulation Equipment from acute			10
Pharmacy Fees	3	P	19
HPV Boys Implementation	3	P	18
Action 15 (anticipated increase)	3	P	930
Post from Acute -Specialist Pharmacist in Substance Misuse	3	T	12
Old age liaison psychiatrist from acute	3	P	108
Patient Transport Service	3	P	49
Infant feeding nurse	3	T	41
Assoc Medical Director responsibility payment to Medical Director	3	T	(24)
Associate Medical Director sessions to the Medical Director	3	T	(71)
Contribution to the Technology Enabled Care (TEC) project	3	T	(50)
Superannuation Uplift Overclaimed	4	P	(270)
Action 15 overclaimed	4	T	(485)
Prescribing Reduction	5	P	(550)
Medical Training Grade Increase	5	P	51
Admin Transfer from South HSCP	6	P	19
NMAHP Clinical Lead	6	T	16
Woodland View – Hairdressing transfer from South			12
SLA Superannuation uplift			79
Period 8 reported budget			123,696
GRAND TOTAL			243,165

Integration Authorities

Financial Performance

Financial Year 2019/20 (Quarter 2)



OVERVIEW - BUDGET POSITION 2019/20

This is the second summary report which presents the overview of financial performance for all Integration Authorities (IA's) for quarter 2 of the financial year 2019/20. The position in respect of the NHS Highland Lead Agency arrangement is also included. The total budget for health and social care services at quarter 2 is £9,349m. This is an increase of £112m (1%) from £9,237m at quarter 1 as follows:

- 26 IAs reported an increase of £3.8m in the set-aside budget which now totals £816m.
- The NHS non-set aside budget increased by £99m to £5,708m.
- The local authority budget increased by £2.5m to £2,789m.
- The use of reserves increased by £7m to £36m.



FINANCIAL VARIANCES 2019/20 – YEAR-END OUTTURN AND YEAR TO DATE

IAs have different reporting approaches. At this stage of the financial year, 28 IAs report projected outturns for the year-end and 3 IAs report year to date (second quarter) positions.

Of the 28 IAs, representing £8,117m of the total budget, a year end overspend of £66.4m is projected. Projected outturns across these IAs vary as follows:

- 23 IAs are projecting overspends totalling £82.9m
- 1 IA is projecting a break-even position
- 4 IAs are projecting underspends totalling £16.5m

This is the position before additional financial support from partners, the impact of financial recovery plans and the further use of reserves is taken into consideration.

Year-end Projected Outturns

- £41m non delivery of savings
- £15m demographics
- £10m staffing pressures
- £7m prescribing
- £3m price increases
- £6.9m other net cost pressures

Projected cost pressures - £82.9m

Year to Date Cost Pressures - £2.8m

- Demographics (£2.8m), staffing pressures (£2.2m) and non delivery of savings (£0.6m)
- Net underspends (£2.8m)

Of the 3 IAs, representing £1,233m of the total budget, a year to date overspend of £2.8m is reported at the end of quarter 2. The year to date positions across these IAs vary as follows:

- 2 IAs are reporting overspends totalling £3.4m
- 1 IA is reporting an underspend of £0.6m



SIGNIFICANT FACTORS 2019/20

The factors contributing to the variances reported by IAs are detailed on the schedule which accompanies this covering report.

The key highlights, which were reported at quarter 1, remain relevant and are summarised as follows:

- the challenge to deliver savings, in particular planned reductions in services not materialising due to increased demand being experienced
- increased activity of acute services
- additional demand for services and the increasing complexity of health and social care needs across older people, adult and children's services
- the timeline to implement new models of service delivery taking longer than originally anticipated
- ongoing challenges associated with identifying further cost reduction and savings opportunities
- prescribing cost pressures; and
- staffing costs including the cost of locums.

As part of their financial strategies, 14 IAs are relying on the planned use of reserves totalling £36m at this stage of the financial year. As reported previously, the increase in costs is partly offset by underspends as a result of staff vacancies and slippage in the implementation of new funding. Both of these provide non-recurring financial relief.

Work continues to be progressed to develop the set-aside monitoring arrangements.



IMPACT ON FUNDING 2019/20

It is currently estimated that the projected overspend totalling £69.2m will be addressed as follows:-

- | | |
|--|--------|
| ▪ Anticipated additional funding from NHS Boards | £28.8m |
| ▪ Anticipated additional funding from Local Authorities | £6.8m |
| ▪ Agreed financial recovery plan with no impact for partners | £12.8m |

The funding impact of £20.8m remains 'not yet determined' or has still to be publicly reported in respect of 12 IAs.

A total of 4 IAs remain in repayment arrangements with partners (£14.7m).

Repayment of Funding Advances

- £2.7m in 19/20
- £12m due 20/21 or later



UPDATE ON RESERVES

The IA's reserves have reduced by £3.2m at quarter 2 to £110m (Earmarked £77m; Contingency £33m). The contingency reserve continues to represent 0.4% of the total financial envelope of £9,349m. 8 IAs do not have a reserve. 5 IAs do not have a contingency reserve. 2 IAs have a negative reserve. For 16 IAs, the contingency reserves range from 0.03% to 3.8% of their available funding.



FUTURE REPORTS

IA's will continue to standardise presentation.

28th January 2020**Audit and Scrutiny Committee**

Title: **Town Centre Regeneration****Purpose:** To provide an update on footfall data in town centres and on planned activity to promote their regeneration**Recommendation:** That the Committee notes:

- Recent trends in footfall in the main town centres of Irvine, Saltcoats and Largs;
- Activity to promote investment and regeneration in town centres including the expenditure of town centre funding in 2019/20;
- Future plans to increase the impact of investment from other budgets on town centres, including from the Social Housing Investment Programme; and,
- Plans for a new regeneration framework in early 2020 which will provide a strategic approach to the regeneration of North Ayrshire's town centres.

1. Executive Summary

- 1.1 The November 2019 Audit and Scrutiny Committee received an update on town centre footfall trends and requested further information on how this may be addressed.
- 1.2 The report confirms a trend of declining footfall in Irvine, Saltcoats and Largs town centres where data is gathered. While this decline reflects a national trend, the rate of decline is higher in North Ayrshire than the national average. In a majority of towns vacancy rates are also now above the national average of 12% of units.
- 1.3 Consumer behaviour is in a process of change over a long period and this continues to result in the growth of online rather than retail shopping, as well as a transfer of traditional town centre services such as banking online.
- 1.4 A range of recent and proposed activity has and will benefit town centres, and new Scottish Government Town Centre funding has been made available to secure improvements focused on Dalry and Stevenston within the financial year 2019/20. The paper also sets out the intention to develop a regeneration framework for North Ayrshire which will include a focus on town centres, and some of the issues that this will seek to address.

2. Background

2.1 The Audit and Scrutiny Committee of 12th November 2019 received an update on trends in town centre footfall. Discussion took place around the trend of decreasing footfall in town centres across North Ayrshire and the different factors contributing to this. The Committee requested that a report on town centres in North Ayrshire be brought to a future meeting by the Head of Service for Economic Development and Regeneration.

2.2 Levels of footfall are recorded for the major North Ayrshire town centres of Irvine, Saltcoats and Largs. Appendix 1 provides details on footfall counter locations and footfall data trends. In summary, this information suggests a decline in the overall number of visits to town centres. For the main towns where information is recorded:

- **Irvine** saw a decline of 8.9% in 2018/19 on the previous year and an 8.7% reduction over a three-year period. This overall drop in numbers is despite the development of the Portal Leisure centre which saw over 800,000 additional visits to the town centre in its first year of operation, and an increased headcount within town centre located Council buildings. Many of these visits to the town centre may not however be recorded given the location of the counter at the corner of Bridgegate and Irvine High Street. Anecdotal evidence on parking demand would suggest a shift in demand to the west of the town centre at the Rivergate and Riverway Retail Park car parks.

Retail vacancy rates in Irvine have been recorded at 13.9% in 2019, a rise from 7.9% in 2016 and above the Scottish average (12%).

- **Largs** saw a decline in footfall of 5.5% in 2018/19 on the previous year, representing a decrease of 11.4% over three years.

Vacancy rates in Largs have been recorded at 6.5% in 2019, a rise from 5.6% in 2016 but below the Scottish average.

- **Saltcoats** saw an increase in footfall of 1% in 2018/19 on the previous year, but a decrease of 9.8% over three years.

Vacancy rates in Saltcoats have been recorded at 11% in 2019, remaining unchanged since 2016 and slightly below the Scottish average.

2.3 Further information on vacancy rates is included at Appendix 2. Town centres are undergoing a process of change given changing consumer behaviour. Over a long period of time town centres have been affected by trends including increasing car ownership, increasing levels of travel to work, by operator demand for larger out of town retail units with accessible and free parking, and by the move towards online shopping which continues to increase.

Town Centre Audits

2.4 To inform the development of Local Development Plan 2 and further understand the performance of our town centres, 11 town centre healthcheck audits have

been produced. The audits assessed town centres in Ardrossan, Beith, Dalry, Irvine, Kilbirnie, Kilwinning, Largs, Millport, Saltcoats, Stevenston and West Kilbride. They provide an information base upon which the success of town centres can be measured, and capture the views of local communities on towns' accessibility, activities and attractiveness.

2.5 The town centre audit documents are available to view on the Council's website at <https://www.north-ayrshire.gov.uk/planning-and-building-standards/ldp/land-use-audits.aspx>. In summary the town audit information identifies the following main issues:

- The level of vacant retail or residential property. Some high profile and long-term vacant buildings are a major issue for local communities, examples being the Forum in Irvine, former Metro in Saltcoats (now undergoing improvement works), 2 Main Street in Kilbirnie and Townhead in Beith;
- There is a lack of business involvement or groups driving forward physical improvements and events, an approach which has been successful in other towns in Scotland;
- Parking availability is seen as generally adequate, although there are pressures in the three major towns; and,
- There is under representation of non-retail services such as leisure uses to attract people into centres throughout the day. An example referred to is the lack of a cinema in Irvine.

2.6 The Scotland Towns Partnership recommend that audits are updated at least every 3 years to ensure that they are responsive to current issues and highlight opportunities to enhance vibrancy and vitality of our town centres. The updates also report and monitor performance. Updated audits are currently being drafted and will be published on the Council's webpage early 2020, adding to the information available to aid decision making. Provisional figures showing vacancy rates are available and are shown in Appendix 2.

Current or Recent investment in Town Centres

2.7 A number of interventions to improve town centres have been delivered in recent years as summarised below:

Town	Intervention
Irvine	Development of the Portal Leisure centre
	Improvement of Bridgegate House and public realm
	Ongoing improvement of High Street public realm
	Development of The Circuit/ the Quarry Road Business and Sports hub
	Opening of Irvine Active Travel Hub within Trinity Church
	Provision of additional parking at Caledonian Car Park
Saltcoats	Redevelopment and reopening of Saltcoats Town Hall
	Improvement of Countess Street public realm

	Shopfront improvement scheme
Largs	Improvement of public realm at Gallowgate Square and Largs Promenade
	Shopfront improvement scheme
	Support for Largs Business Improvement District
Kilwinning	Improvement of Kilwinning Main Street public realm
Millport	Ongoing implementation of Millport Conservation Area Regeneration Scheme
Kilbirnie	Kilbirnie Conservation Area Regeneration Scheme

- 2.8 There is currently no specific Council budget for town centre regeneration, with a previous capital budget expiring in 2016/17. The above activity was funded by a combination of that previous capital budget, the leverage of additional external funding, and the Irvine Bay Regeneration Company
- 2.9 In the current financial year, the Scottish Government has made one off capital funding allocation of £1.418M available to town centres in North Ayrshire. The Cabinet of 14th May 2019 agreed to focus £1M of this expenditure in Stevenston and Dalry. Local Members and community groups have been provided with regular updates on the expenditure of these funds, which are allowing a combination of public realm improvements, building repair/shopfront improvements and in some cases the purchase of problem properties.
- 2.10 There are also a number of other regeneration programmes being developed by the Economic Development and Regeneration Service which will have a positive impact on town centres, including:
- Ardrossan Harbour, the North Shore campus, and marina. Each of these will bring additional footfall to Ardrossan and a positive effect on the town centre. Another aspiration is to develop a hotel within a central area;
 - Irvine Great Harbour which seeks to bring tourism activity through the creation of a new link between the train station and beach, establish a new maritime visitor attraction and find a new use for the former Big Idea building;
 - COIG, which is a series of five tourist route destinations across the Clyde Coast and Islands designed to showcase natural beauty, history, food and drink and activities on offer; and,
 - Lochshore regeneration proposals including the creation of a visitor/community hub and outdoor leisure and play facilities which will attract visitors to the benefit of adjacent towns.

Future Approach to Town Centre Regeneration

- 2.11 Town centres have seen a major focus of public policy/strategy in recent years, which recognises both the accelerating decline of retail and services such as banking, and the importance that town centres are to placemaking and their contribution to social wellbeing. The national response in recent years has included:

- A National Review of Town Centres (July 2013);
- A Town Centre Action Plan (November 2013), which suggests a focus on 6 key areas of town centre living, digital towns, proactive planning, enterprising economies, vibrant local economies and accessible public services;
- The Town Centre First principle June 2014 which asks that government, local authorities, the wider public sector, businesses and communities put the health of town centres at the heart of decision making. This has been implemented through our recently Adopted Local Development Plan 2.
- The Place standard which recognises the importance of places and their design, and provides a tool to assess the quality of a place. It can assess places that are well established, undergoing change, or still being planned. The tool can also help people to identify priorities for a particular place; and,
- The distribution of funding of £50M for town centres within the 2019/20 financial year, with the North Ayrshire Council allocation amounting to £1.418M (as referred to at para 2.9).

2.12 While recognising the general aims of the policy and action planning advice available, interventions to support town centres require a response specific to each town. It is proposed that a North Ayrshire Regeneration Framework is developed from early 2020 which will provide recommendations on town centre regeneration. It is considered that the issues set out below will be a focus of this work.

Vacant and Derelict Land/Property

2.13 North Ayrshire Council benefits from an allocation of Scottish Government funding of around £1.5M per annum from the Vacant and Derelict Land fund. In line with Cabinet approval and the criteria set by that fund, this is directed to priority sites including Ardrossan North Shore, Irvine Enterprise Area, Irvine Harbourside and Lochshore. In addition, there are a number of empty buildings or sites which blight our town centres but which cannot be addressed through the Vacant and Derelict Land funding given its requirement that sites are over 0.1 ha in size and have been vacant for a 20 year period.

2.14 Empty properties or sites can occur for a variety of reasons for example due to the loss of tenants, the lack of a financial case for redevelopment, or absentee owners. There have been some recent examples where the Council have intervened including through the Millport Conservation Area Regeneration Scheme, and the Scottish Government funding allowing the recent purchase of no.2 Main Street, Kilbirnie. The scope for further interventions is limited by finance and the often unrealistic value expectations of owners.

2.15 It is considered that an increasing focus on this issue is required. This could include:

- The development of a problem building or site register;
- Additional planning or building standards enforcement action against owners;
- Offers to purchase and/or compulsory purchase problem properties;
- Analysis of the use of budgets such as the HRA/empty homes budgets; and

- Analysis of the business case for improvement works being carried out by the Council to allow sale and reuse.

Town Centre Housing

- 2.16 One of the strategic aims of the Council's Social Housing Investment Plan (SHIP) is the regeneration of North Ayrshire. The 2020-2025 SHIP provides an increased focus on town centre sites, with examples including developments at:
- Irvine Harbourside, facilitating the demolition of the five multi storey blocks within Fullarton, Dickson Drive and Bank Street, Irvine;
 - Friars Lawn and St Michaels Wynd, Kilwinning;
 - Afton Court and Caley Court, Stevenston;
 - Parkend Gardens and the Springvale development in Saltcoats;
 - Watt Court in Dalry; and,
 - The redevelopment of St Colm's Place in Largs.
- 2.17 These sites are in addition to recently completed or ongoing developments such as Vennel Gardens, Irvine, Main Street, Kilbirnie, Kyleshill Court (formerly Canal Court), Saltcoats and the Victoria Hotel on Largs shorefront. Analysis is also being undertaken of a number of privately-owned town centre sites, to determine whether agreement can be reached on the purchase of land to facilitate future housing investment.
- 2.18 As town centres move away from retail use, in some areas a transition to residential use could be encouraged. This may require support in terms of parking, waste management solutions and improvements to the public realm. Financial support mechanisms could be used, such as grant assistance for conversion from retail to residential use in non-core retail areas. Private housing development of high quality product on key sites such as Ardrossan North Shore and Irvine Harbourside can also help to attract and retain people, and change perceptions of places.

Parking

- 2.19 As identified at the November Audit and Scrutiny Committee, the availability of parking influences the likelihood of people undertaking visits to a centre. The town centre audits referred to at 2.5 concluded that in most towns parking availability is seen as adequate, however in the three major centres of Irvine, Saltcoats and Largs there are capacity issues. In these cases there is also evidence that capacity issues are caused by those parking all day for work purposes, and this limiting turnover and availability. A business case for decriminalised parking enforcement has been considered by the Cabinet and if implemented would commence in Spring 2022.

Facilitating private sector investment

- 2.20 Change cannot be delivered by the Council alone and wherever possible investment by the private or community sectors needs to be encouraged. The SG funding for 2019/20 will in some cases assist with private sector proposals that would otherwise not be financially viable.

- 2.21 In Ardrossan, analysis is ongoing into the identification of suitable hotel development sites that are within the Council's ownership in or around the town centre. While there is operator interest in the town, this is likely to require assistance in terms of site promotion and financing, however it would be a significant benefit in bringing additional visits and expenditure to the town centre. A cinema development in Irvine would also be a major benefit in bringing visits and activity throughout the day.
- 2.22 Securing new commercial opportunities that bring investment and jobs in addition to widening the range of leisure options available within town centres is associated with our wider land and property transformation plans, community wealth building and municipalisation work programme. Further analysis is to be undertaken on what opportunities there are within town centres and how this could be delivered.

Community projects

- 2.23 Another means of encouraging and delivering change is through community groups who can provide additional capacity, ideas and in some cases access to funding not available to the Council. Recent examples of projects delivered by or being developed by community groups include Saltcoats Training Station, Fullarton Centre, Millport Town Hall, and the Stoneyholm Mill Community Development Trust.
- 2.24 The forthcoming development of a Community Wealth Building Strategy and a new regeneration framework will promote a place based approach to economic development and identify proposals for each area and associated resource implications.

3. Proposals

- 3.1 It is proposed that the Committee notes:

- Recent trends in footfall in the main town centres of Irvine, Saltcoats and Largs;
- Activity to promote investment and regeneration in town centres including the expenditure of Town Centre funding in 2019/20;
- Activity to increase the impact of investment from other budgets on town centres, including from the Social Housing Investment Programme; and
- Plans to prepare a regeneration framework in early 2020 which will provide a strategic approach to the regeneration of north Ayrshire's town centres.

4. Implications/Socio-economic Duty

4.1 Financial:

There are no financial implications arising from the report.

4.2 Human Resources:

There are no Human Resource implications arising from the report.

4.3 Legal:

There are no legal implications arising from the report.

4.4 Equality/ Socio-Economic:

There are no equality/socio economic implications arising from the report.

4.5 Children and Young People:

There are no implications at this stage.

4.6 Environmental and Sustainability:

The report refers to the impact of vacant buildings or sites within town centres which can significantly detract from the local environment. The improvement of town centres will have a positive impact on the local environment.

