

## **The Accounts Commission for Scotland**

### **Agenda**

**Meeting on Thursday 17 March 2011,  
in the offices of Audit Scotland, 18 George Street, Edinburgh**

**The meeting will begin at 10:00 am**

1. **Apologies for absence**
2. **Declarations of interest**
3. **Decisions on taking business in private:** The Commission will consider whether to take item 13 in private.
4. **Minutes of meeting of 17 February 2011**
5. **Minutes of meeting of the Financial Audit and Assurance Committee of 10 February 2011**
6. **Chair's introduction:** The Chair will report on recent activity and issues of interest to the Commission.
7. **Update report by the Controller of Audit:** The Commission will consider a report from the Controller of Audit on significant recent activity in relation to the audit of local government.
8. **Co-ordination of local government scrutiny functions:** The Commission will consider correspondence from the Cabinet Secretary for Finance and Sustainable Growth.
9. **Local government overview reporting:** The Commission will consider its approach to future local government overview reports.
10. **Reports by the Controller of Audit:** The Commission will consider the development of guidance on procedures for consideration of reports by the Controller of Audit.
11. **Code of Audit Practice – 2011:** The Commission will consider a revised Code of Audit Practice.
12. **Accounts Commission Digest:** The Commission will consider any points that arise from its regular briefing on current issues.
13. **Audit appointments for 2011/12 to 2015/16:** The Commission will consider proposals for audit appointments for 2011/12 to 2015/16 arising from the recent audit tender process.

The following papers are enclosed for this meeting:

<b>Agenda Item</b>	<b>Paper number</b>
<p><b>Agenda Item 4:</b></p> <p>Minutes of the meeting of 17 February 2011</p>	<p>AC.2011.3.1</p>
<p><b>Agenda Item 5:</b></p> <p>Minutes of the meeting of the Financial Audit and Assurance Committee of 10 February 2011</p>	<p>AC.2011.3.2</p>
<p><b>Agenda Item 7:</b></p> <p>Update report by the Controller of Audit</p>	<p>AC.2011.3.3</p>
<p><b>Agenda Item 8:</b></p> <p>Report by the Director of Best Value and Scrutiny Improvement</p> <p>Correspondence from the Cabinet Secretary for Finance and Sustainable Growth</p>	<p>AC.2011.3.4</p> <p>AC.2011.3.5</p>
<p><b>Agenda Item 9:</b></p> <p>Report by the Director of Best Value and Scrutiny Improvement</p>	<p>AC.2011.3.6</p>
<p><b>Agenda Item 10:</b></p> <p>Report by the Secretary and Business Manager</p>	<p>AC.2011.3.7</p>
<p><b>Agenda Item 11:</b></p> <p>Report by the Assistant Auditor General</p> <p>Code of Audit Practice 2011</p>	<p>AC.2011.3.8</p> <p>AC.2011.3.9</p>
<p><b>Agenda Item 12:</b></p> <p>Accounts Commission Digest 17 March 2011</p>	<p>AC.2011.3.10</p>
<p><b>Agenda Item 13:</b></p> <p>Report by the Assistant Auditor General (<i>PRIVATE PAPER – For Commission members only</i>)</p>	<p>AC.2011.3.11</p>

Minutes of the meeting of the Accounts Commission held in the offices of Audit Scotland at 18 George Street, Edinburgh, on Thursday, 17 February 2011, at 10:00 am.

PRESENT: John Baillie (Chair)  
Alan Campbell  
Colin Duncan  
James King  
Bill McQueen  
Christine May  
Colin Peebles  
Linda Pollock  
Graham Sharp  
Douglas Sinclair (Deputy Chair)

IN ATTENDANCE: Fraser McKinlay, Controller of Audit and Director of Best Value and Scrutiny Improvement  
Fiona Kordiak, Director of Audit Services  
Mark Brough, Secretary & Business Manager  
Martin Walker, Assistant Director, Best Value and Scrutiny Improvement [Item 8]  
Antony Clark, Assistant Director, Best Value and Scrutiny Improvement [Items 9 and 10]  
Gordon Neill, Portfolio Manager, Best Value and Scrutiny Improvement [Item 9]  
Fiona Mitchell-Knight, Assistant Director, Audit Services [Items 10 and 11]  
Lesley McGiffen, Portfolio Manager, Best Value and Scrutiny Improvement [Item 10]  
Gordon Smail, Portfolio Manager, Best Value and Scrutiny Improvement [Item 11]

<u>Item No</u>	<u>Subject</u>
1.	Apologies for absence
2.	Declarations of interests
3.	Decisions on taking business in private
4.	Minutes of meeting of 20 January 2011
5.	Minutes of the Performance Audit Committee of 3 February 2011
6.	Chair's introduction
7.	Update report by the Controller of Audit
8.	The shared risk assessment process and the Best Value audit programme
9.	Best Value audit of fire and rescue services
10.	North Ayrshire Council Best Value audit
11.	The Highland Council – Caithness Heat and Power Project
12.	Accounts Commission Digest
13.	North Ayrshire Council Best Value audit
14.	The Highland Council – Caithness Heat and Power Project
15.	Any other business

1. Apologies for absence

Apologies were received from Michael Ash.

2. Declarations of interests

Colin Duncan declared an interest in relation to Item 10 as a member of Ayrshire and Arran NHS Board, of which the leader of North Ayrshire Council is also a member.

3. Decisions on taking business in private

The Commission agreed to take items 13 and 14 in private in order to allow deliberation on the action to be taken on the relevant reports.

4. Minutes of meeting of 20 January 2011

The minutes of the meeting of 20 January 2011 were submitted and approved, subject to Item 6 being revised to show that the Commission had agreed to a proposal to appoint Alan Campbell as a member of the Performance Audit Committee.

5. Minutes of the Performance Audit Committee of 3 February 2011

The Commission noted the minutes of the meeting of the Performance Audit Committee of 3 February 2011.

6. Chair's introduction

The Chair reported that—

- As a result of the revised structure of the Audit Scotland Board under the Public Services Reform (Scotland) Act 2010, the Scottish Commission for Public Audit has appointed Ronnie Cleland, an existing independent non-executive member of the Board, as Chair. Recruitment for a third independent non-executive member is under way.
- Following the Commission's decision on statutory performance indicators in December, the Chair and Deputy Chair met representatives of COSLA, SOLACE, the Improvement Service and Directors of Finance to discuss the continued development of local outcome indicators and performance reporting. Further discussion is expected before the Commission considers its approach to its 2011 statutory direction in the autumn.
- Four reports had been published since the Commission last met – *An overview of Local government in Scotland 2010*, and the performance audits published jointly on behalf of the Commission and the Auditor General on *Edinburgh Trams Interim Report*, *The Cost of Public Sector Pensions in Scotland* and *Maintaining Scotland's Roads*. The Chair expressed the Commission's thanks to Audit Scotland's communications team for their work to support these publications.

Jim King had attended a conference on shared services on 7 February on behalf of the Commission, and gave a short report to the Commission.

7. Update report by the Controller of Audit

The Commission considered and noted a report by the Controller of Audit providing an update on recent activity in relation to the audit of local government.

During discussion the Commission noted—

- A targeted piece of work on Moray Council had been completed jointly by Audit Scotland and Her Majesty's Inspectorate of Education as a result of the shared risk assessment process with scrutiny partners.
- The early publication of the *Edinburgh Trams Interim Report* due to media coverage of a leaked copy.
- That Audit Scotland staff had been invited to express interest in a voluntary early release arrangement scheme.

8. The shared risk assessment process and the Best Value audit programme

The Commission considered a report by the Director of Best Value and Scrutiny Improvement on the shared risk assessment process and Best Value audit work

The Commission noted the progress made in establishing the shared risk assessment process with other scrutiny bodies that is part of the local government scrutiny co-ordination work overseen by the Commission.

The Commission noted, in particular—

- That the shared risk assessment now informs all local government scrutiny work, including the Best Value audit work carried out by Audit Scotland on behalf of the Commission;
- The various means by which the outcomes of risk assessment, proposed scrutiny responses and other key issues are available to the Commission and the public;
- That there is a spectrum of Best Value audit work that can be conducted in a proportionate response to the range and nature of the identified risks.

Following discussion, the Commission agreed—

- That, given the way in which Best Value audit work arises from the risk assessment, details of the proposed Best Value programme should be submitted to the Commission annually;
- That such a report should include—
  - details of the shared risk assessment process that had led to the planned Best Value audit work; and
  - explanation of how decisions on the different types of work had been arrived at;
- To consider at a subsequent meeting a further paper on the proposed Best Value work for 2011/12 that has been identified through the shared risk assessment process.

9. Best Value in fire and rescue services

Having considered at its meeting in September 2010 its approach to taking forward Best Value work in fire and rescue services, the Commission had consulted on options.

The Commission considered a report by the Director of Best Value and Scrutiny Improvement on the consultation undertaken on behalf of the Commission.

The Commission noted—

- That the consultation had shown significant support for its preferred option of undertaking targeted work in each of the eight fire and rescue service areas along with a national overview;
- That there had been some support, particularly from fire and rescue services and authorities, for delaying any Best Value audit work, given the current debate about the future structure of fire and rescue services.

Following discussion, the Commission agreed—

- To approve the report on the consultation analysis and proposed Accounts Commission responses;
- That this report should be issued to stakeholders and published on the Accounts Commission web-page;
- To proceed with its preferred approach of undertaking targeted work in each of the eight fire and rescue service areas and a national overview;
- That audit work would be focused on the key characteristics of efficient and effective service delivery however this is structured; and
- To consider at a subsequent meeting a report setting out detailed proposals for the audit work.

10. North Ayrshire Council Best Value 2 audit

The Commission considered a report from the Controller of Audit on the Best Value audit of North Ayrshire Council. The Commission noted that this was the first Best Value report that implemented refinements to the process and the terms of the audit judgements following the evaluation of the Best Value 2 pathfinder audits.

During discussion, the Commission sought clarification and further explanation from the Controller of Audit and the audit team on a number of points in the report.

11. The Highland Council – Caithness Heat and Power Project

The Commission considered a report by the Controller of Audit on The Highland Council in respect of the Caithness Heat and Power project. The Commission had considered a previous report in June 2010 and directed the Controller of Audit to conduct further investigations.

During discussion, the Commission sought clarification and further explanation from the Controller of Audit and the audit team on a number of points in the report.

12. Accounts Commission Digest

The Commission considered and noted its regular briefing on current issues.

13. North Ayrshire Council Best Value 2 audit (In private)

Following discussion, the Commission agreed to make findings as contained in the report published on 10 March 2011.

14. The Highland Council – Caithness Heat and Power Project (In private)

Following discussion, the Commission agreed to make findings as contained in the report published on 2 March 2011.

**ACCOUNTS COMMISSION**

**MEETING 17 MARCH 2011**

**MINUTES OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE**

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Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of Audit Scotland, 18 George Street, Edinburgh on Thursday, 10 February 2011, at 9.30am.

PRESENT: Bill McQueen (Chair)  
Colin Duncan  
Linda Pollock  
Graham Sharp  
John Baillie

IN ATTENDANCE: Russell Frith, Assistant Auditor General  
Fiona Kordiak, Director of Audit Services  
Fraser McKinlay, Controller of Audit and Director of Best Value and Scrutiny Improvement  
Paul Reilly, Project Manager, Best Value and Scrutiny Improvement [Item 4]  
Gordon Smail, Portfolio Manager, Best Value and Scrutiny Improvement [Item 4]  
Peter Tait, Assistant Director, Audit Services Group [Item 5]  
Mark Brough Secretary and Business Manager

1. Apologies
2. Declarations of interest
3. Minutes of meeting of 18 November 2010
4. An overview of local government in Scotland 2010 – Initial impact and options for future reports
5. Current audit issues in councils
6. Any other business



1. Apologies

Apologies were received from Douglas Sinclair.

2. Declarations of interest

No declarations of interest were made.

3. Minutes of meeting of 18 November 2010

The minutes of the meeting of 18 November 2010 were approved.

In relation to Item 3, the Committee noted that discussions would continue as required with the Standards Commission to seek appropriate responses where issues of conduct in local government raise matters of concern to both the Standards Commission and the Accounts Commission.

In relation to Item 6, the Committee noted that reports to councils on lessons learned from investigations of recent instances of fraud are publicly available and can be considered by all councils and other interested parties.

4. An overview of local government in Scotland 2010 – initial impact and options for future reports

The Committee considered a report by the Director of Best Value and Scrutiny Improvement on the initial impact of the report *An Overview of Local Government in Scotland 2010*, published on 28 January 2011, and options for future overview reports.

The Committee noted the media coverage of the report and positive reaction from the local government community. The Committee agreed to receive a further report at a subsequent meeting summarising information from local auditors on councils' reaction to and use of the report.

The Committee noted that the Accounts Commission has initiated this report by making a standing direction to the Controller of Audit under section 102(1) of the Local Government (Scotland) Act 1973, as amended, to produce an overview report on issues arising from the audit of local authority accounts. The Committee noted that the report now also draws on wider audit work.

The Committee considered options for its approach to future overview reports and agreed to recommend to the Commission that —

- Future overview reports should be prepared under section 97A of the Local Government (Scotland) Act 1973, as amended – the Commission's powers to undertake or promote comparative and other studies to enable it to make recommendations on matters such as best value, financial and other management, and the economy, efficiency and effectiveness of local authorities.
- In order to maintain the connection between the report and issues arising from the audit of accounts, the oversight of the development of the report should be delegated to the Financial Audit and Assurance Committee, with a draft report being submitted to the Commission for approval in due course.
- The style and presentation of the report should seek to—
  - maintain a clear connection to evidence arising from the reports to the Controller of Audit on the audited accounts, and
  - provide the Commission with the opportunity to make its own recommendations on issues arising from the evidence.

The Committee agreed that a report outlining the issues and its recommendations should be submitted to the Commission.

5. Current audit issues in councils

The Committee considered a report by the Director of Audit Services on current audit issues in councils.