4.7 Key Priorities:

The improvement of town centres will support the Council Plan themes of:

- Growing our economy, increasing employment and regenerating towns
- Working together to develop stronger communities
- Helping all of our people to stay safe, healthy, and active
- Protecting and enhancing the environment for future generations

4.8 Community Wealth Building

Community Wealth Building has five pillars for harnessing existing resources to enable local economies to grow and develop: Procurement; Employment; Land and Assets; Financial Power; and Democratic Ownership of the Local Economy. There are opportunities for developing more sustainable futures for our town centres across a number of these pillars that will be explored as we develop our CWB strategy and action plans. These are likely to feature most prominently within the priority on Land and Assets workstreams.

5. Consultation

- 5.1 The forthcoming development of a regeneration framework will involve consultation with the Local Members.

RUSSELL McCUTCHEON
Executive Director (Place)

For further information please contact **Alasdair Laurenson, Senior Manager, Regeneration**, on **01294 324005**.

Background Papers

[Click here to enter text.](#)

Appendix 1 – Town Centre Footfall Information

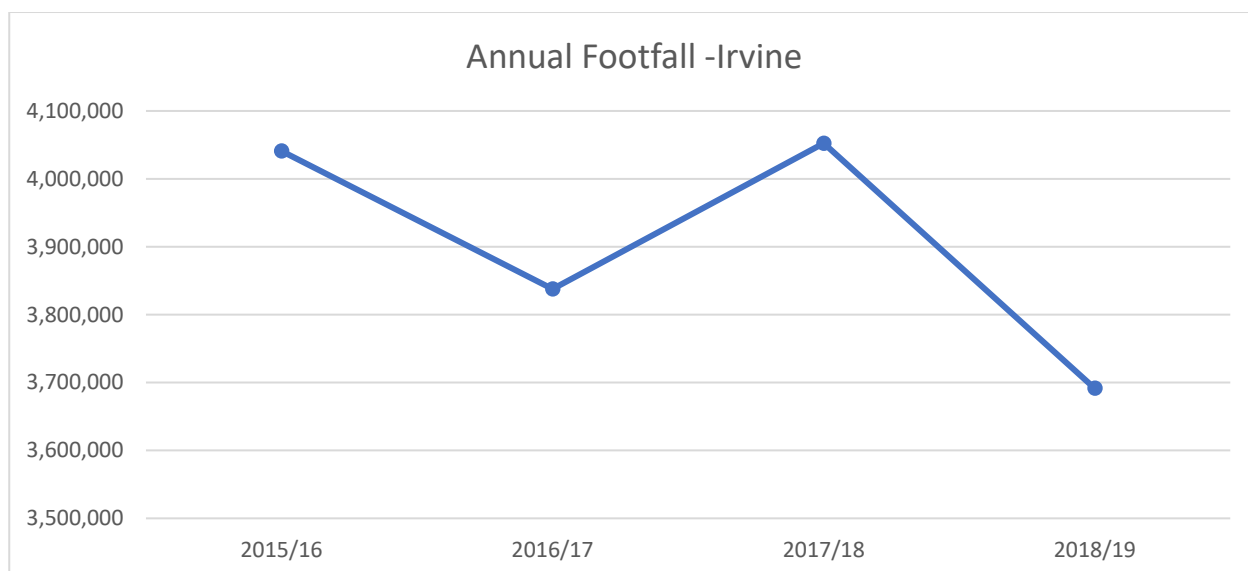
The Council monitors town centre footfall through counters located in Irvine (corner of Bridgegate and High Street), Largs (junction of Mainstreet / Gallowgate Street / Ferry Slipway) and Saltcoats (corner of Countess Street and Dockhead Street). Measurements are taken automatically using people counters.

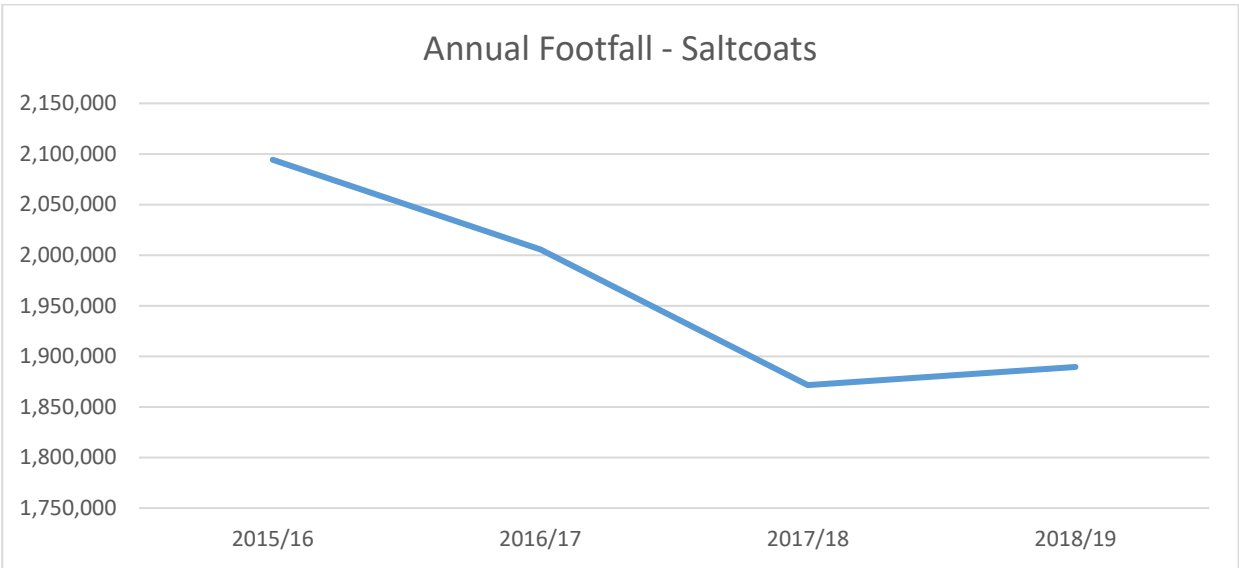
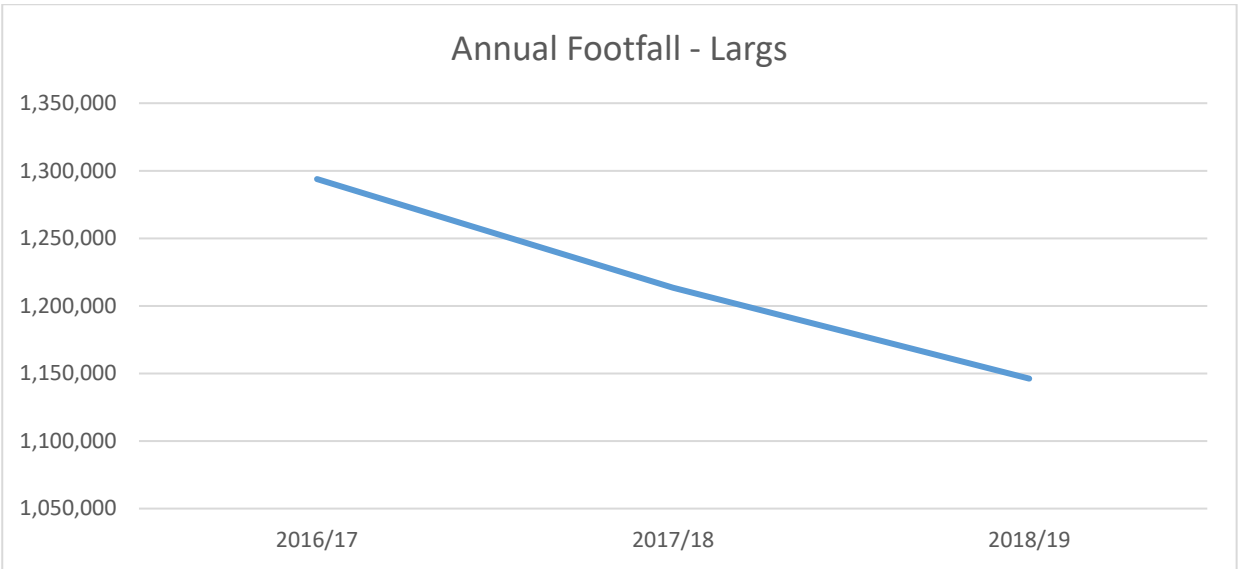
Footfall is seasonal and weather dependent and the summer period sees an increase in footfall. Similarly, in all towns footfall in January is lower and higher in December compared to other winter months given Christmas shopping and festivities.

Physical works such as the Irvine High Street public realm works can reduce footfall due to temporary road closures or diversions which can lead to pedestrians taking an alternative route. The Irvine counter is located on the junction of High Street and Bridgegate and the ongoing public realm works may contribute to the recent reduction in footfall seen in Irvine.

There is little doubt that online retail in combination with the range of retail and recreational offerings in locations is having an impact on footfall in all Scottish town centres. At a national level footfall appears to be decreasing. As at June 2019, Scottish footfall is showing a year to date decrease of 1.9% compared to the previous year, a lower rate than in 2018 when a decrease of 4.3% was recorded.

There was a year to date decrease of 8.9% for Irvine and 5.5% for Largs, and an increase of 1% for Saltcoats compared to 2018. However, the monitoring and management of footfall needs to be viewed over several years in order to get an accurate understanding of the environment and the impact of regeneration our town centres.





Appendix 2 – Town Centre Vacancy Rates

The table shows vacancy rates for North Ayrshire's Town Centres for 2016 and 2019. It should be noted that the 2019 figures required to be further verified as in some cases it can be difficult to determine if a shop/unit is actually vacant (for example, it is difficult to determine if a fast food takeaway shop is open if visited during the day). Given that a number of our Town Centres contain much less than 100 units, a decrease (or increase) of a small number of vacant units can make a significance difference to the overall vacancy rate.

Once these figures have been verified they will be included in the Town Centre Audit Reports which are due to be published in early 2020.

	2016: Source Your Town Audit 2016	2019: Source: Officer Site Visits
Ardrossan	15%	16.2%
Beith	12%	18%
Dalry	17%	15%
Irvine	7.3%	13.9%
Kilbirnie	16%	16%
Kilwinning	12%	13%
Largs	5.6%	6.5%
Millport	3%	4%
Saltcoats	11%	11%
Stevenston	6%	13%
West Kilbride	10%	12%

National averages (Scottish Retail Consortium-Springboard Footfall and Vacancies Monitor, January 2019):

- Scottish average: 12%
- UK average: 10%

NORTH AYRSHIRE COUNCIL

28 January 2020

Audit and Scrutiny Committee

Title: Climate Change

Purpose: To provide an update on progress in tackling climate change.

Recommendation: It is recommended that the Committee notes the actions undertaken across services to mitigate the impacts of climate change.

1. Executive Summary

- 1.1 The Audit and Scrutiny Committee has requested an update on the Council's action on climate change.
- 1.2 In June 2019 North Ayrshire Council declared a Climate Emergency, committing to achieve net-zero emissions and to increase actions being taken to mitigate climate change.
- 1.3 The Council's third Environmental Sustainability & Climate Change Strategy is being developed, identifying priorities to reduce and remove emissions, with actions in:
 - Affordable Warmth
 - Green Economy
 - Transport & Travel
 - Natural & Built Environment
 - Sustainable Operation
 - Adaptation
 - Emission Absorption
- 1.4 A cross-service approach to tackling climate change has contributed to significant successes which are assisting in achieving the Council's emission reduction targets, whilst protecting areas at risk to extreme weather events and future impacts of climate change.
- 1.5 A key factor in our approach to mitigating climate change is a realisation of the significant impact that behavioural change can have. To that end an online consultation 'Climate Change: Just Cool It,' was launched in August 2019, seeking views on climate change from young people and those who live or work in North Ayrshire. The findings of this will help to inform the next iteration of the Environmental Sustainability & Climate Change Strategy which is expected to be finalised during summer 2020 and will outline

key actions for the next 3 years aimed at further mitigating the impacts of climate change.

2. Background

- 2.1 The Paris Agreement, established in 2016, is a United Nations agreement to keep the increase in global average temperature to well below 2°C above pre-industrial levels, and to strive to limit the increase to 1.5 °C. The World Meteorological Organisation has recently reported average global temperatures for 2019 (January to October) of approximately 1.1°C.
- 2.2 The Intergovernmental Panel on Climate Change (IPCC) is the United Nations body for assessing the science related to climate change. A report published by the IPCC in October 2018 recommends immediate action be taken before the impacts of climate change become irreversible. The report states there are only 11 years left to limit global temperature increase to 1.5°C, which has led to global declarations of a Climate Emergency.
- 2.3 There is a growing consensus that targets and actions proposed by countries to date are insufficient to achieve the Paris Agreement. The IPCC report calls for a 2050 target for net zero emissions (2045 target for Scotland) and urgent action from member countries to increase their ambitions.
- 2.4 Scotland is one of 22 countries to declare a Climate Emergency, with the Scottish Government proposing an amendment to the Climate Change Bill by setting a target to achieve net zero emissions by 2045.
- 2.5 North Ayrshire Council declared a Climate Emergency in June 2019, committing to become net-zero carbon across the region. This commitment requires both emission reduction and absorption from the atmosphere.

Environmental Sustainability & Climate Change Strategy

- 2.6 North Ayrshire Council has been pro-active in reducing carbon emissions since our first Carbon Management Plan (CMP) in 2005. The CMP was superseded in 2014 with the first Environmental Sustainability & Climate Change Strategy (ESCCS), which was updated in 2017.
- 2.7 The ESCCS 2017-20 builds on the success on the first strategy and sets an area wide target to reduce carbon emissions by 40% by 2030 (based on a 2005 baseline year). In order to achieve this ambition, a series of priorities were identified within five thematic workstreams, specifically Affordable Warmth, A Green Economy, Transport & Travel, Natural & Built Environment and Sustainable Operations.
- 2.8 Some examples of achievements made through the ESCCS are given below:
 - The current carbon reduction figures are 39.9% reduction across the Council's estate and 44.6% reduction North Ayrshire wide. The area wide emissions include those from industrial and commercial, domestic, and transport sectors.

- Successfully securing approximately £10.5million of funding to provide external wall insulation to 2,231 homes through the Home Energy Efficiency Programme: Area Based Scheme to reduce heat loss and subsequent heating requirements.
- Installing our first low carbon heat networks fuelled by biomass boilers during the redevelopment of two sheltered housing units in Dalry and Stevenston.
- Installing solar PV panels on roofs of 290 Council houses, saving tenants on average £188 per year.
- Investing nearly £1m in energy efficiency measures such as boiler replacement, LED lighting and enhanced controls to 14 non-domestic properties through the Non-Domestic Energy Efficiency framework.
- The Council's operational vehicle fleet now incorporates 10 electric vehicles and a number of low emission vehicles
- Our sustainable business travel arrangements and employee car pool scheme have contributed to a reduction of almost 900,000 miles driven per year on business. An increasing number of miles actually driven are now being facilitated by the pool of low emission and electric vehicles. This has contributed to a significant carbon emissions reduction.
- Installing a number of publicly accessible electric vehicle charge points to support and encourage the uptake of electric vehicles across North Ayrshire.
- Working in partnership with the University of Glasgow, for 4th year engineering students to base their final year project on identifying sustainable solutions for local businesses in North Ayrshire.

2.9 Following the Council's Climate Emergency Declaration, a consultation has been published which will be used in the development of the next Environmental Sustainability & Climate Change Strategy (ESCCS 2020-23). The third iteration of the ESCCS will contain actions to support our commitment to become net-zero carbon, considering carbon emission reduction and absorption from the atmosphere. Examples of actions currently being developed are as follows:

- Generating renewable energy has the potential to meet a variety of Council objectives, specifically reducing carbon emissions, tackling fuel poverty, generating income and supporting local jobs and businesses. An action within the Renewable Energy Strategy resulted in the production of business cases for solar and wind projects which were cost prohibitive at that time. The proposals are being updated to include current market values.
- An Electric Vehicle (EV) strategy is being developed to support and encourage the uptake of EVs throughout North Ayrshire. Officers have recently begun working with external partners to investigate the feasibility of a proposal to generate renewable electricity to supply an Electric Vehicle charging hub, and utilise battery storage opportunities within building and transport sectors.
- The Council is also looking at ways to remove emissions from the atmosphere, by planting trees (which absorb carbon dioxide through the process of photosynthesis). There is a case for commercial planting, which is being investigated at present. There is also an opportunity to further engage with primary schools in partnership with the Woodland Trust's Tree Planting programme. It is hoped this will enhance the Primary School Energy Challenge, currently delivered to primary schools in North Ayrshire to encourage more sustainable behaviours in energy, waste and transport.
- The Scottish Government's Local Heat and Energy Efficiency Strategy (LHEES) is a pilot project (prior to the provision of such strategies becoming mandatory) aimed at decarbonising the heat network and removing energy efficiency as a

driver for fuel poverty. North Ayrshire Council was successful in its bid for funding to develop an overarching LHEES for the area. This will allow the Council to have a clear method for future LHEES delivery by prioritising areas for further investigation.

2.10 The Council's commitment to tackling climate change is clear and well documented. The ESCCS 2020-2023 will include actions and a target to work towards achieving net-zero emissions and deliver on our Climate Emergency commitment.

Zero Waste Strategy

2.11 North Ayrshire Council's Zero Waste Strategy 2018 – 2022 outlines a clear commitment to preventing, minimising, re-using and recycling waste that is produced both externally and internally within the Council. The strategy contains a wide range of actions to move North Ayrshire towards being a Zero Waste Council, for example implementing waste awareness campaigns and initiatives which promote reuse of waste resources, working with community sector based waste projects which promote sustainable waste resource management and delivering an enhanced waste and recycling service on the mainland in order to improve participation in our recycling services and to increase capture of recyclable materials.

2.12 Some examples of achievements made through the Zero Waste Strategy are as follows:

- The Council continues to be one of the highest performing for household waste recycling in Scotland with 54.6% achieved for 2018 (greater than the national rate of 44.7%).
- A Plastic Waste Prevention Plan has been developed to support North Ayrshire Council's ambition to become a 'Plastic Free Council' by 2022
- Working as part of the Clyde Valley Residual Waste Partnership to establish a 25-year contract with Viridor, delivering a solution to divert waste from landfill following the closure of Shewalton landfill site in March 2018. The solution recovers additional recyclates with the remaining non-recyclable waste delivered to a new Energy Recovery Facility to recover heat and produce electricity from the waste.
- Successful implementation of the enhanced waste and recycling service, and implementation of a Birth to Potty Real Nappy initiative
- Working in partnership with third sector organisations on Arran to progress Circular Economy opportunities on the island
- Successful development of the internal Waste Action Reuse Portal (WARP IT), to divert reusable office furniture from final disposal

2.13 As part of the Zero Waste Strategy, the Council recognises the importance of engaging with young people and supporting residents in changing waste management behaviours.

2.14 Actions within the Zero Waste Strategy will continue to be implemented through to 2022, with particular focus given to becoming a plastic free local authority, engaging with schools to further promote sustainable waste resource management and the immediate benefits for the environment, and liaise with commercial waste producers to improve waste management practices within their premises.

Flood Risk Management Plan

2.15 The Flood Risk Management (Scotland) Act 2009 sets out a national approach to flood risk management. Scotland has been divided into 12 Local Plan Districts (LPDs) by SEPA. The 'Ayrshire' district comprises the North, East and South Ayrshire Council areas. North Ayrshire is the lead authority for the Ayrshire LPD. Significant work is ongoing across Ayrshire, and North Ayrshire, to mitigate and manage the impacts of Flood Risk. A key aspect of the developing work in relation to flood risk management has been extensive community engagement and community workshops have been helping to inform local communities of the risks and to seek views on the proposed measures being developed.

2.16 Some examples of the achievements made through the Flood Risk Management Plan are:

- Design of the Upper Garnock Flood Protection Scheme. The scheme is currently out to tender and due to commence in Summer 2020
- Approval of Millport Coastal Flood Protection Scheme, due to be formally confirmed shortly, for commencement of works in 2021
- Options appraisal for Millburn Flood Protection Works in Millport is being finalised and construction is planned for 2021

2.17 Work is ongoing in the development of the second cycle of the Ayrshire Local Flood Risk Management Plan, planned to run between 2022-2028, with three further flood protection schemes being proposed for inclusion in the plan. These include proposals for works at Brodick and Lamblash in Arran, an upgrade to the Keppernburn Culvert in Fairlie, and major flood protection works in the Lower Irvine Valley which, if implemented, would provide flood protection to many homes and businesses in the Irvine area.

2.18 North Ayrshire Council continue to be proactive in engaging with the public and taking action to address climate change issues across the domestic, non-domestic and transport sectors. By encouraging low carbon behaviours, investigating opportunities for innovation, and enhancing the natural environment, the Council aims to become a net-zero emission local authority.

3. Proposals

3.1 It is proposed that the Committee notes the actions undertaken across services to mitigate, and adapt to, the impacts of climate change.

4. Implications/Socio-economic Duty

Financial

4.1 There are no financial implications arising from the report. The proposed consultation activity and preparation of the third iteration of the Environmental Sustainability & Climate Change Strategy will be funded from existing revenue budgets. Any funding requirements for new initiatives identified through the ESCCS update will be considered when the document is presented for approval.

Human Resources

4.2 None

Legal

4.3 None

Equality/Socio-economic

4.4 The proposed new Environmental Sustainability & Climate Change Strategy will include actions to alleviate fuel poverty for those on the lowest incomes within North Ayrshire, supporting children and young people to have warmer homes. A consultation with children and young people aims to empower them to share their views on tackling climate change within North Ayrshire.

Environmental and Sustainability

4.5 The proposals contribute directly to the new Council Plan priority outcome of 'A Sustainable Environment' by encouraging action to further reduce emissions in North Ayrshire.

Key Priorities

4.6 This report directly supports the Council Plan (2019-24) Priority - Inspiring Place.

Community Wealth Building

4.7 The 5 pillars of community wealth building will be considered in the further development of the forthcoming Environmental Sustainability & Climate Change Strategy 2020-2023.

5. Consultation

5.1 Views have been sought from a number of Council services in developing this update report for consideration.

RUSSELL McCUTCHEON
Executive Director (Place)

For further information please contact **Yvonne Baulk, Head of Physical Environment**, on **01294 324542**.

Background Papers

0

NORTH AYRSHIRE COUNCIL

28 January 2020

Audit and Scrutiny Committee

Title:	External Audit Plan 2019/20
Purpose:	To inform the Committee of the External Audit Plan for 2019/20
Recommendation:	That the Committee notes the External Audit Plan for 2019/20

1. Executive Summary

- 1.1 Deloitte LLP are the Council's external auditors for the five year period 2016 to 2021 with 2019/20 being the fourth year of this appointment.
- 1.2 This report provides the Audit and Scrutiny Committee with details of Deloitte LLP's planning report for the 2019/20 audit.
- 1.3 Following completion of the audit, the annual audit report will be presented to the Audit and Scrutiny Committee on 29 September 2020.

2. Background

- 2.1 Deloitte LLP are the Council's external auditors for the five year period 2016 to 2021. In addition, Deloitte LLP are the appointed auditors for the North Ayrshire Integration Joint Board. 2019/20 is the fourth year of this appointment.
- 2.2 Deloitte LLP's planning report for the 2019/20 audit is attached at Appendix 1 with a representative of Deloitte LLP in attendance to present the plan to the Committee.
- 2.3 In planning the audit work, Deloitte LLP has identified key risks in relation to the recognition of grant income and management override of controls and specific testing will be carried out in relation to these.
- 2.4 The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. Deloitte LLP will consider the risks identified under each of these dimensions and review the Council's approach to addressing them, including:
 - Financial Sustainability – the robustness of transformation plans, progress in the delivery of the Ayrshire Growth Deal and the financial performance and recovery plan of the IJB;
 - Financial Management – procurement controls and delivery of savings and the impact this has on performance;

- Governance and Transparency – the ongoing changes to the management structure and the IJB's achievement of integration benefits and a balanced budget position; and
- Value for Money – continued review of the reporting and monitoring of performance.

2.5 Other responsibilities will include:

- Best Value - working closely with Audit Scotland to plan, perform and report on the Best Value Audit, including consideration of the implications of the Islands (Scotland) Act 2018;
- Strategic Audit Priorities – consideration of the arrangements for the following:
 - Having clear priorities with a focus on outcomes, supported by effective leadership and long term planning;
 - Empowering local communities and involving them in the design and delivery of local services and planning for their local area;
 - The strategic appraisal of options for reshaping services in line with priorities;
 - Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future; and
 - Reporting the Council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes;
- Statutory Performance Indicators – evaluation of the effectiveness and appropriateness of the Council's arrangements for delivery of the requirements of the 2018 Statutory Performance Information Direction;
- National Fraud Initiative – completion and submission of the questionnaire;
- Sector Overview / Annual Performance Reports – provision of information to support Audit Scotland Annual Performance and Impact Reports, including the anticipated Waste Management performance audit, the Council's Use of Arm's Length Organisations and Children and Young People's Mental Health; and
- Shared Risk Assessment and Joint Scrutiny Planning – leading the Local Area Network for North Ayrshire Council and providing returns to support the National Scrutiny Plan.

3. Proposals

3.1 It is proposed that the Committee notes the External Audit Plan for 2019/20.

4. Implications/Socio-economic Duty

Financial

4.1 The fee which will be charged by Deloitte LLP for the 2019/20 audit work will be £302,520. This represents an increase of £5,660 (1.9%) against the 2018/19 fee.

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 The external audit process directly supports the Council Plan 2019 to 2024 through the maximisation of resources and provision of value for money to support financially sustainable delivery models.

Community Wealth Building

4.7 None.

5. Consultation

5.1 Deloitte LLP consulted with the Executive Director (Finance and Corporate Support) in preparing their audit plan.

Laura Friel
Executive Director (Finance and Corporate Support)

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

Background Papers

N/A



North Ayrshire Council

Planning report to the Audit and Scrutiny Committee on the audit for the year ending 31 March 2020

Issued 8 January for the meeting on 28 January 2020

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Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our planning report to the Audit and Scrutiny Committee (“the Committee”) of North Ayrshire Council (“the Council”) for the year ending 31 March 2020 audit. I would like to draw your attention to the key messages of this audit plan:

Audit Plan

We have updated our understanding of the Council including discussion with management and review of relevant documentation from across the Council. Based on these procedures, we have developed this plan in collaboration with the Council to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the Council.

Key Risks

We have taken an initial view as to the significant audit risks the Council faces. These are presented as a summary dashboard on page 11.

Audit Dimensions

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years to develop an understanding of the Council’s key priorities and risks as well as any risks identified by Audit Scotland. The following specific risks have been identified:

Financial sustainability – There is a risk that the transformation plans, focusing on service redesign, demand management and digital initiatives, are not robust enough to allow the benefits to be realised.

We will also consider the progress being made with the projects identified and funded through the Ayrshire Growth Deal.

Financial management – While we have not identified any specific risks in this area during our audit planning, we will continue to review the Council’s financial management arrangements including the extent to which there is effective scrutiny over both operational spend as well as delivery of savings plans. Our work will consider the extent to which the performance impact of in year savings is monitored.

Governance and transparency – While we have not identified any specific risk, we will continue to monitor the Council’s approach to governance and transparency, specifically focussing on the work around the transformation plans.

In addition, as part of the ongoing management restructure there is a risk that changes to the management structure may have an adverse impact on service delivery, which we will closely monitor.

Introduction (continued)

The key messages in this report (continued)

Audit Dimensions (continued)

There continues to be an ongoing risk that the Integration Joint Board (IJB) does not achieve the full benefits of integration along with a balanced budget position. We will continue to monitor how the Council is scrutinising the financial performance and recovery plan of the IJB. As part of our separate audit work of the IJB, we will assess the work that is being done as part of the financial recovery plan and transformation work to achieve medium-to longer-term financial balance.

Value for money – While we have not identified any specific risks in this area during our audit planning, we will continue to review the Council's performance against the Performance Management Framework, the Council's reporting and monitoring of these and the actions taken to sustain the performance of the Council.

Our audit work on the four audit dimensions incorporates the specific area of focus highlighted by Audit Scotland in relation to fraud and corruption in the procurement function. Should any further risks emerge during the year, we will provide an update to the Audit and Scrutiny Committee.

Other Responsibilities

As part of our work on the audit dimensions, we will assess the effectiveness and appropriateness of the arrangements for each of the Accounts Commission's **Strategic Audit Priorities** and the requirements under the **2018 Statutory Performance Information Direction**. We will also work closely with Audit Scotland's Performance Audit and Best Value Group (PABV) to plan, perform and report on the **Best Value Assurance Report** (BVAR).

Regulatory Change

IFRS 16 *Leases* will apply from 2020/21, and will require disclosure in the 2019/20 financial statements of the expected impact on transition.

We would suggest that the Audit and Scrutiny Committee receive reporting from management on the implementation of the new standard. We will report specifically on the scope of our work this year and recommendations for 2020/21.

Our Commitment to Quality

We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience.

Adding value

Our aim is to add value to the Council through our audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

We have also shared our recent research, informed perspectives and best practice from our work across the wider public sector on pages 31 to 35 of this paper.

Pat Kenny
Audit director

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit and Scrutiny Committee?

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

As a result of regulatory change in recent years, the role of the Audit and Scrutiny Committee has significantly expanded. We set out here a summary of the core areas of Audit and Scrutiny Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit and Scrutiny Committee in fulfilling its remit.

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.
- Implement a policy on the engagement of the external auditor to supply non-audit services.

Oversight of external audit

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, where requested by the Council, provide advice in respect of the fair, balanced and understandable statement.

Internal controls and risks

- Review the internal control and risk management systems (unless expressly addressed by separate board risk committee).
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

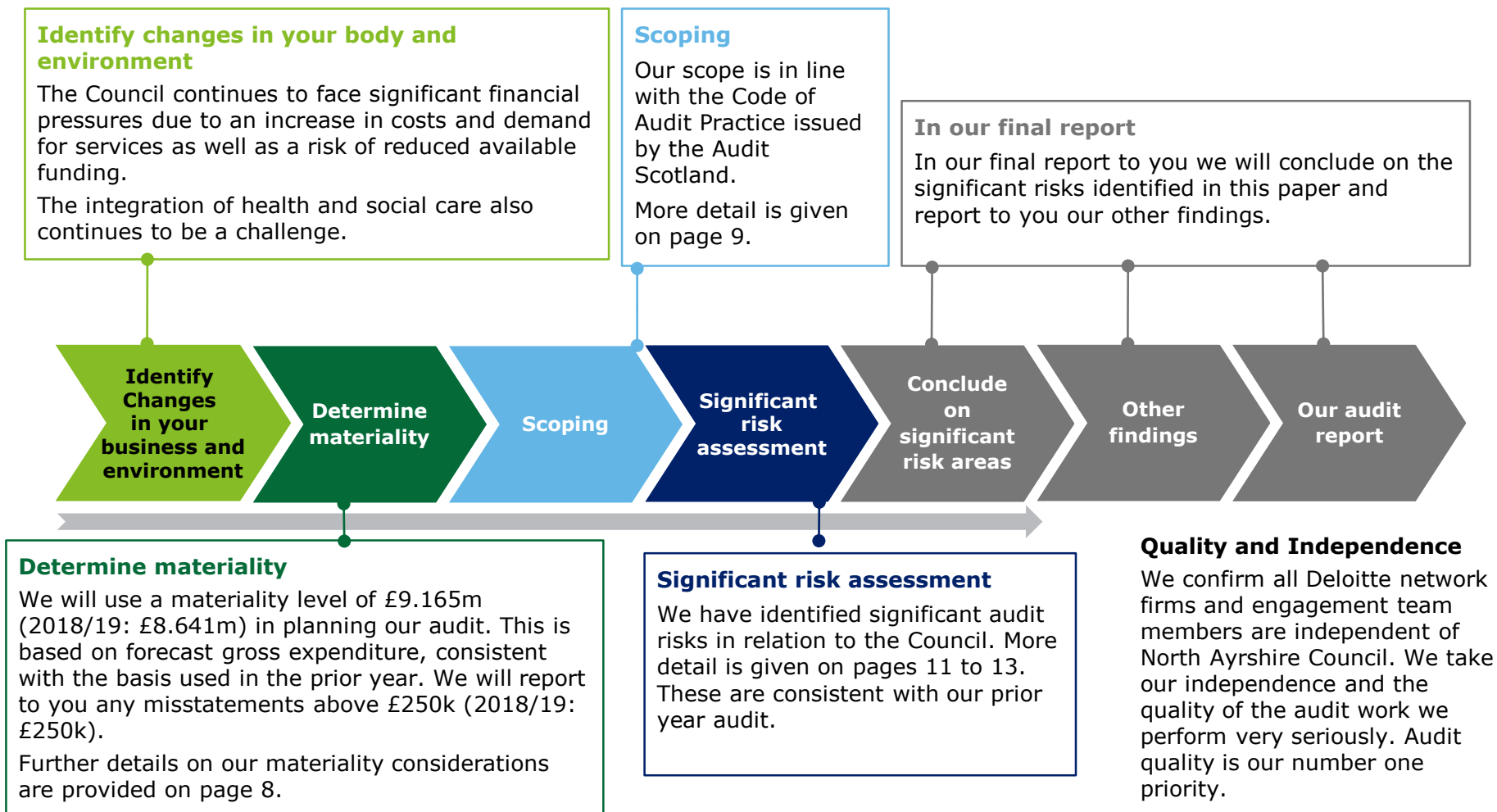
Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

- Consider annually whether the scope of the internal audit programme is adequate.
- Monitor and review the effectiveness of the internal audit activities.

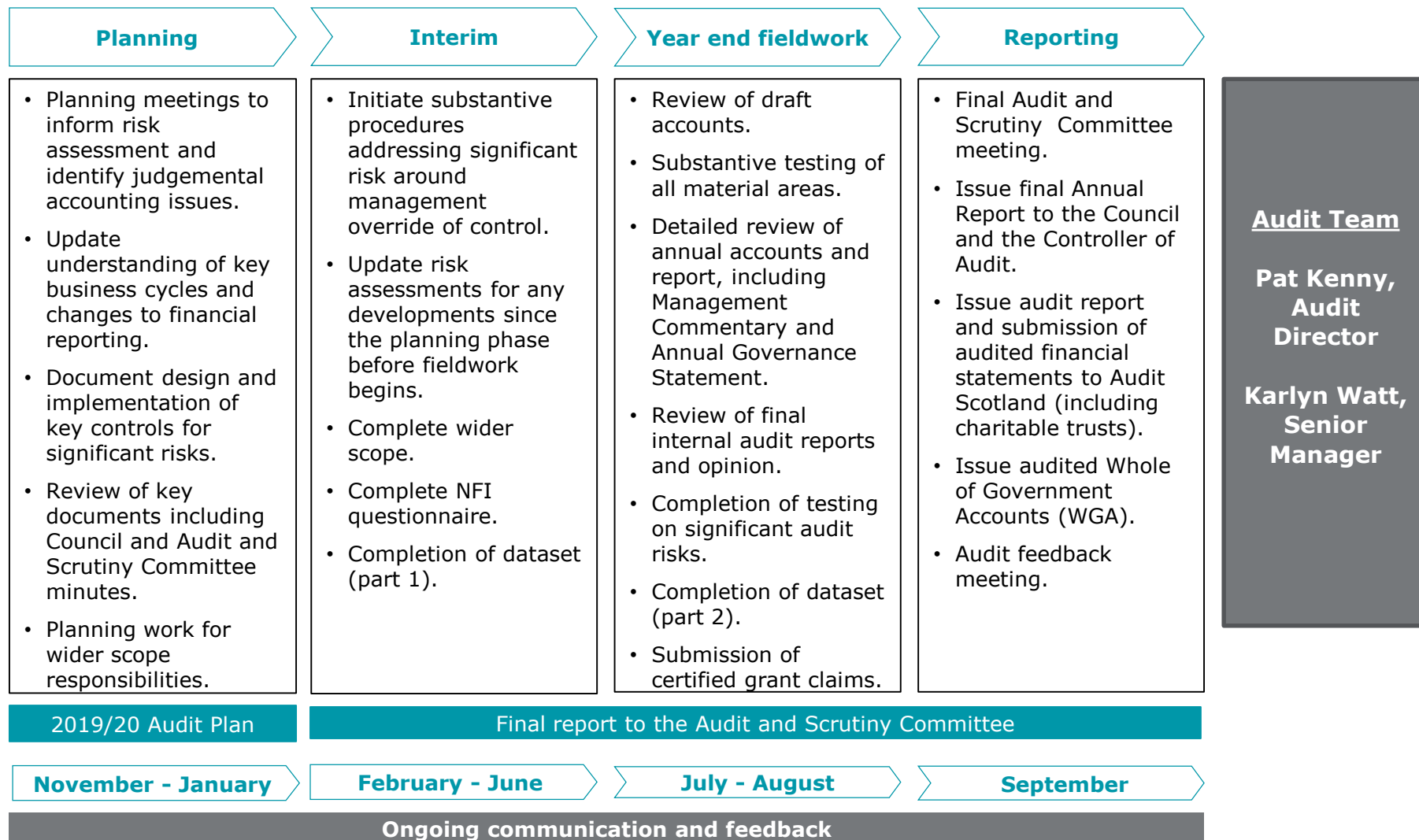
Our audit explained

We tailor our audit to your Council and your strategy



Continuous communication and reporting

Planned timing of the audit



Materiality

Our approach to materiality

Basis of our materiality benchmark

- The audit director has determined materiality for the group as £9.165m (2018/19: £8.641m) and performance materiality as £6.873m (2018/19: £6.480m) based on professional judgement and risk factors specific to the Council, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 1.6% of forecast gross expenditure as the benchmark for determining materiality and applied 75% as performance materiality.
- This approach is consistent with our prior year materiality calculation.
- For the audit of North Ayrshire Council (Council only) a materiality of £8.706m (2018/19: £8.604m) has been determined, and performance materiality of £6.530m (2018/19: £6.845m).
- Our approach to determining the materiality benchmark is consistent with Audit Scotland guidance which states that the threshold for clearly trivial above which we should accumulate misstatements for reporting and correction to audit committees must not exceed £250k.

Our annual audit report

We will:

- Report the group materiality, Council only materiality and the range we use for component materialities;
- provide comparative data and explain any changes in materiality, compared to prior year, if appropriate; and
- explain any normalised or adjusted benchmarks we use, if appropriate.

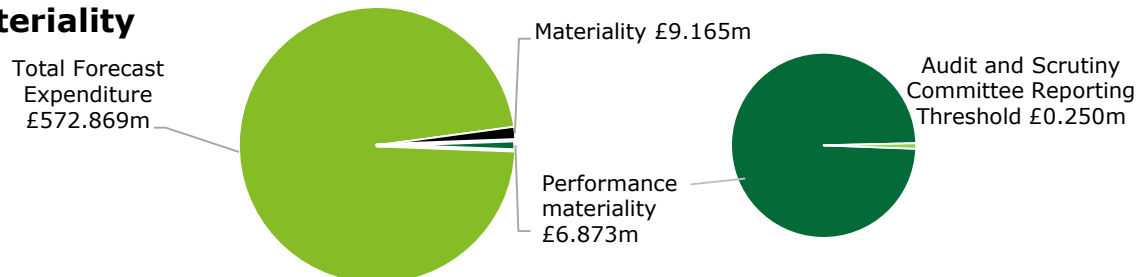
Group scoping

The only significant components for the group are North Ayrshire Council and North Ayrshire IJB. Full audit procedures will be performed on both of these component. All non-significant components will be covered by desktop reviews at the group level.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of our clearly trivial threshold which is £250k (2018/19: £250k) for both the group and Council only.
- We will report to you misstatements below this threshold if we consider them to be material by nature.