During discussion, the Committee noted the following issues and agreed that they should be drawn to the attention of the Commission—

- Councils are aware of the requirements for the introduction of International Financial Reporting Standards to local government accounts in 2010/11, but progress on implementation projects has slipped in many cases and is being monitored carefully.
- There is wide variation in the approach taken by councils to exercising discretion (within the limits set by pension schemes) in developing severance schemes to reduce pay costs.
- The main benefits of some projects to transfer services to charitable trusts have been in reduced tax liability. The extent to which benefits in more efficient service delivery have also been secured will be one of the issues examined by the forthcoming study in the *How Councils Work* series on *Arms-Length External Organisations*.
- Evidence indicates an increasing trend to consider outsourcing of services rather than shared services initiatives.
- Evidence indicates a number of instances of procurement difficulties. Some issues relating to this are expected to be considered in the forthcoming performance audit on *Commissioning Social Care*.
- The quality and capacity of the internal audit function is an important factor in relation to a number of the issues raised in this report. It may be appropriate to consider internal audit as the subject for a future study in the *How Councils Work* series.

The Committee also noted plans by a number of councils to reduce their workforce, and agreed that it would be useful in future for these figures to be presented as a percentage of a council's total workforce.

6. Any other business

There was no other business.

**ACCOUNTS COMMISSION**

**MEETING 17 MARCH 2011**

**REPORT BY THE CONTROLLER OF AUDIT**

**UPDATE REPORT**

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**Introduction**

1. The purpose of this regular report is to provide an update to the Commission to keep it informed of significant recent activity in relation to the audit of local government.
2. It is intended to complement the intelligence reports to the Financial Audit and Assurance Committee, which provide an update on issues arising in local government. The most recent such report was at the Committee meeting of 10 February.

**Local government issues**

3. The Commission may wish to note that the shared risk assessment process to update the 32 local Assurance and Improvement Plans for 2011/12 – 2013/14 is nearing its conclusion. The updates assess any new evidence about the council and show where the scrutiny risk assessments and the associated scrutiny work set out in the current AIP have changed. These reports are going through quality and consistency checks and will be published alongside the existing AIPs on the Commission's scrutiny improvement part of the website in due course.
4. The scrutiny plans from all 32 updates will be collated to create a revised National Scrutiny Plan for Local Government 2011/12. This will be submitted to the Commission and the Local Government Scrutiny Co-ordination Strategic Group shortly and is then expected to be published in mid-May with a report detailing the trends in scrutiny activity across all the scrutiny bodies.
5. Valerie Watts, formerly town clerk and chief executive of Derry City Council, has taken up post as chief executive of Aberdeen City Council.
6. Alan Blackie, chief executive of East Lothian Council, has announced his intention to retire in August.

**Parliamentary news**

7. On 23 February, the Chair of the Accounts Commission and the Controller of Audit gave evidence to the **Local Government and Communities Committee** on *An overview of local government in Scotland 2010*. The Committee was interested in topics including pension liabilities, the role of elected members, key risk areas for local authorities, Shetland Islands Council's accounts and its charitable trust, reserves, shared services, equal pay, and common good funds.

8. On 9 February, the Auditor General briefed the **Public Audit Committee** on the joint Accounts Commission/Auditor General *Edinburgh trams – interim report*. At meetings on 23 February and 2 March, the Committee heard evidence from:
  - Edinburgh City Council - Sue Bruce, Chief Executive; Donald McGougan, Director of Finance; Dave Anderson, Director of City Development; and Alastair Maclean, Head of Legal and Administrative Services
  - TIE - Richard Jeffrey, Chief Executive
  - Transport Scotland - David Middleton, Chief Executive; and Ainslie McLaughlin, Director of Major Transport Infrastructure Projects.

The Committee may issue a statement on the Edinburgh trams project.

9. At its meeting on 23 February, the Auditor General briefed the Public Audit Committee on the joint Accounts Commission/Auditor General report on *The cost of public sector pensions in Scotland*. The Committee agreed to include comments on the report within its legacy paper and to refer the report to the Finance Committee for information.
10. The Auditor General also briefed the Committee on the joint Accounts Commission/Auditor General report *Maintaining Scotland's roads: A follow-up report*. The Committee also decided to include comments on this report in its legacy paper. The Committee also agreed to note correspondence from the Accountable Officer and the UK Government on *Improving energy efficiency: A follow-up report*.
11. The Public Audit Committee has published its reports on *Getting it right for children in residential care* and *The Gathering 2009*. Both are available for download from the Scottish Parliament's website.
12. On 3 March, the Public Audit Committee led a debate in the Chamber on the key themes that the Committee has considered throughout the current Parliamentary session. The discussion covered transparency, data collection and quality measurement, and governance. Hugh Henry MSP, PAC Convenor, commented on the Committee's inability to scrutinise local government expenditure or investigate reports from Audit Scotland or the Accounts Commission that relate to local government issues. John Swinney MSP, Cabinet Secretary for Finance and Sustainable Growth, acknowledged the Committee's frustration and noted the role of the Accounts Commission in scrutinising local government. The *Official Report* of the debate is available for download from the Scottish Parliament's website.
13. The current session of the Parliament ends on 22 March, and the Parliament will be dissolved with effect from 00:01 on 23 March in advance of the Scottish election on 5 May.

#### **Other issues**

14. The Scottish Government has confirmed that all 32 councils had formally accepted the detailed terms of the proposed funding settlement for 2011/12 by the deadline of 28 February. As a result, the average cash reduction in resource budgets for 2011/12 will be 2.6% rather than 6.4%. Amendments to the Local Government Finance Order 2011 giving effect to this funding distribution and funding to compensate for councils freezing council tax will be considered by the Parliament prior to dissolution.

15. As part of the debate on the 2011/12 Scottish Budget, The Cabinet Secretary for Finance and Sustainable Growth, John Swinney MSP, announced that he intended to allocate an additional £5 million to help smooth the impact of the redistribution of this funding within the 2011-12 local government finance settlement.
16. On 3 March, Susan Deacon, Honorary Professor, School of Social and Political Science, University of Edinburgh, has published her independent report for the Scottish Government on early years policy, *Joining the dots: A better start for Scotland's children*.

### **Conclusion**

17. The Commission is invited to consider and note this report.

**Fraser McKinlay**  
**Controller of Audit, 9 March 2011**

**ACCOUNTS COMMISSION**

**MEETING 17 MARCH 2011**

**REPORT BY THE DIRECTOR OF BEST VALUE AND SCRUTINY IMPROVEMENT**

**CO-ORDINATION OF LOCAL GOVERNMENT SCRUTINY FUNCTIONS**

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**Purpose**

1. The purpose of this report is to invite the Accounts Commission to consider correspondence from the Cabinet Secretary for Finance and Sustainable Growth, John Swinney MSP, regarding the Commission's role in co-ordination of local government scrutiny, and to consider how the Commission wishes to respond.

**Background**

2. In March 2008, the Scottish Government asked the Accounts Commission to take on, on a transitional basis, a co-ordinating and 'gate-keeping' role in respect of the scrutiny of local government, with a remit focusing on corporate level scrutiny of local authorities.
3. The Commission established the local government scrutiny co-ordination strategic group involving the main scrutiny bodies for local government, with COSLA, SOLACE and the Scottish Government also involved. The Chair, Deputy Chair and Chair of the FAA Committee have represented the Commission on this group, which has been chaired by the Chair of the Commission. An operational group was also established to take forward the approach.
4. The Commission had no specific statutory authority to require scrutiny bodies to take part in co-ordination of activity. However, all the scrutiny bodies have worked very effectively together, both in the strategic and operational groups and at the local area network level. The strategic group also agreed a Joint Code of Practice to govern scrutiny co-ordination.
5. The substantial development work to establish the scrutiny co-ordination and shared risk assessment processes culminated in the publication in July 2010 of the first National Scrutiny Plan for local government. This showed that the work had led to significant process improvements, streamlining of scrutiny responses by various bodies and a substantial reduction in the corporate level scrutiny of councils.
6. Throughout the process the Commission has considered progress regularly, and has ensured that the Scottish Government has been kept informed on a regular basis. Following the publication of the first National Scrutiny Plan, the Cabinet Secretary initiated discussions about a 'stock take' of progress.

**Correspondence from the Cabinet Secretary**

7. Following the stock-take exercise, the Cabinet Secretary has now written to the Commission (letter dated 3 March 2011, included as paper AC.2011.3.5 for this meeting). The stock-take report is included as an appendix to that letter.

8. The Cabinet Secretary has welcomed the progress made through the scrutiny co-ordination work, and asked the Accounts Commission to take on a co-ordination and facilitation role in respect of local government scrutiny as one of its accepted functions. The Cabinet Secretary's letter therefore formalises the role previously carried out on a transitional basis.
9. The letter also makes it clear that involvement in the co-ordination activity by all local government scrutiny bodies (including the Commission) is to be regarded as an aspect of their obligations under the duty of co-operation established by section 114 of the Public Services Reform (Scotland) Act 2010. This, therefore, provides (along with the power of Scottish Ministers to issue directions or guidance in relation to compliance with the duty) a statutory framework for scrutiny co-ordination activity.

### **The Commission's position**

10. At its meeting in November 2010, the Commission considered an evaluation of the scrutiny co-ordination role and agreed various points including that—
  - It should continue to ensure improvement in the shared risk assessment process and existing scrutiny co-ordination activity; and
  - It would examine carefully its potential involvement in any future extension of scrutiny co-ordination activity and would continue consideration of this at its annual strategy seminar.
11. The endorsement and formalising by Scottish Ministers of the Commission's scrutiny co-ordination and facilitation role as one of its accepted functions is, therefore, welcome.
12. In respect of the further development of scrutiny co-ordination, the Commission will note that one of the next steps outlined in the stock-take report [at paragraph 15c)] is to give further consideration during 2011/12 to the scope for extending scrutiny co-ordination. This mirrors the Commission's own agreement (noted at paragraph 10 above) to consider this further. The Commission will wish to consider this in some detail over the next few months, including with partners in the strategic group and in the light of any recommendations from the Commission on the Future Delivery of Public Services.

### **Recommendation**

13. The Commission is invited to consider the correspondence from the Cabinet Secretary for Finance and Sustainable Growth and the terms in which it wishes to respond.

**Fraser McKinlay**  
**Director of Best Value and Scrutiny Improvement**  
**9 March 2011**

Cabinet Secretary for Finance and Sustainable Growth  
John Swinney MSP

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Professor John Baillie  
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2 March 2011

JL

### **Co-ordination of local government scrutiny functions**

Further to my letter of 6 August last year, I am writing again in light of the completion of the groundwork which was described in that letter.

We have now issued guidance in relation to the PSR Act 2010 section 114 duty of co-operation; the Ipsos MORI evaluation commissioned by Audit Scotland has now reported; and my officials, working with Audit Scotland, have completed the exercise to take stock of the co-ordination work. I enclose a copy of the report of this stock-take exercise.

I was interested to note the key findings of the Ipsos MORI evaluation and it is helpful that they were available to include in the stock-take exercise. I very much welcome the overall positive findings of the stock-take, which indicate that external scrutiny is now more streamlined, co-ordinated, proportionate and risk-based. I am grateful for the valuable work which you, colleagues in the scrutiny bodies and colleagues from local government have put into making such significant progress.

You will be aware that this work has contributed to the Government's ability, as part of its Spending Review considerations, to make a commitment to savings of at least 20% on the overall direct costs of scrutiny over the spending review period. This has enabled us to direct this saving to other priority service delivery areas. The paper on Efficiencies from Improvement to Scrutiny published as part of the set of budget documents details this commitment and summarises progress made in improving the

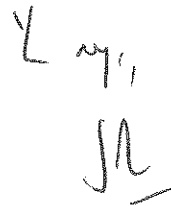


system of external scrutiny in Scotland. Clearly, external scrutiny has a major part to play in assurance about performance and driving improvement but its benefits need to outweigh its cost.

In light of the positive findings of the stock-take I would now like to move the activity on from the transitional footing which was set up in 2008. I would like the co-ordination and facilitation role in respect of local government scrutiny to now be regarded as one of the accepted functions of the Accounts Commission. We will be writing to the other scrutiny bodies involved to confirm this and to highlight that this way of working is a means of demonstrating compliance with the new duty of co-operation.

I know that further work will be done over the next period to take forward the steps detailed in paragraph 15 of the stock-take report. I look forward to hearing about the further developments which will maintain momentum and further sustain and embed the improvements made to-date. I would be happy to discuss your ideas and plans if there is an opportunity available over the next few weeks. Please contact my office if you think this would be helpful.

Many thanks again to you and all those involved with the Local Government Scrutiny Coordination Strategic Group for the commitment and energy that has been put into this area of reform and improvement.

A handwritten signature in black ink, appearing to read 'John Swinney', with a horizontal line underneath the name.

**JOHN SWINNEY**

**CO-ORDINATION OF LOCAL GOVERNMENT EXTERNAL SCRUTINY**  
**REPORT ON PROGRESS TO DATE AND NEXT STEPS**

**EXECUTIVE SUMMARY**

i) This paper summarises the findings of a stock-take of the developments set in train following the Crerar Review (2007) aimed at improving the co-ordination of local government external scrutiny and ensuring delivery of more proportionate scrutiny.

ii) In early 2010 the Cabinet Secretary for Finance and Sustainable Growth asked for a stock-take with regard to these developments. This was considered timely as a number of key milestones would be reached during 2010. The purpose of the exercise was to consider what has been achieved and identify next steps.

iii) The paper covers:

- the background to the development
- a summary of the progress which has been made
- consideration of whether the anticipated improvements are being delivered
- next steps

iv) The key finding of the stock-take is that the new approach to co-ordination of local government external scrutiny is now delivering more proportionate and better planned scrutiny responses. Although the improvements might not have been implemented as quickly or as broadly as some stakeholders had initially anticipated, there is now general acceptance that development of the new approach focussed on the "Shared Risk Assessment" is a valuable one.