Materiality



Although materiality is the judgement of the audit director, the Audit and Scrutiny Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Scope of work and approach

Our key areas of responsibility under the Code of Audit Practice

Core audit work	Planned output	Timeline
Perform an audit of the annual accounts and express specified audit opinion	Annual audit plan Independent auditor's report	28 January 2020 29 September 2020
Consider and report on the audit dimensions, Best Value arrangements, Strategic Audit Priorities and Statutory Performance Information	Annual audit plan Annual audit report	28 January 2020 29 September 2020
Contribute to performance audits (including performance audit reports, overview reports and impact reports)	Dataset returns	8 May 2020 (part 1) 14 August 2020 (part 2)
Share audit intelligence with Audit Scotland including highlighting potential statutory reports	Current issues returns	17 January 2020 20 March 2020 7 August 2020 23 October 2020
Provide assurance on Whole of Government Accounts (WGA)	Assurance statement on WGA returns	28 September 2020
Provide information on cases of fraud	Fraud Returns	30 November 2019 28 February 2020 31 May 2020 30 August 2020
Contribute to National Fraud Initiative (NFI) report	NFI audit questionnaire Reference, if necessary, in annual audit report	28 February 2020 29 September 2020
Contribute to the Shared Risk Assessment	Information returns Any locally agreed output	As required
Certify grant claims	Certificate in support of grant claims	As required

Scope of work and approach (continued)

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D&I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Obtain an understanding of the Council and its environment including the identification of relevant controls.

Identify risks and controls that address those risks.

Carry out "design and implementation" work on relevant controls.

If considered necessary, test the operating effectiveness of selected controls

Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We will utilise the Code of practice on local authority accounts in the UK disclosure checklist to support the Council in preparing high quality drafts of the annual report and financial statements, which we would recommend the Council complete during drafting.







The Disclosure Checklist reflects the cutting clutter agenda and includes a "not material" column. We would encourage the Council to exclude disclosure if the information is not material.

Audit Scotland has published good practice guides in relation the Annual Report and the Governance Statement to support the Council in preparing high quality drafts of the Annual Report and financial statements, which we would recommend the Council consider during drafting.

Statutory Other Information

In addition to the financial statements, we are required to consider whether the Management Commentary and Governance Statement are consistent with the financial statements and have been prepared in accordance with applicable requirements. In performing this work, we will refer to the Financial Reporting Council report issued in December 2018 following an audit quality thematic review of auditors' work on other information which identified a number of instances when insufficient work was performed to ensure that good practice is followed.

Significant risks Dashboard

Risk	Material?	Fraud risk identified?	Planned approach to controls testing	Level of management judgement	Page no.
Recognition of grant income			Design and implementation		12
Management override of controls			Design and implementation		13



Some degree of management judgement



Limited management judgement

Significant risks (continued)

Risk 1 – Recognition of grant income

Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

Key components of income for the Council, are summarised in the table to below. The general revenue grant and non-domestic rates income which are directed by the Scottish Government and not considered a significant risk as the process for receipt of this income is not complex and can be verified 100% to third party evidence therefore little scope for manipulation. Similarly, the income from the IJB relates to services Commissioned from the Council and can be verified 100%. Council tax and housing rent income are set through the annual budget process with no management judgement and therefore have a low risk of fraud. Similarly, other Service Income includes fees and charges across all Services, which are set through formal approval processes, with no history of fraud or error.

The significant risk is pinpointed to the recognition of grant income, comprising capital grants and contributions and service specific grants.

Grant income is a significant risk due to:

- management judgement in determining if there are any conditions attached to a grant and if so whether the conditions have been met; and
- complex accounting for grant income as the basis for revenue recognition in the accounts will depend on the scheme rules for each grant.

Type of income	2018/19 (£m)	Significant risk
<u>Taxation and Non-Specific Grant Income</u>		
Council Tax income	53.8	
Non domestic rates	39.7	
Government Grant	228.4	
Capital Grants and Contributions	19.8	✓
<u>Service Income</u>		
Service Specific Grant income	29.0	✓
Housing Benefits Subsidy	46.4	
Housing Revenue Account	48.0	
IJB commission income)	117.0	
Other Service Income	37.0	

Our response

We will perform the following:

- assess the design and implementation of the controls around recognition of grant income; and
- test a sample of capital grants and contributions and grant income credited to Service Income and confirm these have been recognised in accordance with any conditions applicable.

Significant risks (continued)

Risk 2 – Management override of controls

We will use computer assisted audit techniques, including Spotlight, to support our work on the risk of management override

Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.

We have identified a significant audit risk around recognition of grant income as this is an area where management has the potential to use their judgement to influence the financial statements.

Planned audit challenge

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

Journal testing

- We will test the design and implementation of controls over journal entry processing.
- Using our Spotlight data analytics tool, we will risk assess journals and select items for detailed follow-up testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest.
- We will test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting.

Accounting estimates

- We will test the design and implementation of controls over key accounting estimates and judgements.
- We will review accounting estimates for biases that could result in material misstatements due to fraud. This will include both a retrospective review of 31 March 2019 estimates and a review of the corresponding estimates as at 31 March 2020.

Significant and unusual transactions

- We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the Council, or that otherwise appear to be unusual, given our understanding of the Council and its environment.
-

Other areas of focus

Pension Liability

We will engage our pension specialists to challenge the actuarial assumptions

Risk identified

The Council participates in two defined benefits schemes:

- Scottish Teachers' Superannuation Scheme, administered by the Scottish Government; and
- The Strathclyde Pension Fund, administered by Glasgow City Council.

The Council recognised a net pension liability of £198.3m in 2018/19, an increase from £104.2m in 2017/18. The increase was as a result in changes in assumptions, specifically the discount rate has reduced and salary increase rate has increased, together with the impact of McCloud and GMP indexation.

Hymans Robertson LLP are the Council's appointed actuary, who produce a detailed report outlining the estimated liability at the year-end along with the associated disclosure requirements.

The pension liability valuation is an area of audit focus due to the material value and significant assumptions used in the calculation of the liability. The valuations are prepared by a reputable actuary using standard methodologies which have been considered as appropriate in previous years and no significant changes in the membership of the scheme or accrued benefits are expected in the current year. As a result, we have not identified this as a significant risk.

Planned audit challenge

We will perform the following procedures to address the above risk:

- obtain a copy of the actuarial report produced by Hymans Robertson LLP and agree in the disclosures to notes in the accounts;
- review and challenge the assumptions made by Hymans Robertson LLP, including benchmarking by our pension specialists;
- review the disclosures within the accounts against the Code; and
- assess the independence and expertise of the actuary supporting the basis of reliance upon their work.

Other areas of focus (continued)

Expenditure recognition

Risk identified

In accordance with Practice Note 10 (*Audit of financial statements of public sector bodies in the United Kingdom*), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, as discussed further on page 12, auditors of public sector bodies should also consider the risk of fraud and error on expenditure. This is on basis that most public bodies are net spending bodies, therefore the risk of material misstatement due to fraud related expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition.

We have considered this risk for the Council and concluded that we are satisfied that the control environment is strong and there is no history of errors or audit adjustments. This has therefore not been assessed as a significant risk area, but will continue to be an area of audit focus in line with Practice Note 10.

Planned audit challenge

We will perform the following procedures to address the above risk:

- perform focused testing of accruals and prepayments made at the year end; and
 - performing focused cut-off testing of invoices received and paid around the year end.
-

Wider scope requirements

Audit dimensions

The Code of Audit Practice sets out **four audit dimensions** which set a common framework for all public sector audits in Scotland. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years to develop an understanding of the Council's key priorities and risks as well as any risks identified by Audit Scotland. We have set out below our identified audit risks in relation to the audit dimensions and proposed response. In addition, we will follow up the progress made in relation to our previous year's recommendations.

Audit dimension	Conclusions from previous years	2019/20 Audit Risks
Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.	<p>As reported in our 2018/19 annual audit report, savings of £6.368m and the use of reserves of £3.880m are required to achieve a balanced financial position for 2019/20. However, the Council has recognised that a sustainable solution is required from 2020/21 onwards.</p> <p>We noted that the Council has done a lot of work around transformation in recent years, and recently set up a Transformation Think Tank to develop a pipeline of projects. It has identified an ambitious savings target of £15.420m over the next three financial years from transformation; however, this does not completely close the estimated cumulative funding gap of £25.410m covering the period 2020/21 to 2021/22. It is therefore vital that the Council identify further savings and efficiencies to close the remaining funding gap.</p> <p>As discussed further on page 17, the IJB ended 2018/19 with a cumulative deficit of £5.14m and is projecting an overspend of £3m in the current year.</p>	<p>There is a risk that the transformation plans, focusing on service redesign, demand management and digital initiatives, are not robust enough to allow the benefits to be realised.</p> <p>We will assess progress on the Transformation programme, including the governance arrangements that underpin the planning and delivery of the transformation programme and how the benefits being achieved are being tracked.</p> <p>We will also consider the progress being made with the projects identified and funded through the Ayrshire Growth Deal.</p> <p>In relation to the IJB, there is an ongoing recoverability risk to the Council in relation to the deficit due to be repaid and the current year projected overspend. We will continue to monitor how the Council is scrutinising the financial performance and recovery plan of the IJB.</p>
Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	<p>We concluded in 2018/19 that the Council has effective financial planning and management arrangements in place. No specific recommendations were made as part of our 2018/19 audit work.</p> <p>In accordance with Audit Scotland planning guidance, fraud and corruption in the procurement function (such as illicit rebates, kickbacks, and false invoicing) is a risk across the public sector. We will therefore consider the Council's controls and processes as a matter of particular focus.</p>	<p>While we have not identified any specific risks in this area during our audit planning, we will continue to review the Council's financial management arrangements including the extent to which there is effective scrutiny over both operational spend as well as delivery of savings plans. Our work will consider the extent to which the performance impact of in year savings is monitored.</p> <p>There is a risk that controls around the procurement process are insufficient to prevent and detect fraud and corruption. We will therefore evaluate the arrangements that the Council has in place to mitigate this risk.</p>

Wider scope requirements (continued)

Audit dimensions (continued)

Audit dimension	Conclusions from previous years	2019/20 Audit Risks
<p>Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>In 2018/19 we concluded that the Council has a good attitude to openness and transparency. The Council fully supports community empowerment and recognises the importance of building community capacity; we would like to highlight the Council's approach to community engagement as best practice and sector-leading.</p> <p>We also note that the current Executive Director of Finance and Corporate Services/ Section 95 Officer is set to retire in the Summer of 2020. The Section 95 Officer role will be taken on by the current Head of Financial and Customer Services and the responsibilities of the Executive Director of Finance and Corporate Services will be shared amongst other Chief Officers as part of the Council restructure.</p>	<p>While we have not identified any specific risk, we will continue to monitor the Council's approach to governance and transparency, specifically focusing on the work around the transformation plans.</p> <p>In addition, as part of the ongoing restructure there is a risk that changes to the management restructure may have an adverse impact on service delivery. We will closely monitor how the management restructure is progressing and any impact on service delivery.</p>
	<p>In relation to the IJB, our 2018/19 audit concluded that reporting from the IJB to the Council is effective. The ultimate responsibility for IJB budgets being met lies with the IJB, however, the Council must recognise the potential impact of any deficits in the IJB and consider this as part of future financial planning.</p> <p>The IJB ended 2018/19 with a cumulative deficit of £5.14m which is due to be repaid over the next three years. Whilst a balanced budget was set for 2019/20, this included significant efficiencies that needed to be achieved. The latest reporting to the special Audit and Scrutiny Committee on 27 November 2019 shows that the IJB is projecting an overspend of nearly £3m.</p>	<p>There continues to be an ongoing risk that the IJB does not achieve the full benefits of integration along with a balanced budget position.</p> <p>We will continue to monitor how the Council is scrutinising the financial performance and recovery plan of the IJB. As part of our separate audit work of the IJB, we will assess the work that is being done as part of the financial recovery plan and transformation work to achieve medium to longer-term financial balance.</p>
<p>Value for money is concerned with using resources effectively and continually improving services.</p>	<p>In 2018/19 we concluded that the Council has a well established performance management framework in place to monitor performance against national standards.</p> <p>While work had progressed during 2018/19 to address areas of poor performance, the impact was not yet evident in the performance data. There was evidence of the Council directing resources to address areas of poor performance.</p>	<p>While we have not identified any specific risks in this area during our audit planning, we will continue to review the Council's performance against the Performance Management Framework, the Council's reporting and monitoring of these and the actions taken to improve the performance of the Council.</p>

Wider scope requirements (continued)

Other responsibilities

Best Value (BV)

We have a duty to be satisfied that local government bodies have made proper arrangements for securing BV. 2019/20 is year four of the agreed five-year approach to auditing BV in Councils. A key feature of the approach is the Controller of Audit providing a BVAR to the Accounts Commission for each Council once over the five year period. As part of the 2019/20 audits, a BVAR will be reported for North Ayrshire Council, with planned publication in June 2020.

We will work closely with Audit Scotland's PABV to plan, perform and report on the BV audit work. Our annual audit report to the Committee in September 2020 will provide commentary on any findings and recommendations arising from this work.

The Islands (Scotland) Act 2018

The Islands (Scotland) Act 2018 received royal assent in July 2018. The Islands (Scotland) Act 2018 places a duty on 'relevant authorities' to have regard to island communities in exercising their functions. Relevant authorities must prepare an island communities impact assessment for any policy, strategy or service likely to have an effect on an island community which significantly differs from that on other communities. This is known as "island-proofing". The Act requires relevant authorities to publish information at least once annually detailing steps taken to comply with their duty of having regard to island communities.

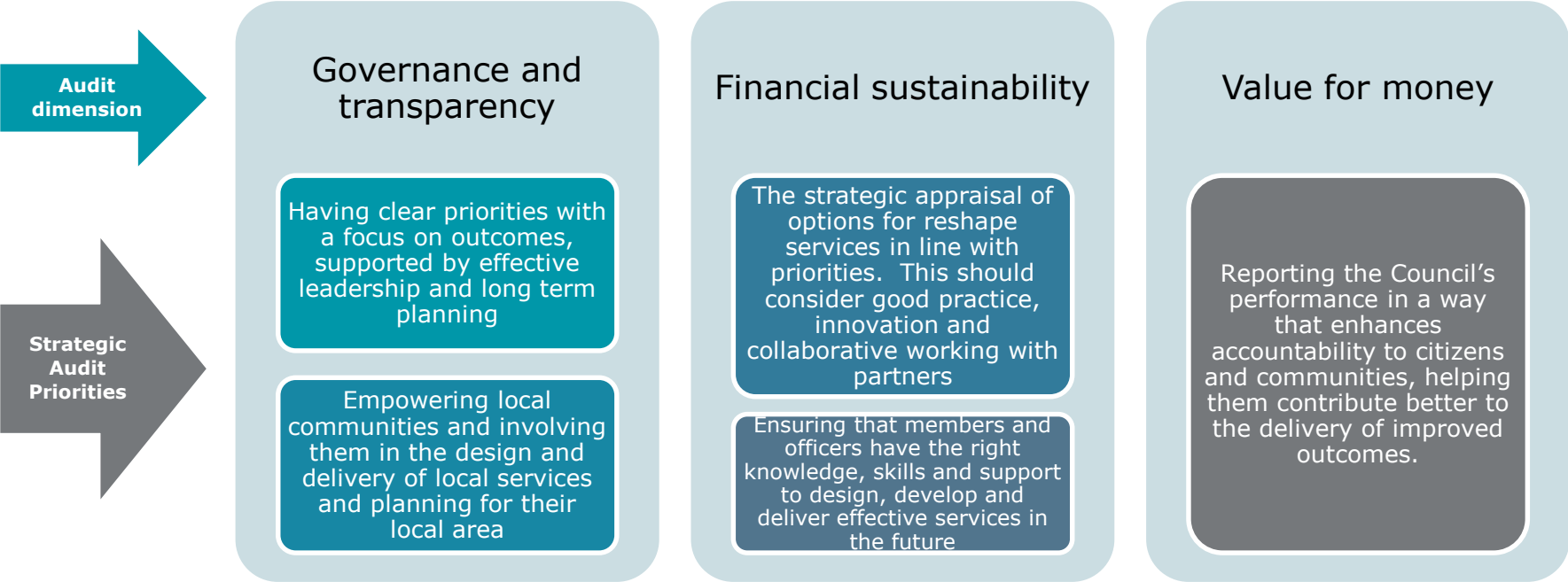
In our 2019/20 audit we will consider the implications of the Act as part of our consideration of BV arrangements.

Wider scope requirements (continued)

Other responsibilities (continued)

Strategic audit priorities

In its 2019-24 strategy, the Accounts Commission sets out five **Strategic Audit Priorities** as set out below. We will assess the effectiveness and appropriateness of the arrangements for each strategic audit priority based on our work carried out to date over the audit appointment and report in our overall conclusion in the corresponding audit dimension in our annual audit report.



Wider scope requirements (continued)

Other responsibilities (continued)

Councils' 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 BV audit responsibilities. In turn, councils have their own responsibilities, under their BV duty, to report performance to the public. The Accounts Commission issued a revised **2018 Statutory Performance Information Direction** in December 2018 which requires a council to report on:

- performance in improving local public services provided by the Council (on its own and with its partners and communities), and progress against agreed desired outcomes;
- Its own assessment and independent audit assessments of how it is performing against its duty of BV, and how it plans to improve these assessments; and
- how it (with its partners where appropriate) has engaged with and responded to its diverse communities.

As this is the first year of the direction, we will evaluate the effectiveness and appropriateness of the arrangements at the Council to fulfil these requirements. This will be linked to our work carried out on the Commission's strategic audit priority in respect of reporting the Council's performance in a way that enhances accountability to citizens and communities as discussed further on page 19.

National Fraud Initiative (NFI)

All Councils are participating in the NFI 2018/19. Audit Scotland expects bodies to investigate all recommended matches based on findings and the risk of error or fraud by 30 September 2019, with the results recorded on the NFI system.

We will be required to complete and submit a questionnaire by 28 February 2020. The information from this will be used in Audit Scotland's next NFI report due to be published in the summer of 2020.

Wider scope requirements (continued)

Other responsibilities (continued)

Sector overview/ Annual performance reports

As in previous years, the Accounts Commission will publish an annual performance report covering the local government sector. This report uses information from the audited accounts and the Annual Audit Reports and therefore much of the required information is generally already available from the core audit work. However, we will be requested by Audit Scotland to provide important supplementary information collected as datasets. We will share these with management as soon as they are available.

Performance Audits

As local auditors, we play a key role in delivering the five year rolling work programme for performance audits carried out by Audit Scotland’s PABV. Audit Scotland plan to publish the following report which is anticipated to involve local auditor input during the 2019/20 audit year:

Title	Objective	Local auditor input	Timescale for input
Waste management	To assess how well Scotland is performing in meeting its current and future waste management targets	To provide information on local, regional and national waste management arrangements, including cost, investment, volume and Landfill Tax data. Guidance will be provided, if required	October to December 2020

Impact reports

We will also be requested to provide information to support assessing the impact of previously published performance audit reports. Audit Scotland plan to assess the impact of the report “**Council’s use of arm’s length organisations**” between March and May 2020 and the report “**Children and young people’s mental health**” during April / May 2020.