*".....this is the way it should be. The audit burden for the public sector and for councils in particular has to be reduced and this is a sensible way of doing it because it should combine in one, all the issues and concerns and processes the various audit bodies have."* Comment from a Chief Executive to the Ipsos MORI review.

v) A number of wider changes made since the Crerar Review have also contributed to the progress identified in this paper. For example, as of 2011 the set of scrutiny bodies will be smaller and they will be subject to new statutory duties of user focus and co-operation. Further detail on all of the improvement is available in a report entitled **Crerar Review – progress 3 years on**. It is clear that the system which Professor Crerar reviewed in 2006 has undergone significant reform. The specific problems with regard to local government corporate scrutiny which he found has now in large part been resolved. However this is a complex area where there is potential for further improvement and where it is also important to keep the consequences of any change under review.

vi) **As the stock-take concludes that the new approach is delivering the intended improvements, the final section of the paper proposes next steps for action by and discussion between all key stakeholders. The next steps are focussed on what is needed to sustain the improvements already made, to ensure that momentum is maintained and to be in a position to adapt approaches if necessary.**

## BACKGROUND

1. The Crerar Review, published in 2007, made a recommendation that: *“Ministers should immediately identify and appoint an appropriate scrutiny body to co-ordinate scrutiny of local government until the longer term changes are implemented fully”*.

2. The “longer term changes” anticipated were the wide ranging set of improvements recommended in the Crerar report. The initial focus was to ensure that:

- the Accounts Commission would work with other scrutiny bodies to develop a corporate performance audit which absorbs other corporate level inspections in local government.
- the local government sector would be a priority sector in which self-assessment would become the core tool of public accountability and improvement, with less reliance on external scrutiny required.

3. Scottish Ministers agreed with the Crerar recommendations in this area and in March 2008 the Cabinet Secretary for Finance and Sustainable Growth wrote to Professor John Baillie, Chair of the Accounts Commission, asking the Commission to take on the “co-ordination role” on a transitional basis. The intention was that initial progress could be made on better planning and co-ordination of scrutiny activity while progress was also being made on the wider set of recommendations. The letter was also copied to the scrutiny bodies which would fall within the new co-ordination remit. (Copy of the letter is provided at Annex A).

4. Professor Baillie responded to the Cabinet Secretary noting that while the Accounts Commission was supportive of the thrust of the Crerar review and content in principle to take on the role, there would be some practical challenges. Professor Baillie also wrote to the Chief Executives of the relevant scrutiny bodies in June 2008 confirming the “transitional” measure and noting that a group would be established to develop options for taking forward the following actions:

- Map all planned scrutiny activity in local government over the following 12 months;
- Identify opportunities to streamline corporate assessment, by placing reliance on each others’ work;
- Improve the scheduling of service inspections.

5. The Accounts Commission established two Groups to take the work forward:

- A Strategic Group. Chaired by the Chair of the Accounts Commission, comprising the Chief Officer/Chief Inspector from the bodies with a responsibility for some aspect of local government external scrutiny (Audit Scotland, the Care Commission, Social Work Inspection Agency, Her Majesty’s Inspectorate of Education, Her Majesty’s Inspector of Constabulary,

the Scottish Housing Regulator, NHS Quality Improvement Scotland). At different stages Observer status on the Group was also taken up by the Scottish Government, SOLACE and COSLA.

- An Operational Group. Chaired by a senior official from Audit Scotland, comprising key Corporate/Operational Managers from the scrutiny bodies with observer representation from COSLA.

6. The Accounts Commission reported on initial progress in October 2008. This first report gave a clear message that building blocks were being put in place which would provide a strong base for improvement to the system: key stakeholders were engaged and governance had been established; there was strong commitment to delivery of a new approach and an agreed programme of work had been established. The Accounts Commission also committed to providing regular reports to the Scottish Government as the work developed.

### **THE STOCK-TAKE EXERCISE**

7. In early 2010 the Cabinet Secretary for Finance and Sustainable Growth asked for a stock-take with regard to the Accounts Commission transitional role in co-ordinating local government external scrutiny. This was considered timely because a number of key milestones in progressing the role would be reached during 2010. The intention was to consider how development of the role had progressed, what it had achieved and potential next steps. The stock-take has been informed by evidence and views gleaned from a range of sources, primarily the following:

- regular progress reports provided by the Accounts Commission/Audit Scotland to the Cabinet Secretary for Finance and Sustainable Growth .
- the Scottish Government, SOLACE and COSLA Observers on the Strategic Group.
- a meeting between the Cabinet Secretary for Finance and Sustainable Growth, the Strategic group members and SOLACE and COSLA representatives on 6 October 2009.
- feedback from events such as the Scottish Government *Scrutiny Improvement stakeholder event* held on 23 June 2010 and the Mackay Hannah Conference *Scrutiny improvement and better regulation* conference held on 19 November 2010.
- direct feedback from stakeholders in scrutiny bodies and local government – either directly or through contacts such as Scottish Government Directors and through contacts with project groups working on other Crerar recommendation implementation projects.
- material gathered from key stakeholders in order to produce the “*Crerar Review – 3 years on progress report*”

- findings of a formal, independent review of the activity commissioned by Audit Scotland and undertaken by Ipsos MORI which was tasked with focusing on the full extent to which the process has delivered different ways of working to provide streamlined scrutiny activity and added value. It evaluated whether the process had delivered:
  - a shared risk assessment framework
  - improved sharing of information and intelligence
  - ways of linking corporate leadership and individual service performance
  - a shared understanding and agreement of risk in each council
  - proportionate scrutiny responses
  - opportunities for joint scrutiny work
  - a targeting of scrutiny resources to areas of highest assessed risk
  - improved scheduling and planning
  - better engagement with councils.

## **PROGRESS TO-DATE**

8. Information on how the work has been progressed, including the key challenges and the solutions developed is provided in the set of progress reports available on the [Audit Scotland website](#). The papers and minutes of the meetings of the Strategic and Operational Groups which have been driving the work are also available from Audit Scotland.

9. The progress reports highlight some of the areas of challenge encountered in progressing the work and how they have been resolved. Challenges have included:

- Structural and legislative issues for some of the scrutiny bodies;
- The level of engagement by some scrutiny bodies due to competing priorities;
- Changing government policy on inspection regimes;
- The need to communicate about quite complex, new developments to a wide range of stakeholders with differing interests;
- Managing the expectations of the different stakeholders – about specific outcomes of the work and about the pace of change;
- The need to balance joint planning with the need to respond quickly when required.

10. The reports highlight that it has not been a simple improvement to introduce: strong stakeholder engagement, effective communications and a willingness to be flexible and open to change and challenge have all been crucial to success. Developing a shared understanding about how best to make and measure the required outcomes of more proportionate and better co-ordinated scrutiny activity and greater reliance on self-evaluation has also been difficult to achieve. All of this has resulted in a longer development phase than might initially have been anticipated. Effort has also been required to ensure that the expectations of outcomes envisaged by the various stakeholders were more closely aligned.

11. However, despite the challenges, 2010 saw the achievement of a number of significant milestones which are strong evidence that real progress has been made and which, taken together, provide a strong foundation for further development.. Milestones achieved include:

- **A Local Government Scrutiny : Joint Code of Practice** was published in January 2010. Signed up to by all of the local government scrutiny bodies it describes their agreed approach to co-ordination of local government scrutiny, including full participation in the **Local Area Networks** of scrutiny bodies for each of the 32 Councils and the **Shared Risk assessment** approach.  
[http://www.audit-scotland.gov.uk/docs/best\\_value/as\\_100110\\_scrutiny\\_joint\\_code\\_practice.pdf](http://www.audit-scotland.gov.uk/docs/best_value/as_100110_scrutiny_joint_code_practice.pdf)
- The first **Assurance and Improvement Plans** for all 32 Councils were published in July 2010. The Plans were informed by the Shared Risk Assessments undertaken by the Local Area Networks and Quality Assured through a peer review process.  
<http://www.audit-scotland.gov.uk/work/scrutiny/aip.php>
- The first **National Scrutiny Plan** - providing a national overview of the AIPs was published in July 2010.  
<http://www.audit-scotland.gov.uk/work/scrutiny/schedule.php>
- A new **Statutory duty of co-operation** for all scrutiny bodies came into force on 1 October 2010. This duty, brought in through the Public Service Reform Act 2010 s.114) <http://www.legislation.gov.uk/asp/2010/8/section/114> , gives a legislative underpinning for the local government scrutiny co-ordination work.

12. It is clear, therefore, that practical progress is being made in changing the way in which external scrutiny of local government is undertaken in Scotland. However the stock-take also considered a number of questions aimed at identifying:

- whether or not the pace and scope of the changes were meeting expectations
- any barriers to further improvement
- potential for further development

The next section summarises the questions considered during the stock-take and the key findings.

## KEY FINDINGS OF THE STOCK-TAKE

**Q1 Is the new approach delivering the anticipated improvements and outcomes – a more proportionate and co-ordinated approach to scrutiny, reductions in cost and unnecessary “burden”? What is the evidence of improvement ?**

### Analysis

- External scrutiny focussed on corporate/strategic levels of activity is now more proportionate and better co-ordinated. Cyclical scrutiny work has been stopped except in specific limited areas where required by statute or at specific Ministerial request.
- The 2010/11 National Scrutiny Plan provides evidence of the new approach to joint planning and includes a number of collaborative scrutiny interventions. Working collaboratively, the scrutiny bodies have streamlined their scrutiny methods and developed a broader set of scrutiny responses which are now targeted at those areas of highest risk.
- There is clear evidence of change since 2008. The National Scrutiny Plan stated that during 2010/11 there would be a 36% reduction in the time scrutiny bodies would spend undertaking strategic scrutiny work in Councils compared with the activity undertaken in 2008. This measure was used because it was agreed by the Strategic Group, SOLACE and COSLA that the most meaningful measure available at this stage is “scrutiny contact days” (number of days on site in the council multiplied by the number of inspectors involved.) The Ipsos MORI review did, however, identify that this might not be the optimum approach in future and further consideration needs to be given to how best to “measure” the move to more proportionate scrutiny.
- All the scrutiny bodies are striving to drive down the direct cost of audit and inspection, in response to spending pressures across the public sector. As part of Spending Review 2010 Scottish Ministers committed to driving out overall savings of at least 20% on the direct costs of scrutiny over the SR period – ***Efficiencies from Improvement to Scrutiny*** paper.
- The sharing of intelligence between scrutiny bodies and instances of joint work are examples of more efficient and effective approach to scrutiny. Sharing of information across scrutiny bodies is a fundamental element of the Shared Risk Assessment. All scrutiny bodies contribute the information they hold which is then jointly analysed to provide the scrutiny risk assessment upon which the planned scrutiny activity is based.
- The Local Government Scrutiny Co-ordination Operational Group’s work-plan sets out the commitment of all the scrutiny bodies involved to further development work on shared methodologies and planning tools, recognising that some of this work will need to wait until the new scrutiny bodies which come into place during 2011 are established.

- All scrutiny bodies recognise that a key element of the future development work is to embed the new approach within each individual organisation. They are strongly aware of the organisational and behavioural changes which they need to make internally in order to embed more proportionate and risk-based scrutiny. Joint work on organisational development and learning from the developments of new scrutiny bodies as part of the changes to the public sector landscape, will further help to embed the behavioural changes throughout their organisations.
- The focus of the work has been on planned scrutiny activity which assesses whole services or corporate functions. Scrutiny carried out at a more specific level – such as inspection of a school, or regulation of a care provider or housing association – is likely to be carried out by a single scrutiny body. There is less likelihood of duplication and overlap of scrutiny for these services. Indeed, in services where more than one scrutiny body has a role, with improvements made by scrutiny bodies since Crerar reported, and with the introduction of the statutory duty of co-operation, scrutiny bodies will be working more closely together on this type of scrutiny.

**Q2 Is the Accounts Commission lead co-ordination and facilitation role developing and delivering as envisioned in the Crerar Review and as anticipated in March 2008? Are challenges and barriers being addressed? What evaluation has been done?**

### **Analysis**

- As evidenced in the regular updates provided to the Cabinet Secretary for Finance and Sustainable Development, all developmental and implementation deadlines for the new role have been met. Structures, governance, processes, guidance, training and communication/engagement routes have also been put in place and sustained.
- Where a challenge or a need for improvement has been identified the Operational Group captures the improvement needed, the development activity necessary and agrees a lead agency to take it forward. There is also a recognition that governance etc. will need to be reviewed in 2011 – to reflect the creation of the new scrutiny bodies and to ensure that the governance mechanisms allows for sufficient challenge in decision-making about scrutiny responses.
- The Strategic and Operational Groups have provided a number of opportunities for re-evaluation, reflection and readjustment in order to consider and resolve challenges including direct engagement with the Cabinet Secretary for Finance and Sustainable Growth and inclusion of SOLACE and COSLA as observers on the Strategic Group. The Scottish Government also hosted a stakeholder event in June 2010.
- A full independent evaluation was undertaken by Ipsos MORI in the second half of 2010 and reported in January 2011.



- An early concern had been that there might be a challenge in getting the necessary levels of engagement and commitment from all the scrutiny bodies. This concern does not appear to have been significantly realised as bodies themselves have recognised the value of the collaborative work. Additionally the introduction, through the Public Services Reform (Scotland) Act 2010, of a statutory “duty of co-operation” on all the scrutiny bodies involved in local government scrutiny does now underpin the strong voluntary commitment with a statutory duty. Involvement in the Accounts Commission collaboration work is a clear demonstration that a scrutiny body is complying with this new duty.
- One issue identified by some respondents to the Ipsos MORI evaluation is a possibility in some instances that the risk assessment and scrutiny response discussions amongst scrutiny bodies might not have been sufficiently robust or challenging. It was suggested that this could arise because of time constraints or because of participant concerns about their lack of knowledge about particular aspects and an unwillingness to expose this. The concern was that this might lead to agreement between the scrutiny bodies being “too easy”. However the Ipsos MORI Review also found that the majority of CEs found the risk assessments to be accurate so the concern about the possible lack of “challenge” in the process may be unfounded.

**Q3 Is the Accounts Commission best placed to take local government scrutiny co-ordination forward? Has it got the necessary powers and has it got the scope?**

#### **Analysis**

- The Commission was identified by Professor Crerar as the best placed organisation to undertake a co-ordination role for scrutiny of local government. The Commission has been developing the role over the last three years. The role of the Accounts Commission in leading and facilitating the co-ordination work has been crucial to progress and it does appear to be best placed to sustain the work.
- There has been increasing recognition that while better co-ordination is clearly deliverable and required, the original concept of “gate-keeping” is not really applicable to the current context. Scottish Ministers effectively hold the key powers for “gate-keeping” of scrutiny activity and any change to this would require significant change to the system.
- Any broadening of the scope of the co-ordination activity to scrutiny of other services as potentially supported by the statutory duty of co-operation in the Public Services Reform (Scotland) Act 2010 might raise some issues about a possible role for the Accounts Commission as its statutory locus is solely on local government. Alternative arrangements might need to be considered.

**Q4 What has been done to deliver the longer term goals Crerar set when recommending the Accounts Commission carried out its gate-keeping role: developing a sufficiently robust corporate performance audit and moving towards increased reliance on self-assessment – with a view to more proportionate levels of external scrutiny? What more can be done?**

## Analysis

- Much work has been done on a new corporate assessment of public services – through the development of Best Value 2 and through the co-ordination role carried out by the Commission.
- There are public services for which a level of external scrutiny should be retained - both to provide the public and other stakeholders with assurance, and to help drive improvement. Achieving the correct balance between this and the ability to rely on self assessment will not be simple. The experience of the scrutiny bodies on the Strategic Group is that currently the performance management and self-assessment practices within local authorities are not sufficiently robust. There appears to be inconsistency in the maturity, coverage, comprehensiveness and reliability of the information available through the self-evaluations undertaken by councils across Scotland. Even where councils do have mature systems in place there are still inconsistencies of coverage and comprehensiveness. Generally service-level self-evaluation information is considered to be stronger than corporate-level information. Within that there are variations across services with, for example, self-evaluation in education services being relatively more mature and established and with information available about non inspected services such as roads and planning being weaker.
- There is more to be done across the range of key players to increase the robustness of self-evaluation. Increasingly councils are starting to see the benefits of good self evaluations and are improving the way they do this. Scrutiny bodies also have a role in encouraging and supporting stronger self-evaluation so that the evidence derived from this is more accurate and reliable. The Improvement Service for local government also currently plays a leading role in promoting and improving self evaluation in councils.
- Although many Chief Executives felt that the SRA process made effective use of self-evaluation evidence, there were some concerns expressed in the Ipsos MORI review that the Shared Risk Assessment process did not take enough account of the self-evaluation evidence supplied by individual councils. This may however link to the previous point – even if scrutiny bodies are keen to include self-evaluation evidence in the SRA process they need to be confident that it has been robustly carried out and is accurate.
- The statutory duty of co-operation which has been introduced for scrutiny bodies to work together in regard to scrutiny of local authority services, health services and social care services sets a context within which scrutiny bodies can seek opportunities to work together, share expertise and learn from each other in all aspects of their work. This in turn will support the adoption of proportionate and risk-based planning approaches at all levels of scrutiny activity – from corporate level to individual unit level.

**Q5 Do the following existing or planned elements provide a robust “system” for co-ordination of local government scrutiny activity or do other elements need to be developed?**

- Joint scrutiny: code of practice
- Local Area Networks of scrutiny bodies with a Lead LAN contact for each Council
- The Shared Risk Assessment Framework
- Annual Shared Risk Assessments for each council
- Rolling 3-year Assurance and Improvement Plans for each Council (which detail the planning and scheduling of scrutiny activity)
- Best Value 2 Audit as the single corporate assessment required of all councils
- Quality Panels for AIP moderation and peer assessment
- National Risk Assessment

**Analysis**

- Overall there appears to be strong support for the principles and framework which have been introduced. However, the Ipsos review notes that there are mixed views from council respondents on how well the new approach has worked in practice. There are, however, indications that, in part, the differing views may arise because of inconsistencies in the application of the process across the 32 councils.
- Respondents to the evaluation did recognise that the first year of any process was likely to be a learning process and that the approach would be improved in the future. The key concerns related to the inconsistencies in implementation of the guidance which was provided, the role and performance of LAN leads, the effectiveness of the engagement between LANs and councils, the transparency of the process, the quality of the collaborative working between scrutiny bodies and some issues with the consistency of approach taken in developing the Assurance and Improvement Plans. However it is also important to recognise that the exercise is a “local” one so some variation in approach would be expected.
- LAN leads and members consider that the SRA process is very effective in bringing different scrutiny bodies together, improving mutual understanding and bringing a more co-ordinated approach. Whilst the findings indicated that the tasks required to deliver the collaborative activity need to be streamlined, there was also a strong message that the activities which LAN leads in particular needed to perform could not continue to be seen as an “add on” to day jobs. Clearly as functions undertaken by scrutiny bodies continue to change in line with new approaches to scrutiny, the co-operation and collaboration work will come to be seen as a key part of the day job.

**Q6 Is local government now more satisfied with the perceived pace and impact of change than they were during 2009?**

**Analysis**

- The Ipsos MORI evaluation report indicates strong support from Council Chief Executives for the principles underpinning the new approach, with a number considering it to be an effective way of planning scrutiny activity. At this stage there is only “lukewarm” agreement that better co-ordination and planning is fully delivering more proportionate and risk-based scrutiny. However the review identified areas for improvement which will meet some of the concerns expressed.
- Responses to the Ipsos MORI review indicated that a number of Chief Executives would value greater opportunity for engagement in the SRA process – in particular in contributing evidence and discussion and review of findings before final production of the Assurance and Improvement Plan. LAN leads and members also recognised that engagement with councils needed to be improved.

## CONCLUSION AND NEXT STEPS

**13. The key finding of the stock-take is that the new approach to co-ordination of local government scrutiny is delivering the intended improvements and should be maintained and further developed.**

14. This conclusion is strongly supported by the Ipsos MORI review which found that in the main respondents *“welcomed the promise of a more collective, streamlined approach among scrutiny bodies, and the more risk-based and proportionate scrutiny that they felt would flow from this.”* There was also widespread support for the broad Shared Risk Assessment framework, including the Local Area Network structure.

15. There are also areas where the approach can be improved and further developed to drive out greater benefit. The significant pressures on public finances and other resources make it even more necessary that both the direct and indirect costs of external scrutiny of local government are tightly controlled and proportionate to need. External scrutiny is only one element of the overall framework for providing assurance, assessing performance and driving improvement and its impact should reflect this. It is therefore important to take appropriate steps in order to sustain and embed the new approach. The next steps outlined below will enable momentum to be maintained in this area of reform:

- a) Leadership for and facilitation of local government scrutiny co-ordination will be established as a formal part of the duties of the Accounts Commission.
- b) All scrutiny bodies involved in scrutiny of local government will be required to formally commit to on-going involvement in the Accounts Commission – led co-ordination activity as part of demonstrating their compliance with the PSR Act duty of co-operation. (Signing up to and delivering in line with the Joint Code of Practice provides a mechanism for this.)
- c) Consideration will be given during 2011/12 to the scope for including external scrutiny of other public service providers within the collaborative framework

adopted for scrutiny of local government services - for example other public services which are involved in Community Planning Partnerships.

- d) The co-ordinated approach being taken by the scrutiny bodies should be mirrored by a mechanism within the Scottish Government which supports cross-government, joined-up and consistent decisions about scrutiny functions and application of scrutiny.
- e) The current governance, operational and communication approaches for the co-ordination activity will be reviewed by mid-2011 in order to better reflect the new scrutiny landscape, the full range of scrutiny interest and the findings of the Ipsos MORI evaluation. In particular:
- The National Scrutiny Plan should include detail on the Government's priorities for scrutiny to ensure that it is clear how they are taken into account in the Shared Risk Assessment.
  - The NSP should also reflect that it is not "set in stone" and that there will always be provision for Ministers and scrutiny bodies to act promptly in the public interest in cases where levels of risk have changed quickly.
  - A key improvement will be to support measures which deliver greater consistency of approach by LANs and LAN leads and to ensure that there is a clearer understanding of the distinction between the **risk** assessment focus of the SRA and the **performance** assessment focus of Best Value.
  - The collaborative approach between scrutiny bodies needs to be strengthened to allow for appropriate and transparent challenge to take place – both in terms of gathering and assessing evidence and in agreeing scrutiny responses and to support identification of more opportunities for joint scrutiny activity.
  - Opportunities should be created within the process to enable greater engagement with councils, while ensuring that this in itself should be light –touch rather than creating a new "burden". Better engagement would enable greater shared understanding of the robustness of the full range of evidence available, including council self – evaluations, and of progress in councils to inform the SRA.
  - Work will be done to develop an agreed scrutiny profile of a typical council so that there is a shared understanding of where scrutiny impacts and where future improvement should be focussed.

*Scrutiny Improvement Team  
Strategy and Performance Directorate  
Scottish Government  
February 2011*

**ANNEX A TO REPORT  
INITIAL REQUEST RE LOCAL GOVERNMENT SCRUTINY CO-ORDINATION  
WORK – March 2008**

Cabinet Secretary for Finance and Sustainable Growth  
John Swinney MSP

T: 0845 774 1741  
E: scottish.ministers@scotland.gsi.gov.uk



Professor John Baillie  
Chair  
Accounts Commission  
110 George Street  
Edinburgh  
EH2 4LH

Our ref:  
20 March 2008

As you will know, one of the recommendations in Professor Crerar's independent report into scrutiny and complaints handling was that an appropriate scrutiny body be appointed to oversee the delivery of scrutiny programmes in local government until longer term changes could be implemented.

Our goal is to move to a position where Best Value is the key corporate level assessment tool and is much better aligned and co-ordinated with other corporate audit and performance processes. I write to ask the Accounts Commission to take on this gate keeping role through the auspices of Audit Scotland. This role will operate while we consider how best to achieve a more permanent solution. In effect, this will mean that all scrutiny relating to the corporate and strategic role of local government will be required to be cleared by the Accounts Commission. In asking you to take on this role, I fully recognise the Commission's independence from central and local Government.

In addition, other service related scrutiny of local government functions, including multi-agency inspections of service delivery, should be communicated to the Accounts Commission in advance. This will enable the Accounts Commission to co-ordinate service delivery inspections with a view to minimising compliance burdens.

I have asked my officials to continue their liaison with the Accounts Commission and Audit Scotland to ensure there is clarity on what is required. The Accounts Commission and Audit Scotland will want to take the views of scrutiny bodies and local authority representatives on how this new role is delivered in practice.

In relation to scrutiny of service delivery, you will want to take account of the various requirements which may be placed by statute, Ministers and others upon the scrutiny bodies.

We would expect all scrutiny bodies to work together with you to fit scheduled inspections into a coordinated programme; any statutory requirements will, of course, remain to be delivered. The issue of unannounced inspections will need to be considered but scrutiny bodies will continue to be free to carry out unscheduled inspections which they decide are necessary to ensure the safety of service users or for any other reason.

Although your new role will focus on inspections of local authorities, I would expect scrutiny organisations dealing with other delivery bodies to consider how they can adopt the same principles of reducing compliance burdens.

As you will appreciate, the Accounts Commission will have no statutory authority over scrutiny bodies to require them to carry out or to cease carrying out assessments at this stage. However, we will where necessary support you in securing support from scrutiny bodies for this important new approach.

How the Accounts Commission decide to undertake this new role and your experience over the first half of the new financial year will help us consider how to achieve a permanent solution, possibly through statute. I ask that you write to me in April after consultations with other scrutiny bodies and explain how you propose to undertake this new role. I would be grateful if you would also write to me and advise on your experience and any lessons from implementing this role in October. This advice will then enable us to decide whether or not it is necessary to formalise new arrangements. The approach you adopt to this new role and your experience will also help us to understand how we can simplify the scrutiny landscape.

I hope that you will be willing to take on this key role. If you have any concerns or queries or would like to discuss this further, please contact Ian Mitchell, Head of Public Bodies Policy Division, on 0131 244 7833.

I am copying this letter to the scrutiny bodies that will fall within your new remit. If there are other bodies which you consider should be engaged in this exercise please share this letter with them as you consider appropriate.

**JOHN SWINNEY**

**ACCOUNTS COMMISSION**

**MEETING 17 MARCH 2011**

**REPORT BY DIRECTOR OF BEST VALUE AND SCRUTINY IMPROVEMENT**

**LOCAL GOVERNMENT OVERVIEW REPORTING**

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**Purpose**

1. The Accounts Commission's findings along with the Controller of Audit's report *An Overview of Local Government in Scotland 2010* were published on 28 January 2011.
2. Following an initial discussion by the Financial Audit and Assurance Committee at its meeting on 10 February, the purpose of this report is to invite the Commission to consider its approach to future overview reports.
3. The Commission's attention is drawn to the minutes of the Financial Audit and Assurance Committee, in which it is recorded that:

"The Committee noted that the Accounts Commission has initiated this report by making a standing direction to the Controller of Audit under section 102(1) of the Local Government (Scotland) Act 1973, as amended, to produce an overview report on issues arising from the audit of local authority accounts. The Committee noted that the report now also draws on wider audit work.

The Committee considered options for its approach to future overview reports and agreed to recommend to the Commission that —

- Future overview reports should be prepared under section 97A of the Local Government (Scotland) Act 1973, as amended – the Commission's powers to undertake or promote comparative and other studies to enable it to make recommendations on matters such as best value, financial and other management, and the economy, efficiency and effectiveness of local authorities.
  - In order to maintain the connection between the report and issues arising from the audit of accounts, the oversight of the development of the report should be delegated to the Financial Audit and Assurance Committee, with a draft report being submitted to the Commission for approval in due course.
  - The style and presentation of the report should seek to—
    - maintain a clear connection to evidence arising from the reports to the Controller of Audit on the audited accounts, and
    - provide the Commission with the opportunity to make its own recommendations on issues arising from the evidence."
4. The Commission is invited to consider whether to approve the Committee's recommendations.