Wider scope requirements (continued)

Other responsibilities (continued)

Shared Risk Assessment and Joint Scrutiny Planning

The Accounts Commission, supported by Audit Scotland, chairs the Strategic Scrutiny Group (SSG). The SSG is made up of scrutiny bodies from across the public sector to make their work on local government more co-ordinated, better targeted and more proportionate to identified risks. The scrutiny bodies involved include the Care Inspectorate, Education Scotland and the Scottish Housing Regulator.

The Shared Risk Assessment (SRA) process was established by the SSG as the vehicle for scrutiny bodies to share intelligence and agree scrutiny risks at each council.

Following a review of the SRA, there will be a greater focus in 2019/20 on coordinating and reporting on scrutiny at a national level. An Operational Sub-group, chaired by the Care Inspectorate, is now responsible for producing, updating and reporting on the National Scrutiny Plan (NSP). The group has responsibility for the operational development of the new approach to sharing intelligence, including identifying and responding to any issues in how scrutiny bodies work together or escalating these to SSG if they cannot resolve them. We note that the Council has reported the NSP to the Audit and Scrutiny Committee in November 2019.

The arrangements for coordinating scrutiny at a local level continue to include a Local Area Network (LAN) for each Council. As your local auditor, we lead the LAN for North Ayrshire Council, and the results of discussions between the LAN and the Council feed into the NSP. We will provide a return to the Operational Sub group.

Greater clarity about the rationale for scrutiny activity will be provided in the NSP. The Operational Sub-group issued an NSP on 30 September and will update it every six months (planned for March and September 2020) which we will discuss with the Council.

Routine meetings of the LAN members are planned and there will ongoing engagement between LAN leads and the Operational Sub-group.

Maintaining audit quality

Responding to challenges in the current audit market

This is a time of intense scrutiny for our profession with questions over the role of auditors, market choice and the provision of non-audit services by an audit firm. We welcome the debate and are engaging fully with all parties who have an interest in the current audit market reform initiatives, so that our profession, our people, our clients and most importantly, the public interest, are served to the highest standards of audit quality and independence.

The role of audit

- Public confidence in audit has weakened over recent years and the expectation gap has widened with differences between what an audit does and what people think it should do (largely in areas of internal controls, fraud, front half assurance and long term viability).
- Deloitte fully supports an independent review into the role of auditors.
- The Government's Brydon Review will consider UK audit standards and how audits should evolve.

Would it be better to have audit only firms?

- Deloitte believes that multidisciplinary firms have more knowledge, greater access to technology and a deeper talent pool. The specialist input from industry, valuation, controls, pensions, cyber, solvency, IT and tax services are critical to an effective audit.
- Our investment in audit innovation, training and technology is greater because of the multidisciplinary model.

Is the current audit market uncompetitive?

- We recognise that the competition for large, complex clients is fierce, but we wholeheartedly support greater choice being available to stakeholders.
- There are barriers to entry in the listed market that are significant including the required global reach, unlimited liability, and the high cost of tendering.
- The audit profession has engaged with the Competition and Markets Authority with ideas on how to provide greater choice in the market, and responded to the CMA's suggested market remedies.

Independence and conflicts from other services

- Legislation and the FRC's Ethical Standard restrict the services we may provide to audit clients
- Deloitte invests heavily in systems, processes and people to check for potential conflicts.
- We have governance arrangements in place to assess any areas of potential conflict, including where required to protect the public interest.
- Fees for non-audit services to audit clients have fallen since 2008 (17% to 7.3% of firm revenue).

Deloitte

- Our Impact Report and Transparency Report are available on our website <https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html>

Maintaining audit quality (continued)

Our commitment to audit quality



Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

- We will apply professional scepticism on material issues and significant judgements identified, by using our expertise in the local government sector and elsewhere to provide robust challenge to management.
- We have obtained a deep understanding of your business, its environment and of your processes in income and expenditure recognition, payroll expenditure and capital expenditure enabling us to develop a risk-focused approach tailored to the Council.
- Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve specialists to support the audit team in our work.

In order to deliver a quality audit to you, each member of the core audit team will receive tailored learning to develop their expertise in audit skills, delivered by Pat Kenny and other sector experts. This includes sector specific matters, and audit methodology updates.



Engagement Quality Control Review

We have developed a tailored Engagement Quality Control approach. Our dedicated Professional Standards Review (PSR) function will provide a 'hot' review before any audit or other opinion is signed. PSR is operationally independent of the audit team, and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

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 establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory and corporate governance updates, relevant to you.

What we do not report

As you will be aware, our audit is 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, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

This report has been prepared for the Audit and Scrutiny Committee, 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

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

8 January 2020

Appendices



Fraud responsibilities and representations

Responsibilities explained



Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of fraud in the recognition of grant income and management override of controls as a key audit risk for your organisation.



Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Council:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud that affects the entity or group and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.



Fraud responsibilities and representations (continued)

Inquiries

We will make the following inquiries regarding fraud:



Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.



Internal audit and Local Counter Fraud Specialist

- Whether internal audit and the Council's local counter fraud specialist has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.



Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.



Independence and fees



As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit and Scrutiny Committee for the year ending 31 March 2020 in our final report to the Audit and Scrutiny Committee.
Fees	<p>Fee range for the 2019/20 audit to be provided by Audit Scotland in late December 2019 will be discussed and agreed with management and the Governance and Scrutiny Committee in early 2020.</p> <p>There are no non-audit services fees proposed for the period.</p>
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Our approach to quality

AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our Audit Quality Monitoring and Measuring programme. In July 2019 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2018/19 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality. We have further transformed our internal review processes including a new focus for reviewing in progress audits, developing our Audit Quality Indicators ('AQI') which are monitored and reported to the firm's executive, and on enhanced remediation procedures.

Whilst we are pleased that overall our quality record, as measured by external inspections, has improved from 76% to 84%, we remain committed to continuous improvement and achieving as a minimum the 90% benchmark across all engagements. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions. We are also pleased to see the impact of our previous actions on impairment, group audits and contingent liability disclosures reflected in the audits under review and there being limited or no findings in those areas. These continue to be a focus in our training, internal coaching and internal review programmes.

We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website.
<https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

The AQR's 2018/19 Audit Quality Inspection Report on Deloitte LLP

"We assessed 84% of the firm's audits that we reviewed as requiring no more than limited improvements, compared with 76% in 2017/18. Of the FTSE 350 audits we reviewed this year, we assessed 75% as achieving this standard compared with 79% in 2017/18. We note that our inspection results show only modest improvements in audit quality."

"We had no significant findings arising from our firm-wide work on internal quality monitoring, engagement quality control reviews and independence and ethics."

"Our key individual review findings related principally to the need to:

- Exercise greater professional scepticism in the audit of potential prior year adjustments and related disclosures in the annual report and accounts.
- Strengthen the extent of challenge of key estimates and assumptions in key areas of judgement, including asset valuations and impairment testing.
- Improve the consistency of the quality of the firm's audit of revenue.
- Achieve greater consistency in the audit of provisions and liabilities."

"The firm has enhanced its policies and procedures during the year in a number of areas, including the following:

- Through the firm's global audit quality programmes, there has been an increased focus on consistency of audit work across the audit practice. For certain account balances, standardised approaches have been adopted, further use has been made of centres of excellence and delivery centres and new technologies embedded into the audit process to support and enable risk assessments, analytical procedures and project management activities.
- Further methodology updates and additional guidance and training for the audit practice covering group audits, accounting estimates, financial services (including the adoption of IFRS 9) provisions and contingencies and the evidencing of quality control procedures (including EQCR) on individual audits.
- Increased support for audit teams throughout the audit cycle including coaching programmes for teams and greater use of diagnostics to monitor progress.
- Continued focus on the approach to the testing of internal controls. The firm provided additional training and support to audit teams adopting a controls-based audit approach, increased focus on reporting to Audit Committees on internal controls and on the wording of auditor's reports."

Sector developments



Accounting standards

IFRS 16 - Leases

Background

The new standard is being implemented in 2020/21 and will require adjustments to recognise on balance sheet arrangements currently treated as operating leases.

For 2019/20, the Council will need to include disclosures on the expected impact of the standard, but not make any adjustments in the financial statements in respect of IFRS 16. However, many organisations have identified previously unidentified leases (or arrangements that contain a lease, such as service contracts) as part of their transition project, and so there may be some 2019/20 impact.

Separate to the financial reporting impact, but potentially more critical, budgets for 2020/21, particularly capital budgets, will need to reflect the impact of the new standard (and require submissions well ahead of year-end).

In the local government context relatively small effects from standards can have a significant impact against performance metrics and targets, and so it is important to clearly understand the impact of the standards.

We have requested management's timetable for IFRS 16 work, and to understand the extent of testing required for 2019/20 disclosures.

Next steps

We recommend that the Audit and Scrutiny Committee review the impact of IFRS 16, including calculating any adjustments that will be required as at 31 March 2020 for transition. We would suggest that the Audit and Scrutiny Committee receive reporting in year from management on the implementation of the new standard, and we will report specifically on the findings from our audit work in this area.

State of the State

The view from citizens, leaders and the frontline of public services

Background and overview

Now in its eighth year, The State of the State brings together Deloitte and Reform to make an annual assessment of government and public services in the UK. As Brexit negotiations and parliamentary wrangling continues, The State of the State looks beyond the headlines to explore the UK's public sector from the view of citizens, public sector leaders and the frontline of public services.

The State of the State finds that the public want greater spending on services and perceptions of social inequality have grown. It finds that investment in skills could make a significant difference to some of the UK's pervasive economic issues including productivity and regional disparity. And it finds frontline public sector professionals are too often hampered by out-of-date technology and working environments.

But amid these challenges, The State of the State finds much to be positive about. Our research shows that public sector leaders are enthused by the prospect of increased spending, public support is strong for government action on big issues like climate change and the thriving public sector ethos at the frontline remains one of the UK's core strengths.



The State of the State 2019-20

The view from citizens, leaders and the frontline of public services

Next steps

A summary of the key conclusions are provided on the next page. The full report is available at <https://www2.deloitte.com/uk/thestateofthestate>

State of the State (continued)

The view from citizens, leaders and the frontline of public services

Key conclusions

Combining the three perspectives in our research offers real insight into issues at the heart of a new domestic agenda. Our key observations are:

- **The public and the public sector want to know what post-austerity looks like.** Public service leaders are best placed to make their own devolved decisions, but many want direction from national governments on the shape of post-austerity, sector-wide reform. At the frontline, professionals want that reform to include greater use of mobile technology to reduce their administrative burden and boost their productivity.
- **Infrastructure and skills investment should be deployed to tackle economic inequalities.** The public think that economic inequalities in the UK are getting worse and public sector leaders believe transport infrastructure investment could tackle them if deployed with purpose. Our research also suggests that a range of the UK's economic and social challenges converge around skills – and so investment in skills provision could make a substantial difference to the UK's post-Brexit future.
- **The UK has an opportunity to consolidate its environmental leadership.** Public concerns on climate change have spiked in the past year, support for government intervention is strong and the UK has a window of opportunity to consolidate its environmental leadership when Glasgow plays host to the COP26 summit in 2020.
- **Resolving the social care crisis needs political will.** As the Queen's Speech recognised, underfunding in the social care system continues to blight lives and exacerbate demand on the NHS. Leaders across the public services want to see social care rise as a political priority and our survey finds it may be emerging as a priority for the public. Our research suggests that cross-party political leadership may be the best route to new funding arrangements – perhaps considering systems around the world as a starting point for UK options.
- **The UK could set the global gold standard in public administration.** Brexit may be dominating a substantial part of Civil Service capacity, but it has enhanced government capability and stimulated cross-departmental working. Leaving the EU is an era-defining challenge for government departments but beyond Brexit, the UK will be in a strong position to set the global gold standard for public administration, exporting UK expertise, experience of successful transformation and digital know-how.

What does climate change mean for business?

New website – learning, interviews and resources

Background

Climate change is likely to drive some of the most profound changes to businesses in our lifetimes.

Impacts on products and services, supply chains, loss of asset values and market dislocation are already being caused by more frequent and severe climate-related events.

Discover how to think through the challenges and futureproof your business.

The time to act is now!

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What does climate change mean for business?

Understanding the role of finance professionals

Climate change is likely to drive some of the most profound changes to businesses in our lifetimes.

Impacts on products and services, supply chains, loss of asset values and market dislocation are already being caused by more frequent and severe climate-related events. These effects are now compounded by the accelerating pace of policy and regulatory change as humanity recognises the challenge we face and the drastic and rapid actions we all must take in order to protect our planet and our own livelihoods.

Discover how to think through the challenges and futureproof your business through [learning](#), [interviews](#) and [resources](#).

The time to act is now!

Supported by



Next steps

Deloitte and the ICAEW have launched a site to support considering what climate change means for finance professionals at www.deloitte.co.uk/climatechange

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NORTH AYRSHIRE COUNCIL

28 January 2020

Audit and Scrutiny Committee

Title:	Internal Audit Reports issued
Purpose:	To inform the Committee of the findings of Internal Audit work completed between October and December 2019.
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 October and December 2019. 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 Executive Director (Finance and Corporate Support) and the relevant Executive Director and service managers on the completion of each assignment. Where appropriate, this has included an action plan detailing recommendations for improving internal control. Appendix 1 includes the report and action plan from each audit.

2.3 The findings from 8 separate audit assignments are detailed at Appendix 1 to this report and the levels of assurance for each are noted in the table below:

Audit Title	Assurance Level
Kelio	Limited
Procurement Cards	Limited
External Residential and Education Placements	Limited (HSCP) Reasonable (Education)
Accounts Payable transaction testing	Reasonable
Payroll transaction testing	Reasonable
Code of Corporate Governance	Substantial
Additional Support Needs schools	Substantial
Housing Rents	Substantial

2.4 The most significant findings are:

- There is a lack of overall control of the Kelio time-recording and access system and a number of actions have been identified to ensure it is operated in a robust manner.
- Limited assurance was obtained with regard to controls around procurement cards. No fraud was found during audit testing; however, the actions identified will help tighten controls around the cards and ensure compliance with procedures.
- In relation to the Health and Social Care Partnership's procedures surrounding external placements, audit testing raised concerns in the lack of consistency in the data being retained for each case, and where that data is being stored. In addition, breaches of Procurement Standing Orders were noted.

3. Proposals

3.1 It is proposed that the Committee considers the outcomes from the Internal Audit work completed between October and December 2019.

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 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.

Laura Friel
Executive Director (Finance and Corporate Support)

For further information please contact **Paul Doak, Senior Manager (Internal Audit, Risk and Fraud)**, on **01294-324561**.

Background Papers

None.

KELIO

1 Background

- 1.1 The Kelio system provides time keeping and basic access/egress security within 17 North Ayrshire Council locations.
- 1.2 Kelio uses HIBglobal cards which can be programmed for a variety of locations and work patterns and provide user access to network printers. These cards, each with a unique numerical reference number, are issued independently from employee ID cards.
- 1.3 Employee records covering six months from January to July 2019 were analysed during this audit.

2 Objectives and Scope

- 2.1 The main objectives of this audit were to ensure that: -
 - policies, management and operational controls are in place to control access to the system
 - business continuity and security processes are established and robust
 - system monitoring is applied by management; and
 - users are using the system as prescribed by policy

3 Findings

System Access Controls

- 3.1 A copy of the contract with the supplier could not be provided and it is not recorded on the procurement contracts register. **(Action a)**
- 3.2 Guidance to employees is through the policy document 'Flexi Scheme' issued in April 2016. Further guidance is provided on the intranet 'Kelio-Self Service-Guide' and network printer document 'Safecom-printing-register-Kelio-card'. All other training needs are provided by team colleagues. **(Action b)**
- 3.3 The system is centrally administered by the Business Support team located in Cunninghame House. There are 3 central team members, augmented by 28 service based administrators who provide support within their teams. System reports identified a further 67 employees with system administration rights. **(Action c)**
- 3.4 System reports indicate 5,347 Kelio cards are currently in use allocated to 2,735 employees. 1,165 system users have been allocated multiple cards. External cards have been issued to 203 users many of whom are unidentified. Visitor cards are issued by receptionists and these should be returned at the end of the visit or day; however, at the time of the audit some of these had not been returned to reception for more than two days. **(Action d)**
- 3.5 Recurring spend on the Kelio system is low, with a maintenance agreement of £3,000 per annum. During the period under review, total spend was £24,000 with much of the

additional expenditure relating to the installation of additional terminals at a new location.

Business Continuity and Security

- 3.6** The Kelio System is not identified on the Business Continuity Plan. **(Action e)**
- 3.7** No overall responsibility for the Kelio system is assigned to an individual and no management checks are carried out to confirm that Kelio cards are held by the assigned individual. **(Action f)**
- 3.8** Some cards remain assigned to employees who have left the Council. **(Action g)**

Monitoring

- 3.9** There is a suite of system reports available and team managers have access to their own staff records. Analysis of these reports identified issues with the quality of information provided when setting up records on the system. These include naming conventions not matching HR records and employee numbers not being recorded. **(Action h)**
- 3.10** Analysis indicates that recording of annual leave and time on the Kelio system is inconsistently applied and recording errors have been identified to individual accounts. **(Action b)**

User Interface

- 3.11** Each individual work pattern is assigned on Kelio. Compliance testing covering a six month period identified 287 different work patterns allocated to 2,311 different employees.
- 3.12** Employees are permitted to carry forward 14 hours of credit to the next accounting period, this balance is adjusted for part time hours. In the event of excess hours this balance is automatically reduced by the system. For the six month period analysed employees regularly lost time when they exceeded their work pattern limits. **(Action i)**
- 3.13** Employees are permitted to carry forward a seven-hour negative balance, which is repayable in the next recording period. During the test period an average 445 employees failed to meet the criteria set by the flexi scheme in respect of negative balances. **(Action i)**

4 Internal Audit Opinion

- 4.1** Overall, limited assurance was obtained with regard to the use of the Kelio system as time keeping and access control to Council buildings and service areas.
- 4.2** There is no overall responsibility for the system resulting in a piecemeal approach to its use.
- 4.3** Policy and guidance documentation are current; however, its implementation has to be properly recorded by system users and managed by their team managers.
- 4.4** The system is currently under review and whether a new system is adopted, or the Council remain with the current system a major housekeeping exercise needs to be undertaken, supported by advice to users.

KEY FINDINGS AND ACTION PLAN KELIO

Action	a
Finding	Contract details are not available for review.
Action Description	A copy of the contract should be requested from the suppliers and the contracts register should be updated.
Risk	The Council has no overview of the terms and conditions and risks financial losses due to overcharging or payment for services not procured.
Priority (1, 2, 3)	1
Paragraph Reference	3.1
Managed by	Mark Boyd, Head of Service (Financial and Customer Services)
Assigned to	Hayley Smith, Team Leader (Business Support)
Due Date	December 2019
Management Comment	The Business Support team will liaise with PMI and the supplier to request the contract and update the contract register accordingly. Following this contract management arrangements between the Business Support team and PMI will be reinforced to clarify the roles between the two teams in the maintenance of the contract.