**Discussion of the options for local government overview reporting**

**The current status of the report**

5. To date the overview report has been produced as a report to the Commission by the Controller of Audit. The Commission has initiated this by using its powers under section 102(1) of the Local Government (Scotland) Act 1973 to make a standing direction to the Controller of Audit to produce an overview report on issues arising from the audit of local



authority accounts. This serves to underline that the report is firmly grounded in the matters that arise from the annual audit reports on the 32 councils and various joint boards.

6. When presented to the Commission, such a report is the final report of the Controller of Audit. It is not a draft for discussion. The Commission's role is to consider which of its statutory options (provided by section 3 of the Local Government in Scotland Act 2003) it wishes to use. These are the same statutory options that the Commission has for other Controller of Audit reports under section 102(1), namely to do any, all or none of—
  - direct the Controller of Audit to carry out further investigations;
  - hold a hearing;
  - state its findings.
7. It has been the Commission's practice to make findings on the Controller of Audit's report, emphasising points that it considers to be of particular significance.
8. Findings add an additional layer of leadership on the issues covered by the report. However, adding them to a report that already has high level key messages may not be the best way to allow clear focus on the Commission's priorities.
9. The purpose of the statutory provisions relating to a Controller of Audit section 102(1) report is to bring to the attention of the Commission and the public a matter (or matters) of significant interest or concern arising from the auditing. The provisions are directed towards requiring a response from an individual council or audited body addressed in the report. It is not so clear how they apply to an overview report.
10. Throughout 2010 (primarily through discussion by the Financial Audit and Assurance Committee) the Commission has had a number of opportunities to consider and comment on how the style and presentation of the report might be developed. This discussion has helped to ensure that the thrust of the report has matched the Commission's priorities. Further development of such discussion can help ensure that the report matches the Commission's purpose for it. Careful attention has to be paid, however, to how far it is appropriate for the Commission to be involved in discussion of the content and style of a Controller of Audit report on which it is then required to exercise independent judgement in producing findings, for example.

### **The possible alternative approach**

11. The other set of statutory provisions under which the Commission receives reports is contained in section 97A of the Local Government (Scotland) Act 1973. Section 97A requires the Commission to undertake or promote comparative or other studies designed to enable it to make recommendations for the securing of Best Value; improving economy, efficiency and effectiveness in the provision of services; and improving the financial or other management of authorities. These are the provisions under which the performance audit programme is delivered.
12. The Commission reviews from time to time a programme of performance audits to ensure that it fits the strategic context and covers the key issues of concern to the Commission. The Commission then agrees the scope of each audit and receives progress reports at later stages, before the full draft report is presented to the Commission.
13. At the start of every performance audit involving local authorities, the Accounts Commission identifies members to act as project sponsors to help to ensure that all products (key messages, draft reports etc) meet the expectations of the Commission for the work.
14. When a performance audit report on local government nears completion, a draft is submitted to the Commission. The Commission is able to discuss the conclusions and

influence the organisation, content, force and tone of them - while ensuring that this is still based in the audit evidence.

15. Following this process may address many of the issues outlined above for the annual overview report. The Commission has the opportunity to direct and own the work more firmly itself without compromising its scrutiny independence. The Commission is also able to manage the publication and media arrangements for the report more clearly.
16. If the overview were to be presented as a performance audit, the Commission would have a free hand to consider with the audit team how it can be most influential with the local government community and others, and consider its scope, timing and style.
17. It may be appropriate for the consideration of the scope, emerging messages, and impact of the report to be delegated by the Commission to the Financial Audit and Assurance Committee, with the draft report being submitted to the full Commission for approval at the end of the process. Oversight of the report by the Financial Audit and Assurance Committee would help maintain a strong link to that Committee's regular consideration of intelligence reports on matters arising in local audit work.

### **Conclusion**

18. The Commission is invited to consider options for its approach to future local government overview reports and to consider whether it is content to agree to the recommendations of the Financial Audit and Assurance Committee.
19. In particular, the Commission is invited to consider whether it wishes to agree that—
  - An annual local government overview report should in future be prepared in accordance with the provisions of section 97A of the Local Government (Scotland) Act 1973;
  - Oversight and sponsorship of the development of the overview report should be delegated to the Financial Audit and Assurance Committee;
  - A draft report should be submitted to the Commission for consideration around the end of the year.

**ACCOUNTS COMMISSION**

**MEETING 17 MARCH 2011**

**REPORT BY THE SECRETARY AND BUSINESS MANAGER**

**CONTROLLER OF AUDIT REPORTS**

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1. Legislative provisions relating to the Controller of Audit's powers to make reports to the Commission, and the provisions governing the Commission's consideration of such reports and the response required by authorities, are complex and contained in several Acts.
2. Some of the provisions are engaged with every report by the Controller of Audit and regular requests for explanation of these provisions are received from councils, journalists and other interested parties. Other provisions are relatively little used, and have not been engaged during the terms in office of current Commission members.
3. The Commission is now meeting in public, Controller of Audit reports are being put into the public domain on the Commission's web-page in advance of meetings, and council representatives are showing interest in attending meetings where reports concerning them are considered.
4. In this context, it may be useful for the Commission to consider how the procedures and powers relating to Controller of Audit reports can be as transparent as possible. The Commission may wish to consider agreeing that a public guidance note (or notes) should be prepared that can be used as a point of reference by all interested parties.
5. The following appendices are attached to this report:
  - **Appendix 1** outlines the provisions relating to the Controller of Audit making a report under section 102(1) of the Local Government (Scotland) Act 1973 – an 'ordinary' report;
  - **Appendix 2** outlines the procedures relating to the Commission's consideration of such a report – and the subsequent action required of an audited authority
  - **Appendix 3** outlines the procedures for a hearing relating to such a report
  - **Appendix 4** outlines the provisions relating to the Controller of Audit making a report under section 102(3) – a 'special' report;
  - **Appendix 5** outlines the procedures relating to the Commission's consideration of such a report
  - **Appendix 6** outlines the procedures for a hearing relating to such a report.

6. The Commission is invited to—

- Note the issues covered in Appendices 1 – 6 and any matters that arise;
- Consider and agree whether to authorise the Secretary and Business Manager to prepare a public guidance note (or notes) in a suitable format on procedures relating to reports by the Controller of Audit, and for that to be signed off by the Chair.

## **Appendix 1**

### **Provisions on an 'ordinary' report by the Controller of Audit under section 102(1) of the Local Government (Scotland) Act 1973**

1. The Controller of Audit has a general power in section 102(1) of the Local Government (Scotland) Act 1973 to make reports to the Commission on matters arising from audit of the accounts. For convenience these are referred to in this paper as 'ordinary' reports.
2. The reports are to be with respect to—
  - (a) the audited accounts of local authorities;
  - (b) any matters arising from the accounts of any of those authorities or from the auditing of those accounts being matters that the Controller considers should be considered by the local authority or brought to the attention of the public;
  - (c) the performance by a local authority of its best value and community planning duties.
3. Planned best value audit reports (including those on police authorities) are, therefore, made under this provision as well as reports on matters arising.
4. When a report is finalised, it will be prepared for issuing to the Commission with agenda papers for one of its meetings. The Controller of Audit is also required to send a copy of the report to—
  - (a) any local authority named in the report; and
  - (b) any other person the Controller thinks fit.

This is normally done at the same time as the report is issued to the Commission.

5. A local authority is required to, forthwith upon receiving a copy of the report, supply a copy of that report to each member of the authority and make additional copies available for public inspection. How it does that is a matter for the authority.
6. Reports of this type are final when presented to the Commission. A report is usually placed on the web with the Commission's agenda papers at least three business days in advance of the meeting at which the Commission will consider it.

## **Appendix 2**

### **Provisions on the Commission's consideration of an 'ordinary' report – and the subsequent action required of an audited authority**

1. When it is considering an ordinary report, the Commission is considering a final report rather than a draft.
2. In respect of the report, the Commission may do, in any order, all or any of the following, or none of them—
  - (a) direct the Controller of Audit to carry out further investigations;
  - (b) hold a hearing;
  - (c) state its findings.
3. Which action to take, and the circumstances in which each action might be considered appropriate, are matters for the Commission's discretion.
4. If the Commission decides to hold a hearing, the members conducting the hearing are required to state their findings in writing.
5. Findings which do not follow a hearing have the same status and are treated in the same way as the findings of the members of the Commission conducting a hearing.
6. The conclusion of the Commission's exercise of its options on an ordinary report is, therefore, either that it chooses to do nothing or that it states its findings on a report.
7. Findings may include recommendations and the persons to whom those recommendations may be made include the Scottish Ministers.
8. Where findings are made, the Commission is required to give a copy to the local authority and any other person the Commission considers should receive a copy.
9. The Commission is also required to give a copy of findings to any other person who wishes them and who has paid any reasonable charge the Commission may set. In practice all findings are published.
10. Where findings result from a hearing, the Commission is required to give a copy of findings to any member or officer of a local authority who was named in the report to which the hearing related.
11. When a local authority receives a copy of findings, it is required to consider the Commission's findings at a meeting of the authority within three months of receiving them, or within such longer period as the Commission may specify in writing.
12. This duty must be discharged by a meeting of the full authority and not by a committee, sub-committee or officer. At least seven clear days before the meeting, the authority must publish in a newspaper circulating in its area a notice stating the time and place of the meeting, indicating that it is to be held to

consider the findings of the Commission and describing the nature of those findings.

13. After the authority has met, the Commission must be notified of any decisions made and the authority must also publish in a newspaper circulating in its area a notice containing a summary, approved by the Commission, of the authority's decision.
14. The authority's decisions are not subject to approval by the Commission. The Commission may, however, have included in its findings a statement about any follow-up or progress report that it may require.
15. If findings include recommendations to Scottish Ministers, Ministers have the power to serve a preliminary notice on an authority if they consider that it is not complying with its duties of best value, community planning or reporting on performance of its functions. A preliminary notice requires an authority to respond.
16. If, after considering the response, Ministers still consider that the authority has failed to comply with its duties, they may issue an enforcement direction. This requires the authority to take specified action to remedy, or prevent the recurrence of, its failure.
17. If Ministers exercise this power, they must lay a report on the exercise of that power before the Scottish Parliament.
18. Even where a recommendation is not made to them, Ministers can pursue this preliminary notice and enforcement direction route if they consider that an authority is not complying with its duty of best value and the action is justified in order to prevent the public interest from substantial harm.

## **Appendix 3**

### **Procedures for a hearing relating to an ordinary report**

1. The Local Government (Scotland) Act 1973 includes provisions governing any hearing that the Commission may decide to conduct on an ordinary report. The Commission's Standing Orders make further provision.
2. A hearing is to be conducted by not fewer than three members of the Commission selected by the Chair of the Commission. The quorum for a meeting of the Commission conducting a hearing is three.
3. The statutes allow the Commission flexibility to determine the procedure to be followed for each hearing (including the timing, running order, approach to questioning, use of oaths, the role of the Controller of Audit at the hearing, etc), and this procedure will be determined by the Commission when making arrangements for the hearing. As there are no formal rules of procedure, it will be an important aspect of procedural fairness for the Commission to agree the procedure and inform all parties in good time in writing.
4. At least 14 clear days before a hearing, written notice of the time and place of the hearing and of the business to be conducted will be sent to each member, to the Controller of Audit and to each person entitled to appear or required to attend.
5. A hearing will be held in public unless the Commission decides, when arranging the hearing, that it is in the public interest to hold it or any part of it in private or, in the course of the hearing, decides that it is in the public interest to hold any part of it in private.
6. Any hearing may be adjourned from time to time and from place to place at the discretion of the Chairman.
7. At a hearing the Commission is required to allow—
  - (a) any local authority likely to be affected by any findings made; and
  - (b) any person likely to be so affected (or the representative of such a person),the opportunity of appearing and being heard.
8. Any officer or member entitled to be heard at a hearing shall be entitled to be heard either in person or represented by counsel or a solicitor or any other person.
9. The members of the Commission conducting a hearing may –
  - (a) require any person, including officers or members or former officers or members of any local authority, to attend the hearing, give evidence and produce documents (including information held on computer or in any other electronic form);
  - (b) administer oaths.



10. A person shall not, however, be compelled to give any evidence or produce any documents which that person could not be compelled to give or produce in civil proceedings in the Court of Session.
11. It is an offence for a person to, without reasonable excuse, fail to comply with a requirement to attend, give evidence and produce documents. On summary conviction a person is liable to a fine not exceeding level 3 on the standard scale.
12. The Commission may pay such expenses or allowances as it thinks fit to anyone appearing at a hearing or attending it for the purpose of giving evidence or producing documents.

## **Appendix 4**

### **A 'special' report by the Controller of Audit under section 102(3) of the Local Government (Scotland) Act 1973**

1. In addition to the general power to prepare ordinary reports under section 102(1), the Controller of Audit has the power under section 102(3) to make a 'special' report to the Commission on a matter arising from the auditing. No reports have been made under this provision since it was inserted into the 1973 Act by the Ethical Standards in Public Life etc (Scotland) Act 2000.
2. Whether to make a special report is a matter for the Controller of Audit's discretion. S/he may do so only if s/he is of the opinion that at least one of the following apply:
  - Any item of account is contrary to law;
  - There has been a failure on the part of any person to bring into account any sum which ought to have been brought into account;
  - Any loss has been incurred or deficiency caused by the negligence or misconduct of any person or by the failure of the authority to carry out any duty imposed on them by any enactment;
  - That any sum which ought to have been credited or debited to one account of the authority has been credited or, as the case may be, debited to another account of the authority; and is not satisfied that the authority has taken or is taking such steps as may be necessary to remedy the matter.
3. Even where the Controller of Audit considers that one of those conditions applies, s/he has discretion as to whether to make a special report. S/he has the option to conclude that it may be appropriate to make an ordinary report under section 102(1) while still identifying aspects of conduct or failures that could be identified to an individual.
4. Before making a special report (i.e. before issuing it to the Commission), the Controller of Audit must give the proposed report to:
  - The authority in question, and
  - Any person named or referred to in the report as being blamed for an action contrary to law or whose failure, negligence or misconduct is a subject of the report.
5. The authority and any such person have to be given the opportunity to make representations to the Controller of Audit on the proposed report and any matters dealt with in it. This will include them being advised at that point that it is proposed to make the report as a special report and advised of the process that such a report would follow.
6. When the report has been finalised, the Controller of Audit must send it to:
  - the authority
  - any officer of the authority who may be concerned

- any other person affected by the issuing of the report
  - any person who has objected to the accounts (section 101 of the Act gives a right for any interested person to object to the accounts of a local authority at the time of each audit).
7. These notification obligations are slightly different to those for an 'ordinary' report. There is no provision requiring the authority then to send a copy of the report to each of its elected members and to make copies available to the public.
8. If the Controller of Audit is involved in investigating a situation that s/he considers may give rise to a special report, s/he may submit an interim report on the investigation to the Commission. S/he is likely to do this if s/he considers that it is in the public interest or is necessary to avoid prejudicing the further conduct of the investigation. The Commission's powers when considering an interim report are described in paragraphs 22-25 of Appendix 5.

## **Appendix 5**

### **The Commission's consideration of a 'special' report**

1. Once the Controller of Audit has made a special report, the Commission may publish it. This allows discretion to the Commission to consider whether to consider the report in public or decide that it would be unhelpful to publish in advance of its deliberation.
2. When it considers the report, the Commission has a range of options for action, similar but not identical to those for an ordinary report. It may
  - Direct the Controller of Audit to carry out further investigations;
  - Hold a hearing;
  - State a case on any question of law arising on the special report for the opinion of the Court of Session;
  - Do nothing.
3. Which option to pursue is a matter for the Commission's discretion. This discretion is limited, however, in two ways.
  - Any local authority or person who was sent the report can insist in writing that the Commission holds a hearing.
  - The Court of Session can also direct the Commission to state a case.
4. An aggrieved party may request that the Commission state a case for the opinion of the Court of Session. In effect, this would be a request that the Commission ask the Court of Session to confirm that the special report contains errors of law. If the Commission agrees to state a case then there is a standard procedure, which is set out in the rules of the Court of Session, which indicates the process, including allowing additional questions by other parties, and other factors.
5. If the Commission refused to state a case, for example on the basis that it sees no question of law arising on the special report, it would nonetheless be open to the Court of Session to order the Commission to state a case. In practice, a stated case process would lead to a considerable time delay in dealing with the special report
6. The Commission is likely to wish to inform the local authority and the persons concerned when it is going to meet to consider the matter, to put them on notice that if they wish to make a written request then this ought to be made timeously.
7. If the Commission decides or is required to hold a hearing, the members conducting the hearing are required to state their findings in writing
8. The Commission is required to give a copy of findings to—
  - Any officer or member of the local authority who is or was blamed in connection with an item of account being contrary to law or whose failure, negligence or misconduct was a subject of the hearing;

- the local authority;
  - any other person the Commission considers should receive a copy.
9. The Commission is also required to give a copy of findings to any other person who wishes them and who has paid any reasonable charge the Commission may set. In practice all findings are published.
10. The substance of the findings can include any or all of the following options—
- The Commission has discretion in its findings to make general recommendations to a local authority, and could conclude without going beyond this.
  - The Commission can recommend to Scottish Ministers that they make an order directing a local authority to make such rectification of their accounts as appears to the Commission necessary.
  - If, after conducting the hearing, the Commission finds that any of the criteria at paragraph 2 of Appendix 4 above apply, it may impose sanctions. The power to impose sanctions on individuals is discretionary, even if the Commission finds that any of the criteria are fulfilled. A decision to impose any sanctions should be announced in the text of the hearing findings and communicated formally to relevant individuals.
11. The sanction options available to the Commission are:
- Censuring an officer or member of the authority. This is the only sanction that can be imposed on an officer by the Commission.
  - Suspending a member for a period not exceeding a year from attending one or more but not all of:
    - All meetings of the authority
    - All meetings of one or more committees or sub-committees of the authority
    - All meetings of any other body on which the member is a representative or nominee of the authority.
  - Suspending a member for a period not exceeding a year from attending all of the above.
 

(Suspension in both of the above cases would end on the day of the next local government elections if that came before the end of the suspension.)
  - Disqualifying a member of a local authority for a period not exceeding five years, from being, or from being nominated for election as, or from being elected, such a member.
12. When a local authority receives a copy of findings, it is required to consider the Commission's findings and decide whether to accept any or all recommendations and what, if any, action to take in response to those recommendations. It must do

so at a meeting of the authority within three months of receiving them, or within such longer period as the Commission may specify in writing.

13. This duty must be discharged by a meeting of the full authority and not by a committee, sub-committee or officer. At least seven clear days before the meeting, the authority must publish in a newspaper circulating in its area a notice stating the time and place of the meeting, indicating that it is to be held to consider the findings of the Commission and describing the nature of those findings.
14. After the authority has met, the Commission must be notified of any decisions made and the authority must also publish in a newspaper circulating in its area a notice containing a summary, approved by the Commission, of the authority's decision.
15. Scottish Ministers have discretion as to whether or not to make an order in response to a Commission recommendation and, if they do so, can modify the recommendations to which they give effect. If Ministers make such an order, a local authority is obliged to give effect to it.
16. An officer or member who is either subject to an adverse finding of the Commission that any of the four criteria mentioned in paragraph 2 of Appendix 4 above applies, or has a sanction imposed by the Commission, may appeal to the sheriff principal. An appeal can only be made on the grounds that—
  - The finding was based on an error of law;
  - There has been procedural impropriety in the conduct of the hearing;
  - The Commission has acted unreasonably in the exercise of its discretion; or
  - The Commission's finding was not supported by facts found to be proved by the Commission.
17. Sanctions remain in place pending the outcome of an appeal.
18. The sheriff principal can deliver various remedies, depending on the grounds of appeal, including:
  - confirm or quash the finding, or quash the finding and remit the matter back to the Commission to reconsider;
  - confirm the sanction, or quash the sanction and either substitute a lesser sanction or remit it back to the Commission;
  - quash the suspension.
19. The sheriff principal can award expenses.
20. There is no appeal provided to the sheriff principal where the Commission has imposed the sanction of disqualification of a member.
21. The decision of the sheriff principal can be appealed to the Court of Session.

22. In a case where the Controller of Audit has made an interim report to the Commission, if the Commission is satisfied that it is in the public interest, or is necessary to avoid prejudicing the further conduct of the investigation, it may suspend the member of the local authority who is subject to the investigations for up to three months. Note that it cannot suspend an officer in these circumstances.
23. Before doing so, the Commission must give the member an opportunity to make representations. The suspension is to be in writing and given to the member and the authority.
24. The suspension ends when the Commission either decides not to hold a hearing or concludes its findings on a hearing by either finding no blame or by imposing another sanction.
25. The suspension can be renewed if a member is re-elected at an election during the period of the suspension. The suspension can be repeatedly renewed for up to a further three months each time. The member can appeal the suspension to the sheriff principal.

## **Appendix 6**

### **Procedures for a hearing relating to a special report**

1. If a hearing is held on a special report, the procedural rules for this are largely the same as for hearings on ordinary reports. These are discussed at **Appendix 3** above. There are two further specific statutory provisions, described in paragraphs 2 and 3 below.
2. The Commission may, at any one hearing, consider—
  - (a) allegations of blame, in connection with an item of account being contrary to law, against; and
  - (b) failures, negligence or misconduct by,  
more than one officer or member of a local authority.
3. The following are entitled to be heard at the hearing—
  - (a) an officer or member—
    - (i) as to whom the question of blame in connection with an item of account being contrary to law; or
    - (ii) whose alleged failure, negligence or misconduct is being considered by a hearing; and
  - (b) the local authority.
4. In practice, a more formal approach to procedure is likely to be adopted as allegations of individual blame or misconduct are likely to be examined.
5. It is also more likely that legal representation will be employed by those who are the subject of special reports. In those circumstances, the Commission is likely to consider following a quasi-court process. Consideration will be given, in particular, to ensuring that procedures address the following issues adequately—
6. Each party should have the right to be present and to hear all of the evidence, unless there are issues of witness credibility, or other issues relating to the facts, which make it proper for a party to be excluded from the hearing or part of it.
7. Full consideration would require to be given to the submissions of the parties giving evidence to the hearing.
8. If the Commission was minded to use information or evidence which was not being presented at the hearing, that will be made clear during the hearing, to allow oral submissions to be made to it on that additional information.
9. In issuing its decision, adequate reasons will require to be given in writing for the decision.



**ACCOUNTS COMMISSION**

**MEETING 17 MARCH 2011**

**REPORT BY THE ASSISTANT AUDITOR GENERAL**

**CODE OF AUDIT PRACTICE – 2011**

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**Purpose**

1. The purpose of this report is to seek the Commission's approval for the final changes required to the new Code of Audit Practice which comes into effect from 2011/12 audits.

**Background**

2. In all material respects, the Commission approved the terms of a new Code of Audit Practice at its meeting in October 2010. This was for the purpose of including the new Code in the audit tender documents.
3. However, at that time statutory guidance was expected to be issued by the Scottish Government which would require auditors to provide a separate audit report (opinion) on the accounts of the local government pension scheme, in the eleven councils that administer these funds.
4. The Commission agreed that the Code should not be finalised until this and other potential developments had been taken into account as the new Code does not apply until the audit of accounts prepared on or after 1 April 2011.
5. The statutory guidance was issued in January 2011. The final version of the Code which accompanies this paper has been updated for the changes in the pension fund audit requirements. The main changes (tracked) are in the Foreword and at paragraph 92.

**Recommendation**

6. The Commission is requested to approve the final changes to the Code which will now be prepared for formal publication in good time for auditors to take it into account when planning their 2011/12 audits.



**CODE OF AUDIT PRACTICE - 2011**

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## Foreword

The Code of Audit Practice (the Code) is a high level statement of the main features of public audit in Scotland and the principles which auditors should adopt in carrying out their work.

The public sector is experiencing financial constraints that may continue during the life of the Code. In such times it is particularly important that auditors remain independent and free from undue influence, whether real or perceived.

When audited bodies are experiencing significant challenges to maintain or improve services, the independent external auditor can comment objectively on how bodies are responding to the pressures upon them.

In revising the Code Audit Scotland has considered carefully how the audit process can maximise the benefits of audit while minimising the financial burden on audited bodies, consistent with maintaining professional standards and stakeholder expectations. The most significant change to the Code has been to reflect developments in the way that Best Value audit is conducted and the introduction of shared risk assessments of councils. These assessments are conducted jointly with other scrutiny bodies. In addition, auditors are now required to report separately on the audit of local government pension funds as part of their appointment as auditors of the councils that administer these funds.

The revised Code has been prepared by Audit Scotland and approved by the Auditor General and the Accounts Commission to apply to the audits of all bodies within our remits.

In approving the Code we believe that audits carried out in accordance with its stated basic principles will help us to meet our joint objectives of ensuring a high standard of stewardship of public funds and promoting Best Value in the use of resources, using an approach which is risk based, proportionate and adds value.

**Robert W Black**  
Auditor General for Scotland

**John Baillie**  
Chair, Accounts Commission for Scotland

[Date yet to be finalised]

# Part 1. Introduction

## Code of audit practice

1. This Code of Audit Practice (the Code) is part of the overall framework for the conduct of public audit in Scotland. The Code outlines the responsibilities of external auditors and it is a condition of their appointment by the Auditor General or the Accounts Commission that they follow it.
2. The overall framework in which the Code sits is set out in the table below:

Framework element	Purpose
Legislation	Establishes the legal basis for audits to be carried out
Joint statement on the principles for the audit of Scottish public sector bodies	Sets out the overarching principles for integrated public audit
<b>Code of Audit Practice</b>	<b>Outlines the responsibilities of appointed auditors</b>
Letter of appointment	Sets out the contractual elements of an auditor's appointment
Guidance issued by Audit Scotland	Provides detailed guidance on the application of the Code for particular years or specific pieces of work

## Scope

3. The Code explains how external auditors should carry out their functions under the Public Finance and Accountability (Scotland) Act 2000 or the Local Government (Scotland) Act 1973. The audit of financial statements is covered by engagement and ethical standards issued by the UK Auditing Practices Board (APB), so the Code focuses more on the wider functions of public sector auditors. It includes the expectations of the Auditor General and the Accounts Commission in areas such as shared risk assessment and Best Value. When necessary, Audit Scotland, acting on behalf of the Auditor General or the Accounts Commission, will amend or supplement the Code by issuing guidance to auditors.

4. The Code expects work in each part of the audit to inform and complement work in other parts. Fundamentally, each responsibility or objective requires a risk-based approach to audit planning which reflects auditors' and other scrutiny bodies' overall assessments of the business risks that apply to an audited body. This assessment should be influenced by bodies' own risk management processes and assessments and any guidance issued by Audit Scotland (eg, about priorities and risks, and the interests and expectations of key stakeholders).

5. There are occasions when the application of the Code depends on the specific circumstances at audited bodies and auditors' assessments of what is reasonable and appropriate in those circumstances. Subject to statutory requirements, there may also be circumstances where parts of the Code are impracticable or inappropriate, for example, because of the small size or nature of a body. Auditors should apply the Code to the audit of such bodies, in so far as they judge it appropriate, taking account of any guidance issued by Audit Scotland.

## Application

6. This Code replaces the one published by Audit Scotland in March 2007 and applies to audits for financial years commencing on or after 1 April 2011.

## **Public bodies**

7. Those responsible for public business and handling public money must be held accountable, in accordance with the law and proper standards, to those who use and pay for the services provided. Public resources should be safeguarded, properly accounted for and used economically, efficiently and effectively. Public bodies, including Audit Scotland, are expected to operate within the principles of Best Value, which means the achievement of continuous improvement in the delivery of their functions. This includes having regard to the concepts of economy, efficiency and effectiveness and the need to meet equal opportunity requirements, and contributing to the achievement of sustainable development.