Action	b
Finding	Lack of training may lead to the system being used inappropriately.
Action Description	Guidance should be provided to new employees as part of the induction process. Regular reminders should be issued to employees on use of the system.
Risk	Informal training leads to inconsistent practices and inaccurate entries on the system.
Priority (1, 2, 3)	2
Paragraph Reference	3.2, 3.10
Managed by	Mark Boyd, Head of Service (Financial and Customer Services)
Assigned to	Hayley Smith, Team Leader (Business Support)
Due Date	March 2020
Management Comment	<p>Work has already commenced in introducing KELIO to new employees as part of the induction process.</p> <p>The Business Support team will also be introducing “drop-in sessions” for employees and managers, starting January 2020 and these will be delivered twice a month to demonstrate the system and advise on any queries employees may have.</p> <p>The Business Support team will be working with the Transformation Team to create a new Connects (SharePoint) page containing new procedure notes, including a FAQ section and video demonstrations for both employees and managers.</p> <p>The Drop-in sessions will start January 2020 and completion of all procedure notes available by March 2020.</p>

Action	c
Finding	System administration rights are available to too many people leading to a reduction in operational controls.
Action Description	A review of the role of system administrator should be undertaken. Where the individual is not a system administrator but is allocated administration rights these should be removed. If necessary, a new role should be identified on the system reducing the access that Service support staff have.
Risk	Administrator rights are a key system control which should be restricted to as few people as possible, reducing opportunity for fraudulent activities on the Kelio system.
Priority (1, 2, 3)	1
Paragraph Reference	3.3
Managed by	Mark Boyd, Head of Service (Financial and Customer Services)
Assigned to	Hayley Smith, Team Leader (Business Support)
Due Date	July 2020
Management Comment	<p>The Business Support team no longer add new administrators to KELIO.</p> <p>To address the current number of Administrator accounts a cleanse of KELIO will be undertaken to remove all administrators from the system and going forward, the Business Support team will control and maintain the number of administrator accounts required. These levels will be controlled across Directorates.</p> <p>Administrator training will be arranged with a requirement for each new administrator to complete a sign off on new terms for administrators.</p>

Action	d
Finding	Individuals have access to multiple cards and there is a lack of control over visitor cards.
Action Description	Using analysis work detailing users and number of cards, a house-keeping exercise should be undertaken to reduce the number of cards in use, restricting access to an appropriate level. Where cards are not recovered access privileges must be cancelled.
Risk	Access and egress to buildings is not controlled, missing cards are not reported, and unauthorised persons have uncontrolled use of Kelio cards.
Priority (1, 2, 3)	1
Paragraph Reference	3.4
Managed by	Mark Boyd, Head of Service (Financial and Customer Services)
Assigned to	Hayley Smith, Team Leader (Business Support)
Due Date	July 2020
Management Comment	Going forward only the Business Support team as the central administrator will issue new cards. Clearing unused cards will be part of the data cleanse completed once all administrators are removed from the system. Visitor cards will also be restricted per Service and will be subject to randomised checks to ensure these are still secure and in use.

Action	e
Finding	Kelio is not identified in the Business Continuity Plan
Action Description	A risk assessment should be completed, and a mitigating action plan identified and communicated to the relevant staff.
Risk	Kelio HIB cards provide access and egress control. In the event of failure, the system defaults to open. Long term system failure would mean that access to various locations linked to that terminal would remain open all the time.
Priority (1, 2, 3)	2
Paragraph Reference	3.6
Managed by	Mark Boyd, Head of Service (Financial and Customer Services)
Assigned to	Hayley Smith, Team Leader (Business Support) & Laura Galloway, Senior Contracts Officer (Contracts Compliance and Maintenance)
Due Date	March 2020
Management Comment	Mitigating acting plan will be identified with Business Support with regards to system failure. This requires to be developed between PMI and the Business Support team.

Action	f
Finding	Ownership of the Kelio system is not allocated to one person.
Action Description	A senior management system owner should be identified as soon as possible with a remit to manage Kelio access permissions (including appropriate access to buildings), and ensure cards are checked randomly on a regular basis.
Risk	Corporate ownership of the system is unrecognised and localised impromptu procedures are adopted, access to the system is uncontrolled and fraudulent transactions are completed unnoticed.
Priority (1, 2, 3)	1
Paragraph Reference	3.7
Managed by	Mark Boyd, Head of Service (Financial and Customer Services)
Assigned to	Hayley Smith, Team Leader (Business Support)
Due Date	March 2020
Management Comment	System ownership will sit within Business Support. Senior Manager responsible for this will be Elaine Nixon. Business Support will require input from PMI with regarding to providing support in terms of supplier engagement.

Action	g
Finding	Analysis of leavers identified that cards remain issued to individuals no longer in the employ of the Council.
Action Description	Redundant cards should be deactivated. Arrangements should be made for system administration to receive regular reports from Chris in line with the recommendations of the recent Movers audit.
Risk	Access cards are used inappropriately, and security aspects of the system are circumvented.
Priority (1, 2, 3)	1
Paragraph Reference	3.8
Managed by	Mark Boyd, Head of Service (Financial and Customer Services)
Assigned to	Hayley Smith, Team Leader (Business Support)
Due Date	July 2020
Management Comment	<p>The Business Support team currently receive a report from HR for terminations/movers. This analysis will be used each month to remove employee access.</p> <p>The Business Support will also liaise with I.T to improve the current leavers form to ensure it becomes mandatory for managers to select the option that instructs removal of Kelio access.</p>

Action	h
Finding	<p>System reports are available, however making proper analysis of the information is difficult due to the way users are set up on the system: for example, some names can be shortened and not all records have the employee number assigned.</p> <p>Last usage of the cards is not readily available.</p>
Action Description	All Kelio records should replicate HR records and the employee number must be assigned to the card. An additional report which records last card usage should be requested from the system providers and regularly reviewed.
Risk	Proper review of the system is made impossible due to incompatibility with other Council records and redundant cards are used by personnel to whom they were not issued.
Priority (1, 2, 3)	1
Paragraph Reference	3.9
Managed by	Mark Boyd, Head of Service (Financial and Customer Services)
Assigned to	Hayley Smith, Team Leader (Business Support)
Due Date	April 2020
Management Comment	<p>Business Support will ensure that all new users are replicated to their HR records, this will be including HR records.</p> <p>Autoclock (system provider) have been contacted and have advised that there is no generic report for last card usage and that each card will need to be checked individually. Business Support will continue to discuss with the provider for resolution and if not will work through the system to attempt to create a report.</p>

Action	i
Finding	Time keeping and annual leave are not accurate on the system and management review of team records is inconsistently applied across Services.
Action Description	A house keeping exercise should be undertaken by the system administrator. Management teams should be encouraged to regularly review their staff records, especially where members of their team are losing time on a regular basis, and ensure that negative balances are recovered in the following calendar month.
Risk	Employee records are inaccurate and possible overloading of workflow or employees not adhering to the Flexi Scheme are not identified at an early opportunity.
Priority (1, 2, 3)	1
Paragraph Reference	3.12, 3.13
Managed by	Mark Boyd, Head of Service (Financial and Customer Services)
Assigned to	Hayley Smith, Team Leader (Business Support)
Due Date	March 2020
Management Comment	As part of the new drop-in sessions that Business Support will be introducing managers will be advised on how to run reports to check for absences, clocking and balances etc. As well as having new procedure notes for the system this should encourage managers to use KELIO more to be able to track the above.

Priority Key used in Action Plan

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

PCARD AND PROCUREMENT SPEND

1 Background

- 1.1 The audit is part of the approved 2019/20 audit plan and focused on compliance with Procurement card guidance, as well as compliance with on contract spend through an analysis of Procurement card spend versus expenditure through the Financial Management System (Integra). It also included an analysis of non-PO invoice spend.
- 1.2 The period covered by the audit is 1st April 2018 to 31st March 2019. During this period there were 27,976 card transactions totalling £5,527,601.04. The highest value card transaction was £12,940.11.
- 1.3 During this period there were 114,340 invoices processed on Integra totalling £276,769,283.05. The auditor removed payments to individuals i.e. social services payments, feeder payments, rent refunds, redecoration (disturbance allowance), replacement cheques, election deposits, equal pay and replacement clothing grant from this analysis and this reduced the number of invoices to 93,444 totalling £263,967,943.74. This represents payments to trade creditors.
- 1.4 SDOL is the system provided by Royal Bank of Scotland to process and control card payments. Cardholders are required to review all card transactions and approvers should independently check and approve the transactions.

2 Objectives and Scope

- 2.1 The main objectives of the audit were to ensure that:
- Procurement cards are being used in compliance with procedures
 - Adequate controls are in place to prevent invoices being paid via procurement card, and ensure card transactions are within set limits, only valid Council purchases are made, leavers' cards are returned and on contract spend via card is agreed and monitored.
 - Purchase orders are being raised where required, the use of retrospective orders is limited and the number of standard suppliers being paid only 1 invoice is limited as they should be processed as a sundry supplier.

3 Findings

Compliance with Procurement Card Procedures

- 3.1 The Procurement Card Policy and Procedure Reference Guide should be reviewed and updated. The audit tested against this guidance document and found it unclear at times and repetitive. **(action a)**
- 3.2 A sample of receipts was tested and, in 4 out of the 15 cases, the cardholder did not hold a valid VAT receipt and advised the receipt they held was the only one provided. In 1 case the cardholder recorded VAT on SDOL but didn't hold a VAT receipt and in the 3 other cases VAT was not recorded by the cardholder on SDOL, but vatable items were purchased. **(action b, c)**

- 3.3** Section 8.7 of the guidance states “Cardholders must ensure that for each transaction there is a receipt / documentation for Audit purposes. Spot checks will be carried out. If it has not been provided the cardholder must request the required paperwork from the supplier i.e. VAT receipt/VAT invoice.” Although this is noted under the Cardholder Responsibilities section, the spot checks should be an independent check to be carried out by eProcurement. It was identified that these are not taking place. **(action c)**
- 3.4** The auditor tested for card transactions that were approved and reviewed by the same person. There were 161 transactions across 10 cardholders. There were 84 card transactions where the transactions were not reviewed by the cardholder, as they were on leave. However, there were 77 card transactions totalling £3,719.01 which were reviewed and approved by the cardholder so there was no segregation of duties. The 77 card transactions were passed to e-Procurement to further investigate with RBS.
- 3.5** A previous audit recommendation stated “The Corporate Procurement Unit should investigate the possibility of enhancing controls within the SDOL system to ensure that the same person cannot review and approve a transaction.” E-Procurement advised a change was made to SDOL in October 2015 to ensure a separation of reviewers and approvers. E-Procurement were under the impression the system would prevent this; however, RBS have confirmed this is not the case. During the audit, e-Procurement carried out a full review to identify the cardholders that could approve their own transactions and are taking action to fix this. This review identified 51 users affected by the segregation of duties issue.
- 3.6** In addition, the management response to this action also stated “The CPU will run a quarterly report to assess if anyone is reviewing and approving the same transaction. If this is found to be the case the individual will be sent a reminder that this contravenes the procedure. If a second occasion is found then a message will be sent to the individual copying their line manager. A third occasion will result in the procurement card being revoked.” This has not been implemented despite the action having been marked complete. **(action d)**
- 3.7** The auditor traced a sample of transactions from the SDOL system to Integra. The SDOL system has a Financial Transaction Reference Number which is a unique reference; however, this is not recorded in the journal which is passed to Financial Management and uploaded to Integra. **(action e)**
- 3.8** A sample of 10 approvers were selected for further audit testing. In 1 case the application form was not properly completed and had not been signed by the Procurement Manager and this approver had not signed the acknowledgement form. In 1 case the acknowledgement form could not be traced. **(action f)**
- 3.9** Procurement confirmed there is no current monitoring of GPC card spend against Integra spend to highlight when Services should be using existing contracts and ordering via Integra instead of using GPC card. However, the Procurement Board has recently requested monitoring of GPC spend to identify high-value suppliers. Each quarter, expenditure with a selected supplier will be reviewed to identify off-contract expenditure and potential for contracts to be put in place.
- 3.10** As shown in the table below, the auditor identified the top 15 suppliers paid via procurement card to identify if the supplier is also being paid via Integra. There were 4 suppliers paid via both methods. However, no duplicate payments were found from the testing carried out.

SUPPLIER NAME	NO OF GPC TRANSACTIONS	TOTAL SPEND PER GPC	NO OF INTEGRA TRANSACTIONS	TOTAL SPEND PER INTEGRA
THE FURNISHING SERVICE	2780	£1,510,362.86	37	£28,653.93
BRAKE BROS LTD	2953	£1,302,622.24	54	£6,307.59
GEORGE CARRUTHERS & SO	411	£373,855.91	n/a	n/a
MCCONECHYS HEAD OFFICE	51	£275,978.72	n/a	n/a
AMAZON	3822	£175,919.31	n/a	n/a
MULLER WISEMAN DAIRIES	3710	£164,959.85	n/a	n/a
TESCO	1472	£138,367.32	n/a	n/a
UNICO LTD	482	£113,664.97	759	£237,595.16
CORSEHILL PACKAGING LT	698	£99,155.86	n/a	n/a
J PIERONI & SONS LTD	540	£94,035.76	n/a	n/a
BESTWAY WHOLESALE	55	£58,426.63	n/a	n/a
ARGOS	332	£43,522.89	21	£3,599.39
WWW.ADELIEFOODS.CO.UK	921	£40,990.47	n/a	n/a
GREENCITY WHOLEFOODS	238	£37,140.81	n/a	n/a
BATLEYS PERTH	129	£36,760.11	n/a	n/a

- 3.11** 10 of these suppliers are on the contract register. Procurement did advise that a number of Services are using procurement cards for on-contract spend after approval by Procurement; however, there is no record of such suppliers to show which ones have been given this approval. The contract register should include a flag to show all suppliers which have been given approval by Procurement to be used for on-contract spend via the procurement card. **(action g)**

Analysis of Procurement Card Spend

- 3.12** The auditor tested for card transactions that were higher than the single transaction limit by analysing limits provided by RBS. It was found that 216 card transactions met this criterion and in 43 cases the difference was more than £1,000. E-Procurement advised that an 'Amend a Limit' form should be completed if a user requires their single transaction limit to be amended. In addition, e-Procurement carried out a limit review in April 2019 to streamline the number of single transaction limits. **(action h)**
- 3.13** The auditor tested a sample of 10 such card transactions and found the following:
- in 4 cases it was unclear if a previous Amend a Limit form was actioned as the limit provided to audit implied it had not been actioned.
 - In 4 cases there is no evidence of the limit change to allow the queried transaction to be processed.
 - In 2 cases the current limit does not agree to either an Amend a Limit form or the limit review so there is no evidence of the limit change to allow the queried transaction to be processed. **(action h)**
- 3.14** As a result of the above, Internal Audit asked e-Procurement to contact RBS to find out if there was a sufficient audit trail covering amendments to cardholder limits. RBS provided an audit trail of such amendments and although it did provide the date of change, user who made the change, value before the change and value after the change, they could only provide the data for the previous 3 months. To ensure a full audit trail is maintained e-Procurement should ask for a monthly audit trail report from RBS to support such amendments. **(action h)**

- 3.15** The level of detail recorded by cardholders under the 'Finance Expense Description' varies. In addition, there were 88 card transactions totalling £22,440.63 with no description recorded by cardholders on the SDOL system. Although approvers are required to check receipts, there is a risk that they are approving such transactions with either limited knowledge or no knowledge of the description of goods purchased. **(action b)**
- 3.16** There were 21 cardholders that had since left the Council. The leavers were passed to e-Procurement to check the account had been de-activated. All accounts had been closed apart from 2 which e-Procurement will action. **(action b, i)**
- 3.17** There were 6 cards which had been used after the cardholder left. There were 36 card transactions made totalling £1,785.03. All these purchases were for genuine work purposes. 17 of them were for catering supplies where the card details were embedded in the supplier's system and the supplier had not been notified promptly. The other 19 transactions consisted of purchases made just before the leaving date but processed afterwards and internet purchases made by colleagues who had been given the card when the cardholder left. Therefore there were no fraudulent purchases or purchases for personal gain and no evidence of leavers retaining the cards. However, it is a clear breach of procedure for anyone other than the cardholder to make a purchase using that card and it is also a requirement that services notify eProcurement and any suppliers who hold card details promptly when a cardholder leaves. **(action b, i)**
- 3.18** The auditor tested for transactions with the word 'invoice' in the finance expense description column. This highlighted 8 card transactions totalling £12,145.97 in Facilities Management which were in relation to the payment of outstanding invoices. Although there was no duplicate payment of such invoices, there is a risk these invoices could be paid via Integra and SDOL. In addition, paying invoices via the procurement card is against the guidance. This has been highlighted in a recent Corporate Fraud investigation with an appropriate action.

Analysis of Integra Spend

- 3.19** There is an Integra Supplier Request Form, an Integra Individual Request Form and a Sundry Payment Form. There is no guidance on the forms or on Connects that advises users when each form should be used. A reference guide advising users of the criteria for each method should be produced. **(action j)**
- 3.20** The auditor analysed suppliers who had only been paid once during the last financial year. There were 756 suppliers brought over from Masterpiece who have only been paid once. There were 39 suppliers added to Integra between June 2017 and April 2018 that have only been paid once. There have been 252 suppliers added to Integra between April 2018 and March 2019 that have only been paid once. **(action j)**

4 Internal Audit Opinion

- 4.1** Overall, limited assurance was obtained with regard to controls around procurement cards. No fraud was found during audit testing; however, the actions identified will help tighten controls around procurement cards and ensure compliance with procedures.

KEY FINDINGS AND ACTION PLAN PCARD AND PROCUREMENT SPEND

Action	a
Finding	The auditor tested against the Procurement Card Policy and Procedure Reference Guide and found it unclear at times and repetitive.
Action Description	The Procurement Card Policy and Procedure Reference Guide should be reviewed and updated.
Risk	Users are not clear about their responsibilities.
Priority (1, 2, 3)	3
Paragraph Reference	3.1
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	Complete
Management Comment	The Procedure has been revised to remove duplication and make it easier to understand. The revised document will be added to Connects and referenced in the monthly email sent to all SDOL users

Action	b
Finding	<p>VAT receipts are not always being obtained by the cardholder and VAT is not being properly accounted for by the cardholder on the SDOL system.</p> <p>The level of detail recorded by cardholders under the 'Finance Expense Description' varies. In addition, there were 88 card transactions totalling £22,440.63 with no description recorded by cardholders on the SDOL system.</p> <p>2 accounts where the cardholder had left the Council were still active. 36 transactions totalling £1,785.03 had been processed after the cardholder left the Council.</p>
Action Description	<p>Procurement should issue a reminder to users covering the following:</p> <ul style="list-style-type: none"> • cardholders must comply with relevant sections of the GPC guidance with regards to VAT receipts and to ensure VAT is properly recorded on the SDOL system. • Cardholders should provide a reasonable description for the goods purchased. • Services must notify them of leavers and movers promptly, notify any suppliers with embedded cards promptly and consider the need to add new cardholders in good time.
Risk	Lack of VAT receipt where VAT has been claimed and not claiming back VAT on vatable items. Approvers are approving such transactions with either limited knowledge or no knowledge of the description of goods purchased. Employees who have left the Council still have the facility to use the GPC. Breach of procedures and lack of proper oversight if other colleagues or suppliers with embedded card details use a leaver's card. Lack of business continuity if a service has not set up a replacement cardholder in good time.

Priority (1, 2, 3)	2
Paragraph Reference	3.2, 3.16, 3.17, 3.18
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Mark Boyd, Head of Financial and Customer Services
Due Date	30/11/19
Management Comment	A communication will be sent from Mark Boyd to all SDOL users and COLT members reminding individuals of their responsibilities.

Action	c
Finding	Spot checks to test for card transaction receipts as per the guidance are not being carried out by e-Procurement.
Action Description	e-Procurement should carry out periodic checks on a sample of card transactions to confirm that a proper receipt has been retained and VAT has been properly accounted for.
Risk	Potential fraudulent transactions go undetected and VAT is not properly accounted for.
Priority (1, 2, 3)	2
Paragraph Reference	3.2, 3.3
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Betty Saunders, Procurement Manager and Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	Complete
Management Comment	A process has now been implemented to check a small number of random transactions to note whether a receipt is attached. The results will be documented in a spreadsheet. A reminder message will be sent to any individuals not attaching receipts.