8. Public bodies, including Audit Scotland, also have statutory duties to promote equal opportunities and diversity in the course of their work.

9. The Scottish ministers, elected members, governing bodies, boards, accountable officers, managers and officials have primary responsibility for ensuring that public business is conducted in accordance with the law and proper standards, and that public money is handled with integrity and spent appropriately. Public bodies and those responsible for conducting their affairs must discharge this accountability by establishing and maintaining proper governance arrangements and effective stewardship of the resources at their disposal.

## **Public sector auditors**

10. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as regularity (or legality), propriety, performance and the use of resources in accordance with the principles of Best Value and 'value for money'.

11. Accordingly, while the basic principles for auditing financial statements are common to the public and private sectors, external auditors in the public sector (whether Audit Scotland staff or private firms) also review and report on aspects of arrangements made by bodies to ensure the proper conduct of their affairs and to manage performance and the use of resources.

12. Public sector audit adds value, not only by reviewing and reporting on what happened, but also by looking forward, identifying where improvements can be made, and promoting good practice. In this way public sector audit contributes to improved standards of governance, better management and decision-making, and more effective use of taxpayers' money.

13. Public audit is an important link in the chain of accountability and holding to account. It strengthens accountability, both upwards to the elected or appointed members who provide resources, and outwards to consumers, beneficiaries, taxpayers and the wider community. This is achieved through the:

- independence of auditors from the bodies being audited, including independent appointment by the Auditor General or the Accounts Commission, rather than by the audited bodies themselves
- wider scope of public audit, as described above
- ability of auditors, the Auditor General, the Accounts Commission and Audit Scotland to make the results of audits and reviews available to the public and to democratically elected representatives.

## **Roles of the Auditor General, the Accounts Commission and Audit Scotland**

14. Public sector audit in Scotland is delivered through three bodies:

- the Auditor General for Scotland
- the Accounts Commission
- Audit Scotland.

These bodies work closely together and by looking at issues across boundaries aim to maximise the effectiveness of their work.

### ***The Auditor General for Scotland***

15. The Auditor General for Scotland is the Parliament's watchdog for ensuring propriety and value for money in the public bodies that fall within his remit. The Auditor General is responsible for investigating whether these bodies achieve the best possible value for money and adhere to the highest standards of financial management. The Auditor General is independent and not subject to the control of any member of the Scottish Government or the Parliament.

16. The Auditor General is responsible under the Public Finance and Accountability (Scotland) Act 2000 (the 2000 Act) for appointing the external auditors of most of the public bodies outside the local government sector. The following bodies fall within the Auditor General's remit:

- the Scottish Government and its agencies
- National Health Service bodies
- further education colleges
- Scottish Water
- non-departmental public bodies and others (eg, Scottish Enterprise).

17. Audited annual financial statements, including the independent auditors' reports and reports by the Auditor General, where the Auditor General decides these are appropriate, are sent to the Scottish ministers to be laid before the Scottish Parliament. The Auditor General may also report to the Scottish Parliament on value for money examinations.

### ***The Accounts Commission for Scotland***

18. The Accounts Commission is the public's independent watchdog appointed by the Scottish Ministers which, through the audit process, assists local government bodies in Scotland (including councils, police authorities and fire and rescue authorities) to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- securing the external audit, including the audit of Best Value and Community Planning. The Commission appoints auditors to local government bodies under the Local Government (Scotland) Act 1973
- following up issues of concern highlighted through the audit, to ensure satisfactory resolutions
- carrying out or promoting national performance audits to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

19. The Accounts Commission also has a statutory duty to co-operate and coordinate with other specified bodies (such as Healthcare Improvement Scotland and HM Chief Inspector of Constabulary) in relation to the scrutiny of efficiency, effectiveness and economy in local authorities, social services and health services.

20. Matters arising from local government audits are reported to the Commission through the Controller of Audit. The Commission has the power to report and make recommendations to the Scottish ministers and audited bodies, and can hold hearings. If it considers that there has been illegality or financial loss due to negligence or misconduct, the Commission may impose sanctions including censure, suspension or disqualification from office.

### ***Audit Scotland***

21. Audit Scotland is a statutory body set up under the 2000 Act to provide services to the Auditor General and the Accounts Commission, including undertaking value for money audits on their behalf. Audit appointments are made by the Auditor General or the Accounts Commission, either to Audit Scotland staff or to private firms of accountants.

22. Audit Scotland is organised around three principal business groups:

- Audit Services – which, along with private accountancy firms, comprises the persons appointed to audit the bodies falling within the remit of the Auditor General and the Accounts Commission
- Best Value and Scrutiny Improvement – which includes developing the approach to joint scrutiny and leading the conduct of Best Value audits
- Performance Audit – which includes preparing and delivering a programme of national performance audits.

This Code is directed principally at the appointed auditors.

23. Audit Scotland provides guidance and support to auditors and, on behalf of the Auditor General and the Accounts Commission, monitors their performance through a rigorous quality appraisal process. Once appointed, auditors act independently in carrying out their responsibilities and in exercising their professional judgement.

24. Audit Scotland also has statutory powers to conduct data matching exercises which, among other things, assist public bodies to prevent and detect fraud. Auditors monitor the role played by bodies' in such exercises.



## Part 2. Framework for public sector auditors in Scotland

### Statutory and other duties of auditors

25. Auditors' work is governed by statutory duties, professional engagement and ethical standards and the expectations of stakeholders, including the Auditor General and the Accounts Commission. Auditors' statutory duties are summarised in Appendix 1. Responsibilities for objections to local government accounts are described in Appendix 2.

### Objectives

26. Auditors' main objectives are to:

- provide an opinion on audited bodies' financial statements and, where required by the relevant authorities, the regularity of transactions
- review and report on, as appropriate, other information published with the financial statements, including the annual governance statement, statement on internal control or statement on internal financial control, and remuneration report
- review and report on (as required by relevant legislation, the Code and any guidance issued by Audit Scotland):
  - audited bodies' corporate governance arrangements as they relate to: their review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption
  - their financial position
  - audited bodies' arrangements to achieve Best Value. For local authorities, the Accounts Commission has approved arrangements under Section 53 of the Local Government in Scotland Act 2003 so that a team in Audit Scotland is primarily responsible for discharging the auditors' formal responsibilities in this area
  - other aspects of audited bodies' arrangements to manage their performance, as they relate to economy, efficiency and effectiveness in the use of resources
  - in local government bodies, arrangements for preparing and publishing statutory performance information
- examine and report on grant claims and other returns submitted by audited bodies, to the extent required by the relevant authorities, and in accordance with any guidance issued by Audit Scotland
- where required, review and report on the whole of government accounts return
- participate in arrangements to co-operate and coordinate activity with other scrutiny bodies and, where appropriate, the Scottish ministers. These include, in particular, the arrangements established by the Accounts Commission for the planning of local government audit, inspection and scrutiny.

### General principles

27. Audit work conducted under the Code should adhere to the following general principles:

#### ***Auditors should be independent***

Auditors should carry out their work with independence and objectivity, and comply with relevant Ethical Standards. They should be, and should be seen to be, impartial. Auditors, or any associated firms, should not carry out any work for an audited body if it would impair their independence or might be reasonably perceived as such.

Audit work does not replace the need for a body to obtain legal or other professional advice.

***Public audits should be wide in scope reflecting the special accountabilities that attach to the use of public money***

Special accountabilities attach to the use of public money and the conduct of public business, so the scope of public audit is wider than in the private sector and includes aspects of public stewardship, Best Value and performance management. Appointed auditors contribute to this wider scope work as set out in the Code and in guidance issued by Audit Scotland.

***Audits should be based on a comprehensive assessment of risk, undertaken in partnership with other scrutiny bodies***

Auditors should tailor their work to audited bodies' circumstances, so that audit effort is directed to areas of greatest risk. This should be achieved by a thorough, risk based approach to audit planning that reflects auditors' and other relevant scrutiny bodies' knowledge and understanding of an audited body's business and an assessment of the risks it faces.

Any relevant self-evaluation activity by audited bodies should be considered as part of such risk assessments. The weight given to the results of any such activity should depend on the robustness of underlying approaches.

Auditors should obtain the information and explanations necessary to provide sufficient evidence to meet their responsibilities, but they are not expected to review all aspects of audited bodies' arrangements, systems or records.

***Auditors should report in public, without fear or favour***

Auditors should report as they find. Their reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.

***Auditors should work in partnership with Audit Scotland and each other***

Without prejudicing their independence, auditors should work in partnership with Audit Scotland and with each other. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and to further develop an efficient and effective approach to public audit.

Auditors should share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies. Auditors should share information and intelligence gathered at audits, including how national performance reports have been used by, and impacted on, audited bodies.

One of the cornerstones of working in partnership is attending and contributing to the meetings that are organised regularly by Audit Scotland for all auditors engaged in specific sectors (eg, local government or health audits).

***Auditors should work collaboratively with other scrutiny bodies***

Auditors should coordinate their activities with other scrutiny bodies to prevent duplication and to ensure that demands on audited bodies are minimised. In some cases this is likely to entail joint activity. Any assessment of a body's overall performance in relation to corporate issues should be undertaken so that auditors are able to provide information to all relevant scrutiny bodies for the purposes of their duties. The scope of such work and the extent of joint activity should be determined by a shared assessment of risk.

Auditors should rely on the reported results of the work of other scrutiny bodies in relation to corporate or service performance without carrying out procedures to assess the quality of the work performed and without re-performing work, except where it would not be reasonable to do so (eg, to provide assurance for the audit opinion on the financial statements).

Auditors should have regard to any protocols, such as the Local Government Scrutiny Joint Code of Practice, that the Accounts Commission, Auditor General or Audit Scotland agrees with other scrutiny bodies and any associated guidance.

***Audits should act as a catalyst to help public bodies to improve their performance***

Auditors should encourage audited bodies to take ownership of findings and challenge them to improve. Auditors should help management to improve and recognise that failure to improve is itself a key business risk for public bodies.

***Auditors should carry out audits to high standards using suitably skilled and experienced staff***

Auditors should carry out their work professionally, efficiently and effectively, and as timely as possible. Auditors should comply with relevant quality standards and respond positively to the results of quality monitoring and reviews of their work. Audit judgements should be based on evidence of performance against appropriate transparent criteria, including achievement of value for money.

***Audits should be informed by an assessment of costs and benefits, with a concern for achieving Best Value or value for money***

Public bodies and their auditors should make best use of public resources. Any assessment of performance should take account of bodies' use of resources. Auditors' recommendations can themselves contribute to increased cost pressures so, in making recommendations aimed at improving performance, auditors should consider the practical and resource implications.

***Auditors should balance confidentiality and information security with public accountability and freedom of information***

Auditors should comply with statutory and other requirements relating to the security, holding and disclosure of information, particularly personal or sensitive information, received or accessed during audits.

The public has a statutory right to information held by public authorities, although exemptions may apply. Public authorities include the Auditor General for Scotland, the Accounts Commission and Audit Scotland.

28. These general principles underpin the Code and provide the framework within which the scope and objectives of audit work are determined.

## **Fulfilling the general principles**

29. Auditors should take reasonable steps to plan and carry out their work so as to meet their objectives and comply with the Code. Auditors do not substitute for audited bodies' own responsibilities for putting in place proper arrangements:

- to ensure that public business is conducted in accordance with the law and proper standards
- for ensuring that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively to deliver services.

30. In framing an approach and plan to meet their objectives and fulfil the general principles, auditors should:

- recognise that each part of an audit needs to be viewed in the context of the whole programme of audit work. No one part stands alone and work for one part should inform the others

- have regard to any national priorities and risks identified by Audit Scotland
- recognise that public bodies may operate and deliver services through partnerships or other forms of joint working with other public, private or third sector bodies. Auditors have a right to information held by audited bodies, group entities and others which may assist in reviewing such arrangements
- seek to conduct audits as efficiently and effectively as possible. This should include discussing with audited bodies how they can contribute to this, for example, through timely and effective production of working papers and information required for audits and responding fully and promptly to requests for comments on draft audit outputs
- coordinate effectively with internal auditors, and any service auditor, and place as much reliance as practicable on their work. Audit Scotland assumes when setting indicative audit fee ranges that internal audit work is undertaken which auditors can place reliance upon, in accordance with relevant auditing standards. All other things being equal, audited bodies with good governance arrangements and relevant high quality internal audit may be able to negotiate lower fees
- have regard to the wider system of audit, inspection and regulation of public bodies, and establish effective coordination to make best use of overall scrutiny resources. Auditors should co-operate with other external auditors, other scrutiny bodies and Audit Scotland, and share information and intelligence, as required, to enable knowledge of good practice to be transferred across public bodies. Sharing information and intelligence is also important to consistency and maximising the overall impact of scrutiny.

31. The conclusion of the annual audit planning process should be document(s) setting out how auditors intend to meet their responsibilities, in the light of their assessment of risks. These should be consistent with any shared assessment of risk undertaken with other scrutiny bodies and any agreements to coordinate work. Audit plans should also provide for reviewing whether audited bodies have properly considered any matters that have been identified previously and whether agreed actions have been implemented. For all but the smallest audits, auditors should discuss the audit plan, or a summary, with the audited body at an early stage. Plans should be reviewed throughout the audit and updated as necessary.

## Part 3. Financial statements and corporate governance

### Financial Statements

#### *Audited bodies' responsibilities*

32. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

Audited bodies are responsible for:

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority
- maintaining proper accounting records
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice)
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report
- preparing consolidation packs and, in larger bodies, preparing a whole of government accounts return.

33. Many audited bodies publish other information, such as an annual report, alongside the financial statements.

34. Audited bodies should prepare financial statements in accordance with statutory timescales or in good time to allow audits to be completed by any dates specified by sponsoring directorates or other bodies (eg, the relevant Scottish Government Health Directorate for NHS bodies). Financial statements should be prepared in accordance with all relevant regulatory requirements and be supported by accounting records and working papers prepared to an acceptable professional standard.