Action	d
Finding	The management response to a previous audit action stated "The CPU will run a quarterly report to assess if anyone is reviewing and approving the same transaction. If this is found to be the case the individual will be sent a reminder that this contravenes the procedure. If a second occasion is found then a message will be sent to the individual copying their line manager. A third occasion will result in the procurement card being revoked." This has not been implemented despite the action having been marked complete.
Action Description	e-Procurement should periodically review card transactions to identify cardholders approving their own transactions.
Risk	No segregation of duties.
Priority (1, 2, 3)	2
Paragraph Reference	3.6
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Betty Saunders, Procurement Manager and Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	30/11/19
Management Comment	The previous agreed action will be adopted. "The CPU will run a quarterly report to assess if anyone is reviewing and approving the same transaction. If this is found to

	be the case the individual will be sent a reminder that this contravenes the procedure. If a second occasion is found, then a message will be sent to the individual copying their line manager. A third occasion will result in the procurement card being revoked."
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Action	e
Finding	The SDOL system has a Financial Transaction Reference Number which is a unique reference; however, this is not recorded in the journal which is passed to Financial Management and uploaded to Integra.
Action Description	e-Procurement should consult with Financial Management to amend the information uploaded in the journal to include the unique reference.
Risk	Lack of a full audit trail of transactions between 2 systems.
Priority (1, 2, 3)	2
Paragraph Reference	3.7
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Betty Saunders, Procurement Manager and Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	30/11/19
Management Comment	The reference number will be passed each month from eProcurement to Financial Management for uploading into Integra

Action	f
Finding	Audit testing identified that procedures relating to the approval of applications for a GPC were not always being adhered to.
Action Description	Procurement staff should be reminded to ensure that application forms and acknowledgement forms are properly completed, signed, authorised and retained.
Risk	Procurement cards are issued without evidence of appropriate authorisation.
Priority (1, 2, 3)	2
Paragraph Reference	3.8, 3.9
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	Complete
Management Comment	Procurement staff have been reminded to be ensure forms are completed, authorised and retained.

Action	g
Finding	10 out of 15 highest paid procurement card suppliers are on the contract register, meaning the card is being used for on-contract spend. Procurement advised they approved a number of Services to use the procurement card for this purpose; however, there is no record of such suppliers to show which ones have been given this approval.

Action Description	The contract register should include a flag to show all suppliers which have been given approval by Procurement to be used for on-contract spend via the procurement card.
Risk	Increased risk of duplicate payments. Difficulty analysing aggregate spend per supplier.
Priority (1, 2, 3)	3
Paragraph Reference	3.12
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Betty Saunders, Procurement Manager and Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	Complete
Management Comment	A separate record of contracts where the use of PCards has been agreed has now been established. This spreadsheet will be updated with any additions or amendments.

Action	h
Finding	Audit testing identified that a proper audit trail was not being maintained in relation to amendments to cardholder limits.
Action Description	To ensure a full audit trail is maintained, e-Procurement should ask for a monthly audit trail report from RBS to support amendments to cardholder limits.
Risk	Lack of audit trail for a key system admin function.
Priority (1, 2, 3)	2
Paragraph Reference	3.13 – 3.15
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Betty Saunders, Procurement Manager and Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	30/11/19
Management Comment	e-Procurement will work with RBS to ensure that reports showing the full audit trail are requested and retained.

Action	i
Finding	2 accounts where the cardholder had left the Council were still active. 36 transactions totalling £1,785.03 had been processed after the cardholder left the Council.
Action Description	eProcurement should liaise with IT to ensure that they are included in reports they have started running, to show leavers and movers from CHRIS, and deactivate any cards where the service haven't previously notified them.
Risk	Employees who have left the Council still have the facility to use the GPC. Breach of procedures and lack of proper oversight if other colleagues or suppliers with embedded card details use a leaver's card.
Priority (1, 2, 3)	1
Paragraph Reference	3.16, 3.17
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	31/1/20 to commence
Management Comment	It is not unexpected that transactions may occur after an employee has left the Council, as any goods purchased in the last

	<p>month of employment need to be reconciled the following month by another individual.</p> <p>On a quarterly basis eProcurement will request a report from HR of all leavers. This will be crossed checked against an updated SDOL report of all PCard holders to identify any leavers whose card has not been returned to eProcurement. If a card is identified, then contact will be made with the leavers previous line manager to locate the relevant PCard.</p>
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Action	j
Finding	Audit testing highlighted that additional clarity is required for system users to ensure that suppliers are set up in the correct way,
Action Description	A reference guide advising users of the criteria to be followed to ensure suppliers are set up correctly and payments are processed in the most efficient way should be developed and issued.
Risk	Suppliers are set up incorrectly. Inefficient use of staff time setting up a supplier for a one-off payment.
Priority (1, 2, 3)	3
Paragraph Reference	3.19, 3.20
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	Complete
Management Comment	A review of Connects has been undertaken and it is felt that that the existing guidance on Connects is sufficient

Priority Key used in Action Plan

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

EXTERNAL RESIDENTIAL AND EDUCATION PLACEMENTS

1 Background

- 1.1 The Council has a responsibility to provide additional educational support and/or residential placements to young people assessed as needing such services.
- 1.2 The Council has a number of its own facilities which provide such services, however there are instances where it is necessary to procure services from external providers – either due to Council establishments being at capacity, or the needs of the young person being better met by a specialised external provider.
- 1.3 Both Education and the Health and Social Care Partnership (HSCP) have a role to play in delivering these services. Education take the lead in Education-only placements, whilst HSCP take responsibility for residential placements. Residential placements which include an element of educational support are arranged by HSCP, with input and budgetary support from Education.

2 Objectives and Scope

- 2.1 This audit has focussed on placements with external providers.
- 2.2 The main objectives of this audit were to ensure that:
 - There is a clear audit trail of the decision to place a child in a 3rd party placement, including details of the length of the placement, start date and funding mechanism,
 - There is evidence of a clear contract for services between the Council and the 3rd party service provider,
 - Financial checks are performed prior to paying invoices

3 Findings

Audit Trail of placement decision

- 3.1 Both services have their own procedure for managing these placements.
- 3.2 Audit testing of Education's procedures highlighted that paper files are kept for all children, with no direct electronic equivalent available. **(action point a)**
- 3.3 In addition, it was noted that the funding split agreed between Education and HSCP is not always stated in the Inclusion Group minutes. This was discussed with Education during the audit and it was agreed that the split would be noted in all minutes going forward.
- 3.4 During testing of HSCP's procedures it was noted that there is no formal list of the documents and correspondence to be held per child, nor is there a standardised filing system in place. A number of documents could not be located for review during audit testing. **(action point b)**

Contracts with external providers

- 3.5** A review of the service providers currently being used by both Education and HSCP was undertaken to ensure that the Council's Contract Standing Orders were being adhered to.
- 3.6** This review found that 2 of the companies being used by HSCP did not have a procurement contract in place. This was raised with Corporate Procurement during the audit, who agreed to investigate and correct this. **(action point c)**
- 3.7** Scotland Excel require an Individual Placement Agreement (IPA) be completed every time a young person is placed with a service provider from their framework. The IPA sets out, amongst other things, background details on the young person, placement requirements and costs.
- 3.8** The IPA is the formal agreement between the Council and the service provider and should be signed by both parties to signify an agreement has been reached. During audit testing within HSCP a number of IPAs could not be located, and of those that were available, a number hadn't been signed and returned to the Council by the provider. **(action point d)**

Financial checks

- 3.9** Education and HSCP maintain their own spreadsheets to monitor placements. These spreadsheets are the reference point against which invoices are checked prior to being paid. **(action point a and b)**
- 3.10** A sample of placements were selected from both spreadsheets to ensure the placement start or finish date per the spreadsheets matched the dates quoted on the supplier invoice. No errors were noted during testing.

4 Internal Audit Opinion

- 4.1** Overall, reasonable assurance was obtained with regards to Education's procedures surrounding external placements. The main concern arising from the audit was the ongoing use of paper files as the main storage method.
- 4.2** Overall, limited assurance was obtained with regards to HSCP's procedures surrounding external placements. Audit testing raised concerns in the lack of consistency in the data being retained for each case, and where that data is being stored. In addition, breaches of Standing Orders were noted.

KEY FINDINGS AND ACTION PLAN
EXTERNAL RESIDENTIAL AND EDUCATION PLACEMENTS

Action	a
Finding	Highly sensitive young person placement data is being kept in paper files by Education, with no direct electronic equivalent being available.
Action Description	<p>Carefirst should be considered as a storage location for holding all relevant placement information – as a replacement to the current systems being used.</p> <p>This would ensure that all data is held securely against each young person's record, whilst remaining accessible to those with appropriate system access rights.</p> <p>In addition, Carefirst could be used to hold financial cost information on each placement. This would reduce the reliance on spreadsheets.</p>
Risk	Data loss due to paper files not being backed up; inability to locate highly confidential data; GDPR breaches
Priority (1, 2, 3)	1
Paragraph Reference	3.2; 3.9
Managed by	Head of Service (Education)
Assigned to	Principal Educational Psychologist
Due Date	31 December 2019
Management Comment	Carefirst is not a viable storage mechanism for this as Education does not currently have access to Carefirst. Psychological Services files are currently paper reflecting their depth and the fact that they are open files in constant use meeting the exigencies of the service. Furthermore they are securely stored. There are also issues around the timing involved in transferring to an electronic filing system. We will consider electronic filing systems.

Action	b
Finding	Inconsistencies in the data being retained by the HSCP for placements.
Action Description	<p>A review should be undertaken by HSCP to confirm what data and correspondence need to be retained for each placement.</p> <p>Carefirst should be considered as a storage location for holding all relevant information – as a replacement to the current system being used.</p> <p>A procedure document which states the data to be retained, and its storage location should be prepared and circulated to all relevant staff.</p> <p>In addition, Carefirst could be used to hold financial cost information on each placement. This would reduce the reliance on spreadsheets.</p>
Risk	Important data is not retained: lack of succession planning; GDPR breaches
Priority (1, 2, 3)	1
Paragraph Reference	3.4; 3.9
Managed by	Head of Service (Children, Families & Criminal Justice)
Assigned to	Senior Manager (Children & Families); Senior Officer (Residential Services)
Due Date	Checklist, including procedure document, have been completed and circulated to all relevant staff. March 2021 for everything to be contained in Carefirst or a similar information system.
Management Comment	<p>A checklist has been drawn up confirming what data and correspondence needs to be retained for each placement.</p> <p>Having spoken with our Finance and Carefirst managers, it has been pointed out that Carefirst was not designed as a repository for documents. However, the system can be used for this purpose while we await a new IT system that should have this as a core function. The work on Carefirst required for it to be used to hold financial information is currently being carried out in regard to residential services for adults. It would therefore be 2020/2021 before children's external residential placements can be looked at being incorporated into Carefirst. In the meantime, we will continue to use a spreadsheet to hold financial information.</p>

Action	c
Finding	Contract standing orders are not always being adhered to when appointing suppliers.
Action Description	HSCP and Corporate Procurement should review the 2 suppliers identified during the Audit who do not have procurement contracts in place, investigate how this has occurred, and take corrective action.
Risk	Breach of legislation; breach of Standing Orders.
Priority (1, 2, 3)	2
Paragraph Reference	3.6
Managed by	Head of Service (Children, Families & Criminal Justice)
Assigned to	Senior Officer (Residential Services)
Due Date	Complete
Management Comment	Senior Officer (Residential Services) has met with an officer in Corporate Procurement to review the two suppliers identified in the audit. As part of this work, they have investigated why this happened and taken corrective action to ensure that it does not happen again.

Action	d
Finding	IPAs are not always being signed and returned by external service providers.
Action Description	All suppliers should be reminded of the need to sign and return IPAs timeously. Support from Corporate Procurement and Scotland Excel may be required to effectively achieve this.
Risk	Lack of supplier signature may result in issues should a contractual disagreement occur; officer time wasted having to chase suppliers for signed IPAs. No evidence of service level agreed with supplier.
Priority (1, 2, 3)	1
Paragraph Reference	3.8
Managed by	Head of Service (Children, Families & Criminal Justice)
Assigned to	Senior Officer (Residential Services)
Due Date	Complete.
Management Comment	Senior Officer (Residential Services) has reminded all providers in writing at the time of placement of the need to sign and return IPAs. He has also set up a system to track missing IPAs and ensure that they are signed and returned.

Priority Key used in Action Plan

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

ACCOUNTS PAYABLE TRANSACTION TESTING

1 Background

- 1.1 This audit used computer audit software called IDEA (Interactive Data Extraction and Analysis) to interrogate the Accounts Payable (AP) System and examined any anomalies which arose.
- 1.2 The audit was carried out in quarter 2 and the audit period was 1st January 2019 to 30th June 2019. This audit will be carried out again in quarter 4.
- 1.3 There were 4,881 active Trade Suppliers (for processing payments to standard suppliers, individuals and social services) and 209 Sundry Suppliers (for processing one-off sundry payments) on Integra as at 26/07/19. Accounts Payable advised that since the last audit they have introduced a new process to deactivate suppliers that have not been paid in the previous 18 months which is why the number of suppliers is smaller than previous audits. This exercise is carried out on a quarterly basis.
- 1.4 There were 53,311 invoices paid during the period of the audit totalling just over £136 million.

2 Objectives and Scope

- 2.1 The main objectives of this audit were to ensure that:
 - duplicate suppliers are identified and de-activated to minimise the risk of duplicate invoices being paid
 - duplicate invoices have not gone undetected
 - advance payments have been reported to Financial Services for the list of pre-payments
 - high value invoices have been properly authorised
 - invoices paid to employees are bona fide

3 Findings

Supplier Tests

- 3.1 Testing was carried out to identify duplicate trade suppliers on the system. Testing identified 55 duplicate suppliers by either supplier name or bank details. These were passed to the AP team to review and deactivate as appropriate. There were 5 occasions where the same invoice was paid against 2 instances of the same supplier. **(Action a)**

Invoice Tests

- 3.2 The auditor tested for duplicate invoices for payments to suppliers and identified 208 possible duplicates that were investigated further. This resulted in 47 that were not duplicates and 116 where the duplicate had already been identified and action taken by the AP team. This testing identified 45 potential duplicate invoices totalling £82,490.97, which have not already been identified by AP. The potential duplicates have been passed to the AP team to check and arrange recovery. **(action b)**

Advance Payment Tests

- 3.3** The auditor tested for round sum amounts over £20,000 to help identify any advance payments. There were 22 invoices found meeting this criteria, all were checked and there were no cases of advance payments to report.

High Value Payments

- 3.4** The auditor selected a sample of 10 invoices between £10,000 and £100,000 to check the invoices were approved by an authorised signatory, were approved within the approval limit and an independent check had been carried out. In 4/10 cases there was no 'payments over £10k' report attached, 3 of which were keyed by the service, so there is no evidence an independent check was carried out. In addition, 2 invoices had no invoice stamp and although there was an approved stamp with initials against it, the auditor could not check if they were approved by an authorised signatory as the correct invoice stamp was not used. **(action c, d)**
- 3.5** The auditor selected a sample of 15 invoices over £100,000 to check the invoices were approved by an authorised signatory, were approved within the approval limit and an independent check had been carried out. In 3/15 cases there was no 'payments over £10k' report attached, all of which were keyed by the service, so there is no evidence an independent check was carried out. In 1 case the invoice was not attached on Integra. Although all invoices were approved by an authorised signatory, in 2 cases the invoice values were above their approval limit. The approvers were contacted during the audit and advised they should only approve within their agreed limit and if the limit needs to be amended this needs to be agreed by the Head of Service. **(action c)**

Creditors to Payroll Data Match

- 3.6** Testing was carried out to match employee bank details to trade and sundry supplier bank details to identify creditor payments made to employees. There were no matches found in this test.

4 Internal Audit Opinion

- 4.1** Overall, reasonable assurance was obtained with regard to the controls around the processing of invoices, in particular to preventing duplicate invoices being processed.

KEY FINDINGS AND ACTION PLAN
ACCOUNTS PAYABLE TRANSACTION TESTING

Action	a
Finding	Testing identified 55 duplicate suppliers by name or bank details.
Action Description	Procurement should review the list of duplicate suppliers and de-activate suppliers as appropriate.
Risk	Duplicate invoices may be passed for payment to the same supplier via different supplier numbers.
Priority (1, 2, 3)	1
Paragraph Reference	3.1
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	30.11.2019
Management Comment	Procurement will review the 55 potential duplicate suppliers and de-activate as required.

Action	b
Finding	Testing identified 45 potential duplicate invoices totalling £82,490.97, which have not already been identified by AP.
Action Description	AP should review the duplicate invoices and arrange for recovery of monies paid twice.
Risk	Council has paid the same invoice twice and the money has not been recovered.
Priority (1, 2, 3)	1
Paragraph Reference	3.2
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	30.11.19
Management Comment	Accounts Payable will investigate the potential duplicates and take appropriate action to recover duplicate payments.

Action	c
Findings	In 7/25 cases there was no 'payments over £10k' report attached so there is no evidence an independent check was carried out. In 4/25 cases invoices were approved by an authorised signatory for amounts above their agreed approval limit.
Action Description	Procurement should remind users to carry out an independent check to ensure invoices over £10k are keyed correctly and evidence of the check is attached to the Integra transaction. Procurement should remind approvers to only approve invoices within their agreed approval limit.
Risk	Errors made processing high value invoices are not picked up and no evidence to support checks are carried out. Invoices are passed for payment without proper approval.
Priority (1, 2, 3)	2
Paragraph Reference	3.4, 3.5
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	30.11.19
Management Comment	A reminder will be sent to all users who undertake manual invoice entries over £10K.

Action	d
Finding	The invoice stamp was not used on 2 invoices and although there was an 'approved' stamp with initials against it, the auditor could not check if they had been approved by an authorised signatory as the correct invoice stamp was not used. In addition, there was no evidence all relevant checks were carried out prior to passing the invoice for payment.
Action Description	Procurement should remind HSCP to use the corporate invoice stamp to ensure all relevant checks are carried out and approval given before the invoice is passed for payment.
Risk	No evidence of checks carried out or approval given.
Priority (1, 2, 3)	2
Paragraph Reference	3.4
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	30.11.19
Management Comment	Procurement will send a reminder to the team manager within the HSCP responsible for payment of invoices.

Priority Key used in Action Plan

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

PAYROLL TRANSACTION TESTING

1 Background

- 1.1 This audit was conducted as part of the approved 2018/19 Internal Audit Plan and used computer audit software to interrogate the HR/Payroll system and examined any anomalies which arose.
- 1.2 The Employee Account is used to access and complete internal online forms for contract amendments and terminations.
- 1.3 Mileage, travel and subsistence claims can either be submitted via the completion of a manual claim form which is then physically authorised or electronically via the system called HR21, which allows the claim form to be electronically completed and approved.
- 1.4 The Payroll system has a screen called Authorised Signatories which records what the employee is authorised to approve.
- 1.5 Audit software called IDEA (Interactive Data Extraction and Analysis) has been used to carry out this testing.

2 Objectives and Scope

- 2.1 The main objectives of this audit were to ensure that:
 - High overtime payments are valid and properly authorised.
 - Employees' last pay is correct, properly authorised and has not resulted in an overpayment.
 - Salary changes are valid and authorised.
 - High mileage claims are in line with the Terms and Conditions of Employment, are valid and authorised.
 - Travel and subsistence expenses are in line with the Terms and Conditions of Employment, are valid and authorised.
 - Employee details are valid and complete.
 - Allowances and deductions are in line with the Terms and Conditions of Employment, are valid and properly authorised.
- 2.2 This testing covered the period 1st April 2018 to 31st March 2019.

3 Findings

High Overtime Payments

- 3.1 A monthly paid Facilities Management employee received 187.5 hours overtime in March 2019. Further investigation found that the employee claimed overtime of 29 hours for working 2 school holidays in February and was paid these hours at triple time in addition to his normal contracted hours so received £1,130.13 gross. The approver of the overtime claim form confirmed that the employee worked 14.5 hours each day and was due to be paid triple time. However, in line with the terms and conditions of employment, the employee was entitled to double time for all hours worked on a public holiday in addition to payment for the day. Given that the employee is paid automatically for contracted hours, an overpayment of £350.61 (gross) has been made in relation to this overtime claim. Payroll are taking steps to recover this overpayment.
(action a)

- 3.2 A Building Services overtime form was approved by an employee who is not an authorised signatory. The auditor advised the Service during the audit to add the employee as an authorised signatory in Payroll.

Employees' Last Pay

- 3.3 From a sample of 30 leavers, 7 overpayments were made which had been picked up by Payroll. In 4 cases, the termination forms were submitted after the employee left and in 3 cases, the termination forms were submitted before the employee left.
- 3.4 When completing the Termination form through the Employee Account, if an employee is due Pay In Lieu of Notice this should result in a field appearing to record the number of weeks due. However, in 3 cases, the person completing the Termination form selected that the employee was due Pay In Lieu of Notice but no field appeared to record the number of weeks due. In all other cases this field had appeared. **(action b)**
- 3.5 There were 15 employees who left within 14 days of starting and in 3 cases the employee was overpaid. This had been picked up by Payroll. In addition, there was no termination form on Lagan for 3 of these employees.

Salary Changes

- 3.6 From a sample of 10 salary changes, 7 of the contract amendment forms were received after the effective date, 4 of which were more than 1 week after the effective date and 1 of which resulted in the employee being owed 1 full week's salary.

High Mileage Claims

- 3.7 There were 15 employees claiming 999+ miles; 5 claim forms were not completed properly and in all 5 cases the purpose of visit was not completed. In 6 cases the claim form was not submitted within the 3-month period; however, in 4 of these cases authorisation was provided by HSCP along with a reason for the delay to confirm the payment should still be made. In 5 of these cases, a number of claim forms were submitted and paid together rather than being paid individually.

Subsistence Claims

- 3.8 From a sample of 10 travel and subsistence claim forms, the details section for 1 claim form was not properly completed.
- 3.9 A manually completed travel and subsistence claim form for £324.40 was submitted and processed by Payroll without any approval. **(action c)**
- 3.10 2 employees submitted claim forms in relation to expenses incurred while overseas, one for £631.22 in June 2018 and one for £518.35 in April 2018. HR confirmed that teaching staff are not subject to the Local Government Terms and Conditions of Employment, which requires approval of such trips from the Chief Executive. The Head of Service (Education) confirmed that all Head Teachers were notified in March 2019 that the Head of Service (Education) should be notified of all overseas trips. However, the above employees claimed back the Euro value in pounds and did not use an exchange rate to ensure they were reimbursed the correct amount. As a result, one employee was overpaid £60.06 and the other employee was overpaid £41.85. **(action d)**

3.11 During the investigation into 3.10 above, the PA to the Chief Executive had no knowledge of the requirement within the Terms and Conditions of Employment which states “For overseas visits, approval must be sought from the Chief Executive in advance of such a visit”. As a result, there is no evidence that corporate staff taking trips overseas have not obtained approval from the Chief Executive. **(action e)**

3.12 Subsistence of £200.50 was paid to a Building Services employee for working in Arran for 2 weeks; however, no travel and subsistence claim form was completed. The employee requested expenses via their timesheet and the Contract Supervisor confirmed the subsistence to be paid via email. In addition, the Contract Supervisor approving via email is not an authorised signatory on Payroll. The service was advised during the audit to ensure travel and subsistence claim forms are completed in future and to add the approver as an authorised signatory in Payroll.

Allowances and Deductions

3.13 There are 15 employees currently in receipt of a Mental Health Allowance. HR advised this is an allowance paid to employees who undertake Mental Health Officer duties. This allowance is not covered in the Terms and Conditions of Employment. In addition, there is no evidence that the employees in receipt of this allowance are reviewed on an annual basis. **(action f)**

General Finding

3.14 During the audit there were a high number of errors noted, some of which resulted in overpayments which, although they had been picked up, resulted in additional staff time to investigate, correct and take action. Other key points identified were in relation to late completion of paperwork by services, approval by employees who are not approved signatories and travel and subsistence claims not being properly completed. **(action g)**

4 Internal Audit Opinion

4.1 Overall, reasonable assurance was obtained with regard to Payroll transactions testing.

KEY FINDINGS AND ACTION PLAN PAYROLL TRANSACTION TESTING

Action	a
Finding	The approver of the overtime claim form confirmed that the employee worked 14.5 hours each day and was due to be paid triple time. The employee was paid triple time in addition to their normal contracted hours resulting in an overpayment of £350.61.
Action Description	Approvers of overtime in Facilities Management should be reminded to authorise overtime claims only in line with the Terms and Conditions of Employment for each employee.
Risk	Overpayment of overtime
Paragraph Reference	3.4
Priority (1, 2, 3)	2
Managed by	Yvonne Baulk, Head of Service (Physical Environment)
Assigned to	Carolyn Hope, Senior Manager (Acting) Facilities Management
Due Date	Complete
Management Comment	Facilities Management staff are aware of the payment for public holidays i.e. always double time as no current staff will request plain time plus a day in lieu. On this overtime submission the employee actually wrote triple time at the side of the sheet and this was processed at triple time. The approving supervisors have been advised to ensure that if an employee marked on "triple time" that this was scored out.

Action	b
Finding	When completing the Termination form through the employee account, if an employee is due Pay In Lieu of Notice this should result in a field appearing to record the number of weeks due. However, in 3 cases the person completing the Termination form selected that the employee was due Pay In Lieu of Notice but no field appeared to record the number of weeks due. In all other cases this field had appeared.
Action Description	Payroll should review the Termination form to establish why this field is not appearing in all cases when PILON is due.
Risk	The number of weeks PILON is not provided resulting in extra work to determine the number of weeks due.
Paragraph Reference	3.4
Priority (1, 2, 3)	2
Managed by	Fiona Walker, Head of Service (People and Transformation)
Assigned to	Sheila Paisley, Senior Manager (Transformation)
Due Date	Complete
Management Comment	This issue has been identified and the issue resolved. The form has been updated and the fields will be visible in all instances where PILON has been identified.

Action	c
Finding	A manually completed travel and subsistence claim form was submitted and processed by Payroll without any approval.
Action Description	Payroll staff should be reminded not to process mileage and subsistence claim forms unless proper approval has been provided.
Risk	Employee is paid mileage/subsistence they are not entitled to.
Priority (1, 2, 3)	1
Paragraph Reference	3.9
Managed by	Fiona Walker, Head of Service (People and Transformation)
Assigned to	Jackie Hamilton, Senior Manager Employee Services
Due Date	Complete
Management Comment	The Payroll Team has been reminded of the importance of ensuring that all claim forms have been signed at the Authorised Signatory section.

Action	d
Finding	2 employees claimed subsistence for an overseas trip resulting in overpayments as both claimed the Euro value in pounds.
Action Description	Education should arrange for the recovery of these overpayments.
Risk	Overpayment not recovered.
Priority (1, 2, 3)	2
Paragraph Reference	3.10
Managed by	Andrew McClelland, Head of Service (Education)
Assigned to	Carole Devoy, Education Resources Manager
Due Date	Complete
Management Comment	Arrangements are in place for the recovery of overpayments.

Action	e
Finding	The PA to the Chief Executive had no knowledge of the requirement within the Terms and Conditions of Employment which states "For overseas visits, approval must be sought from the Chief Executive in advance of such a visit". As a result, it can be concluded that corporate staff taking trips overseas have not obtained approval from the Chief Executive.
Action Description	HR should review the current Terms and Conditions of Employment requirements, and if still relevant, remind Heads of Service to comply with the section relating to overseas trips and the completion of subsequent travel and subsistence claims.
Risk	Proper approval for overseas trips is not obtained, travel and subsistence outwith the standard rates are not properly approved.
Paragraph Reference	3.11
Priority (1, 2, 3)	2
Managed by	Fiona Walker, Head of Service (People and Transformation)
Assigned to	Jackie Smillie, Senior Manager (HR & OD)
Due Date	Complete
Management Comment	HR have sent a reminder to Heads of Service that CE approval is required for approval of overseas trips.

Action	f
Finding	There are 15 employees currently in receipt of a Mental Health Allowance. This allowance is not covered in the Terms and Conditions of Employment. In addition, there is no evidence that the employees in receipt of this allowance are reviewed on an annual basis.
Action Description	HR should consult with HSCP to review the current employees in receipt of this allowance and to set up an annual review process to ensure employees still meet the criteria to receive it along with clarification on the annual increase in line with the pay award. The approval should be a senior member of HSCP and should not be someone in receipt of such an allowance. This process should be covered in the Terms and Conditions of Employment.
Risk	Employees continue to receive an allowance they are no longer entitled to.
Paragraph Reference	3.13
Priority (1, 2, 3)	1
Managed by	Fiona Walker, Head of Service (People and Transformation) and Thelma Bowers, Head of Service (Mental Health)
Assigned to	Jackie Smillie, Senior Manager (HR & OD)
Due Date	Complete
Management Comment	Recent exercise conducted with HSCP to confirm those in receipt are still undertaking these duties (end Oct 2019). T's and C's also updated to reflect MHO allowance – sent to Webteam 4 Nov 2019.

Action	g
Finding	During the audit there were a high number of errors noted, some of which resulted in overpayments which, although they had been picked up, resulted in additional staff time to investigate, correct and take action. Other key points identified were in relation to late completion of paperwork by services, approval by employees who are not approved signatories and travel and subsistence claims not being properly completed.
Action Description	Employee Services should consider an awareness-raising campaign highlighting issues identified during the audit to try to reduce the number of errors being made and reduce Payroll officer time rectifying such errors.
Risk	Ineffective use of staff time rectifying errors by not getting it right first time.
Paragraph Reference	3.14
Priority (1, 2, 3)	2
Managed by	Fiona Walker, Head of Service (People and Transformation)
Assigned to	Jackie Hamilton, Senior Manager Employee Services
Due Date	Complete
Management Comment	Heads of Service are advised on a monthly basis of any overpayments that occur and should ensure that their Senior Manager review their processes to avoid future overpayments. In addition to this the Lead Adviser Payroll meets Senior Managers quarterly to discuss both the performance of the Service and the Payroll team, over/underpayments are discussed at this meeting with opportunities explored to enhance the process.

CODE OF CORPORATE GOVERNANCE

1 Background

- 1.1** The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) published an updated version of their Delivering Good Governance in Local Government Framework in 2016 (“the Framework”). This identified 7 Principles of Good Governance and within each of these a series of sub-principles and behaviours and actions which demonstrate good governance in practice. To support implementation of the Framework, CIPFA and SOLACE also published a set of Guidance Notes for Scottish Authorities (“the Scottish Guidance”).
- 1.2** North Ayrshire Council’s Internal Audit team test compliance with selected principles of the Framework (and previous versions) on a cyclical basis and the last such audit took place in 2015/16.

2 Objectives and Scope

- 2.1** The audit gathered evidence to demonstrate compliance with 2 of the 7 Principles of Good Governance as outlined in the Framework. These were:
C. Defining outcomes in terms of sustainable economic, social and environmental benefits;
and
E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it.

3 Findings

- 3.1** In relation to principle C, the Scottish Guidance states that “The long-term nature and impact of many of local government’s responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority’s purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.
- 3.2** The Scottish Guidance identifies 9 relevant behaviours and actions that demonstrate good governance in practice in relation to this principle. Testing was undertaken to ensure that the Council has suitable measures in place to demonstrate these behaviours and actions. It was found that this was the case in relation to all 9, for example:
- the preparation of the new Council Plan, which included consultation and impact assessment activities,
 - other consultations,
 - the inclusion of impacts in the standard template for committee reports,
 - the performance management framework,
 - the Capital Investment Programme and Strategy, which looks forward as far as 2027/28 and
 - the Risk Management Strategy.

3.3 In relation to principle E, the Scottish Guidance states that “Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.”

3.4 The Scottish Guidance identifies 12 relevant behaviours and actions that demonstrate good governance in practice in relation to this principle. Testing was undertaken to ensure that the Council has suitable measures in place to demonstrate these behaviours and actions. It was found that this was the case in relation to all 12, for example:

- the performance management framework,
- asset management planning,
- partnership working, including through the Community Planning Partnership,
- the Workforce Plan,
- Standing Orders and other governance documents,
- the Performance and Personal Development scheme, Leadership and Elected Member Development,
- the activities of the Audit and Scrutiny Committee,
- consultations and the Communications Strategy and
- Health and Safety policies and the Livewell programme.

3.5 During discussions about developing the capabilities of Elected Members and senior managers in relation to risk management, it was highlighted that there has been no specific risk management training for Chief Officers, although there has been for Members and also a general training course for all employees is offered. Chief Officer awareness is included in a Risk Management Action Plan which has been agreed by the Corporate Risk Management Group. **(Action a)**

4 Internal Audit Opinion

4.1 Overall, substantial assurance was obtained with regard to compliance with principles C. “Defining outcomes in terms of sustainable economic, social and environmental benefits” and E. “Developing the entity’s capacity, including the capability of its leadership and the individuals within in it” of the CIPFA/SOLACE Delivering Good Governance in Local Government Framework (2016).

KEY FINDINGS AND ACTION PLAN CODE OF CORPORATE GOVERNANCE

Action	a
Finding	There has been no specific risk management training for Chief Officers
Action Description	Specific risk management training should be arranged for Chief Officers
Risk	The Council hasn't ensured that Chief Officers have sufficient awareness and understanding of risk management for their roles.
Priority (1, 2, 3)	3
Paragraph Reference	3.5
Managed by	Fiona Walker, Head of Service (People and Transformation)
Assigned to	Alex Fitzharris, Team Manager (Risk and Insurance)
Due Date	31/03/2020
Management Comment	A risk management training session will be arranged and delivered for Chief Officers.

Priority Key used in Action Plan

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

ASN SCHOOLS

1 Background

- 1.1** North Ayrshire Council currently has 4 Additional Support Needs (ASN) schools.
- 1.2** This audit was performed by requiring each ASN school to complete a self-assessment questionnaire. Each questionnaire response was reviewed in detail and followed up as necessary. In addition, all schools were visited to allow more detailed audit testing to be performed.

2 Objectives and Scope

- 2.1** The objective of this audit was to review financial controls within the Council's ASN schools.
- 2.2** The questionnaire and detailed testing were designed to gain assurance that:-
- Staff are aware of all relevant Council governance procedures.
 - All cash is being held securely and is being properly managed.
 - Cash withdrawals made via the Procurement Card are being used for appropriate types of expenditure, and all transactions are being properly recorded.
 - A full audit trail exists for all school fund income and expenditure transactions.
 - Income from school meals is being securely stored prior to banking.

3 Findings

- 3.1** No significant risks or areas of weakness were identified at any of the schools.
- 3.2** During the audit it was noted that 2 of the 4 Head Teachers are reasonably new into post, and therefore have not yet attended the Council's 'Financial Regulations and Standing Orders relating to Contracts' training course. This was raised during the audit and both Head Teachers have now been booked on the course.
- 3.3** All 4 schools operate slightly differently in terms of financial procedures and practices. Consideration should be given to the best way to merge these systems, bank accounts etc in preparation for the merging of the 4 schools into the new ASN campus, and advice should be sought from Internal Audit as required.

4 Internal Audit Opinion

- 4.1** Overall, substantial assurance was obtained with regards to the financial controls within the ASN schools.

HOUSING RENTS AND ARREARS

1 Background

- 1.1** Universal Credit was introduced as part of The Welfare Reform Act 2012. This consolidated 6 previous benefits into one.
- 1.2** Prior to the introduction of Universal Credit, Housing Benefit was paid directly to the Council. Under Universal Credit the housing element of benefit is normally paid to the tenant and the tenant is then responsible for making the rent payment, although tenants can elect to have it paid directly to the Council.
- 1.3** The risk of increased rent arrears and bad debts as a result of changes to the benefits system was identified by Housing, and Performance Indicators (PI's) to monitor the impact were created within the Service Plan.
- 1.4** The 2018 Service Plan update confirms that the number, and value, of Universal Credit rent arrears cases has increased as more tenants are moved onto the scheme.

2 Objectives and Scope

- 2.1** The main objectives of this audit were to ensure that:
 - All housing rent payments received by the Council are accounted for, and accurately reflected in I-World (Housing rent system).
 - Rent arrears processes are sufficient to monitor and recoup all income owed to the Council timeously.

3 Findings

Rent Payments

- 3.1** Housing have very detailed procedure documents covering the income reconciliation process.
- 3.2** I-World is automatically updated for income received via PARIS (income collection system) at the end of each day. Housing reconcile the transfer between the two systems daily, to ensure that the transfer of data has been successful and that tenants accounts have been correctly updated.
- 3.3** A fortnightly reconciliation (in line with the rent charging period) is undertaken. This reconciles the movements in the Council's rent account in the period - including the total rent charge, PARIS income, Housing Benefit and Universal Credit received - to supporting documentation.
- 3.4** Audit selected a sample of dates to ensure a daily reconciliation between the two systems had been undertaken and that all the steps per the procedure had been completed. Reconciliations were available for all dates.
- 3.5** A fortnightly reconciliation was selected for testing. No issues were noted when reviewing this reconciliation and its supporting documents.

- 3.6** During the audit, discussions with staff highlighted that the Service is aware of the benefits of streamlining processes and is pro-actively reviewing current processes to look for areas of improvement.

Rent Arrears

- 3.7** Housing have a number of detailed guidance notes and procedure documents available to staff to assist with the arrears process.
- 3.8** Rent arrears have increased since the introduction of Universal Credit.
- 3.9** Part of this increase is due to 'technical' arrears. These are not true arrears but occur because the timing of some tenants' Universal Credit payments is out of sync with the Council's rent charging dates. This means that tenants may not receive their benefit payment in time to make the rent due date.
- 3.10** Housing are very aware of this issue and have been proactive in looking for ways to separate true debt from technical arrears. Manual adjustments are being made to arrears reports whilst work is undertaken with Northgate (I-World software provider) to update system reports.
- 3.11** In order to monitor debt within the Service:-
- Monthly reports are generated to monitor rent arrears by area, but also by Officer,
 - Debts of over £1,000 are looked at on a case by case basis each month. Each Housing Officer must provide a detailed update on the steps they are taking to recover any such debt,
 - A Rent Arrears Working Group meets every 4-6 weeks to oversee the overall arrears position.
- 3.12** In addition to monitoring arrears, Housing have processes in place to monitor the performance of Housing Officers including:-
- monthly area team meetings,
 - quarterly one to one's,
 - reviews of case notes by Senior Managers which help with the identification of best practice, training needs and ensure a consistent efficient, effective approach is taken to all arrears.
- 3.13** Examples of all the above monitoring processes were reviewed during the audit. No issues were identified during this review.
- 3.14** A sample of 5 arrears balances was selected for detailed testing. Audit worked through each case in detail with Housing - reviewing case notes, file notes, records of letters sent, phone calls made etc as recorded on I-World.
- 3.15** This review confirmed that Housing Officers are going beyond the standard steps of the debt recovery procedures. Requests for assistance from Welfare Reform Officers and multiple attempts to contact tenants shows that Housing Officers are proactively trying to assist tenants and prevent the escalation of cases to court action.

4 Internal Audit Opinion

- 4.1** Overall, substantial assurance was obtained with regard to Housing's income recording, and arrears monitoring procedures and no improvement actions were identified.