#### *Auditors' responsibilities*

35. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:

- whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- except for local government bodies, the regularity of the expenditure and income.

36. Auditors should review and report on, as appropriate, other information published with the financial statements, including the directors' report, annual governance statement, statement on internal control or statement on internal financial control and the remuneration report.

37. Where required, auditors should also review and report on the whole of government accounts return.

38. In carrying out their responsibilities, auditors provide reasonable assurance, subject to the concept of materiality, that financial statements:

- are free from misstatement, whether caused by fraud or other irregularity or error
- comply with statutory and other requirements
- comply with relevant requirements for accounting presentation and disclosure.

39. Auditors are required to carry out the audit of financial statements of the bodies covered by this Code in accordance with International Standards on Auditing (UK and Ireland), International Standard on Quality Control 1 (UK and Ireland) and Ethical Standards as issued by the APB. Auditors should also have regard to applicable Practice Notes, Bulletins and other guidance issued by the APB.

### ***Regularity of financial transactions***

40. The concept of regularity reflects concern that public money should be used only for approved purposes. The preparation and audit of financial statements is an important means by which audited bodies are held accountable for their use of public money and leads to an implied assertion that the reported financial transactions are regular. Audited bodies are responsible for establishing appropriate systems to ensure the regularity of financial transactions.

41. Auditors of audited bodies falling within the Auditor General's remit are required to report whether expenditure and income were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish ministers.

42. For these audits, auditors should plan and perform audit procedures having regard to guidance from the Auditing Practices Board, recognising the definition of regularity in the Public Finance and Accountability (Scotland) Act 2000. Auditors should evaluate and report the results of these procedures, recognising that non-compliance by audited bodies with statute or regulations may have material financial consequences. To meet this requirement, auditors should:

- have sufficient understanding of the laws, regulations and guidance that apply to audited bodies when auditing the assertions related to the determination of the amounts to be recorded in the financial statements and the disclosures to be made; and
- test compliance with such provisions.

43. Accordingly, auditors should obtain sufficient understanding of audited bodies' frameworks of authorities and test for regularity, keeping under review:

- audited bodies' arrangements for implementing new legislation or statutory requirements which may have significant financial consequences
- national issues which may be relevant to audited bodies and have financial consequences (eg, matters on which guidance is issued by Audit Scotland)
- transactions that are unusual or of questionable legality and which may be significant by value or context.

44. While regularity adds another dimension to public audit, auditors should, so far as possible, adopt an integrated approach to the audit of financial statements, systems and regularity.

45. Auditors should be alert to issues which may warrant the preparation of a report by the Controller of Audit under Section 102 of the Local Government (Scotland) Act 1973 (Appendix 3) or by the Auditor General under Section 22 of the Public Finance and Accountability (Scotland) Act 2000. Auditors should also consider the arrangements within which designated local government monitoring officers discharge their statutory responsibilities. Auditors should review any advice those officers give bodies that the bodies do not have powers for a specific course of action.

46. Auditors of local government bodies are not required by statute to give a report on regularity but, where they identify a failure to comply with a statutory requirement, the Code requires that they consider including an explanatory paragraph in the independent auditors' report on the financial statements and other reporting requirements. In other sectors, an explanatory paragraph may require to be considered in place of a modified report on regularity (eg, where a health body fails to meet a non-statutory financial target prescribed by the Scottish ministers).

47. Where there are supplementary financial statements, such as local government trust funds and the common good, auditors assess whether regulations or trust deeds have been complied with to the extent that non-compliance might cause a material misstatement in the body's financial statements as a whole.

## **Corporate governance arrangements**

### ***Background***

48. Compliance with International Standards on Auditing (UK and Ireland) involves auditors in understanding the business of an audited body, assessing risks and devising a response. This requires auditors to understand the governance arrangements in the body and, where appropriate, how it monitors the governance arrangements in delivery partner organisations. The following paragraphs describe those features of governance arrangements that are different from, or have increased emphasis to, those in the private sector.

### ***Audited bodies' responsibilities***

49. It is important to recognise the diversity of audited bodies, the distinct roles of management and non-executives and the models of governance that apply, each of which require special consideration and impose different accountabilities. However, the three fundamental principles of corporate governance - openness, integrity and accountability - apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

50. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

### ***Auditors' responsibilities***

51. Consistent with the wider scope of public audit, the Code gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:

- bodies' reviews of corporate governance and systems of internal control, including their reporting arrangements
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption
- the financial position of audited bodies.

52. Protecting public money is a general concern and auditors' duties in relation to corporate governance are an important safeguard in ensuring the establishment and maintenance of proper arrangements. While the Code refers separately to auditors' responsibilities for reviewing arrangements for achieving Best Value and performance management and for reviewing aspects of corporate governance, these arrangements and their review by auditors are usually closely integrated.

53. Auditors do not examine every financial activity or accounting procedure as this would be contrary to the risk based approach that underpins the Code. Auditors should rely on the results of the evaluation of audited bodies' systems, supplemented, as necessary, by appropriate tests of control or detail. While auditors aim to identify major weaknesses in systems reviewed, their work should not be relied upon to identify all weaknesses that may exist.

## ***Systems of internal control***

### *Statements of corporate governance or internal control etc*

54. Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.

55. Rigorous self-evaluation should be a central part of audited bodies' performance management to support continuous improvement and they may apply a variety of approaches. Annual reviews of the effectiveness of governance and internal control arrangements should reflect the results of these.

56. Auditors are required to review and report on the compliance statements given by bodies under the relevant code or framework before their publication. This is discharged by reviewing and, where appropriate, examining evidence relevant to audited bodies' arrangements in accordance with any guidance issued by Audit Scotland. Auditors are not required to consider whether the statements cover all risks and controls, or form an opinion on the effectiveness of procedures, but report where compliance statements are not consistent with their knowledge of the body.

### *Reviews of financial systems*

57. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. Informed by their assessment of risk, auditors should also consider reviewing financial systems that may not be material to their opinion, but which are sensitive or significant by context. However, the extent of this work should also be informed by the activities of internal audit.

## ***Prevention and detection of fraud and irregularities***

58. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity
- participating, when required, in data matching exercises carried out by Audit Scotland.

59. Auditors should review and report on these arrangements. While auditors do not substitute for audited bodies own responsibilities, and are not responsible for preventing or detecting fraud or irregularity, they should be alert to the potential for breaches of procedures, and of fraud and irregularity. Auditors examine evidence that is relevant to these arrangements, particularly aspects of internal financial control such as segregation of duties, authorisation and approval processes and reconciliation procedures.

60. Fraudulent transactions cannot, by definition, be regular since they are without proper authority. Where fraud is proven or suspected auditors should consider the impact on the regularity part of the opinion on the financial statements, where applicable.

61. Auditors may be required to submit information about instances of fraud and irregularity to Audit Scotland. They should also review information about frauds circulated by Audit Scotland and consider whether any action is required in relation to their own audits. These arrangements are not a substitute for the discharge of any statutory obligations placed on auditors.



***Standards of conduct and arrangements for the prevention and detection of bribery and corruption***

62. Propriety is about how public business should be conducted. It is concerned with fairness and integrity and includes avoiding personal gain, even-handedness in the appointment of staff, and avoiding waste and extravagance.

63. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers
- promoting appropriate values and standards
- developing, promoting and monitoring compliance with standing orders and financial instructions.

64. Auditors should consider whether bodies have adequate arrangements in place to maintain and promote proper standards of financial conduct and to prevent and detect bribery and corruption. Auditors review and, where appropriate, examine evidence that is relevant to these arrangements and reporting their findings.

65. While a loss often arises from fraud, corruption may not lead to a loss to an audited body or impact on its financial statements. Corruption may arise, for example, in the tendering and award of contracts, the award of permissions, consents and licences, the secondary employment of staff, hospitality and the pecuniary and political interests of members or officers.

66. Auditors should therefore establish that bodies adopt and regularly review standing orders and financial regulations and schemes of delegation. Auditors should also establish that members, management and employees' attention is drawn to guidance and codes of conduct and that they are made aware that failure to comply may have serious consequences.

67. While auditors are not responsible for preventing or detecting failure to maintain an appropriate level of integrity and openness, they should be alert to the potential for corruption and breaches of standards of conduct in all aspects of their work. If weaknesses in arrangements are identified or notified, auditors should report them promptly to management or those charged with governance.

***Financial position of audited bodies***

68. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified
- compliance with any statutory financial requirements and achievement of financial targets
- balances and reserves, including strategies about levels and future use
- the impact of planned future policies and foreseeable developments on their financial position.

69. Auditors should consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based, where appropriate, examining evidence that is relevant to the arrangements.

70. Auditors should have regard to audited bodies':

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent statutory and other financial obligations

- responses to developments which may have an impact on their financial position
- financial plans for future periods.

71. Auditors are not otherwise expected to undertake significant additional audit procedures beyond those required to understand the financial planning and management arrangements of audited bodies and to consider the going concern concept. However, these are key areas in the current economic circumstances and may require more detailed consideration than would normally be required.

## **Part 4. Best Value, use of resources and performance**

### ***Audited bodies' responsibilities***

72. Local authorities have a statutory duty to make arrangements to secure Best Value; defined as the continuous improvement in the performance of functions. In securing Best Value, local authorities must maintain a balance of quality and cost considerations and have regard, among other things, to economy, efficiency and effectiveness (or 'value for money') and the need to meet equal opportunity requirements and contribute to the achievement of sustainable development. Local authorities also have a duty for community planning, which is to initiate, maintain and facilitate consultation among and with public bodies, community bodies and others about the provision of services in the area of the local authority and the planning of that provision.

73. Best Value and community planning is broad in scope but a successful authority will:

- work with all relevant organisations in its area to identify a clear set of priorities that respond to the needs of the community in both the short and the longer term
- be organised to deliver those priorities
- meet and clearly demonstrate that it is meeting the community's needs.

74. For other sectors, the Scottish Public Finance Manual explains that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure Best Value.

75. Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.

### ***Auditors' responsibilities***

76. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning.

77. The Public Finance and Accountability (Scotland) Act 2000 gives the Auditor General the right to initiate examinations into the economy, efficiency and effectiveness with which audited bodies and certain other bodies have used their resources to discharge their functions. The results of such examinations may be presented to the Scottish Parliament and considered by its Audit Committee.

78. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

### ***The audit of Best Value***

79. The Local Government in Scotland Act 2003 introduced duties for Scottish local authorities relating to Best Value and community planning. The Accounts Commission holds authorities to account for these duties. The Commission has approved arrangements under Section 53 of the Local Government in Scotland Act 2003 so that a team in Audit Scotland is primarily responsible for discharging the auditors' responsibilities in this area – and conclusions provided in a published report by the Controller of Audit. Auditors are key members of this team. The Commission may make findings on the report and/or hold hearings.

80. The timing and scope of these audits and other scrutiny work necessary to support them is determined through a shared risk assessment process. This also considers which scrutiny body is best placed to conduct such work and the need for any joint activity. Auditors should undertake

work assigned to them in line with their other responsibilities in the Code. This includes monitoring progress and the impact of actions previously agreed by bodies in response to BV reports.

81. In accordance with guidance issued by Audit Scotland, the Auditor General may also require for bodies falling within his remit that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area. Auditors discharge such local work by reviewing and, where appropriate, examining evidence that is relevant to aspects of these arrangements, including the deployment of resources in specific services and functions. As part of the planning for this work, auditors should have regard to:

- their assessment of audit risks and significance
- evidence from other aspects of the audit or previous audit work
- where appropriate, the work of other auditors and other scrutiny bodies
- any guidance or toolkits issued by Audit Scotland.

### ***Use of resources***

82. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure through Audit Scotland examinations of the use of resources by audited bodies and publish reports or guidance.

83. In accordance with guidance issued by Audit Scotland, auditors may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body's response to national recommendations.

84. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. In identifying areas for review, and in executing their work, auditors should consider relevant comparative performance indicators, if available, and the scope for identifying improvements in the use of resources. In local government such work should only be undertaken once it has been agreed through shared risk assessment processes.

85. Audits should examine how audited bodies assess how well and how efficiently public services meet needs, and how they are experienced by citizens. This means that, so far as practicable, auditors should take a 'whole system' approach, looking across traditional organisational boundaries and considering outcomes.

86. During the course of their audit appointment auditors should consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

### ***Performance information***

87. The Local Government Act 1992 requires the Accounts Commission to specify information which local authorities must publish about their performance.

88. Auditors should undertake appropriate work to satisfy themselves that bodies have put in place adequate arrangements for the collection, recording and publication of statutory performance information by reviewing and examining evidence that is relevant to these arrangements in accordance with any guidance issued by Audit Scotland.

## Part 5. Reporting the audit

### Overview

89. Reports from auditors are the main means of bringing audit findings to the attention of senior management, those charged with governance (elected or board members, accountable officers) and other stakeholders.

90. As a minimum, auditors will provide:

- an independent auditors' report (opinion) on the financial statements, addressed to the audited body and, as appropriate, the Auditor General and Scottish Parliament or the Accounts Commission
- an annual audit report addressed to the body and, as appropriate, the Auditor General or the Controller of Audit
- reports or letters addressed to the management of audited bodies and, where appropriate, those charged with governance, bringing their attention to matters arising from auditors' work under the Code.

91. Auditors may also be required to provide opinions on matters such as consolidation packs (including those for Whole of Government Accounts), grant claims and statistical returns.

92. For councils that administer the local government pension scheme, auditors are ~~not currently~~ required to provide a separate audit opinion on the financial statements of the pension fund, ~~which are not included in the main financial statements of these councils. that are published as part of the financial statements of each administering council (although the pension fund is listed among the financial statements covered by the independent auditor's report).~~ However, ~~administering councils may at their discretion request that auditors provide an additional audit opinion on the pension fund statements, within the independent auditor's report on the councils' financial statements, and an independent auditor's report on any separate financial statements published for the pension fund. This is a developing area and a separate audit opinion for the pension fund may become a requirement in the near future. The auditors should also prepare a separate annual audit report addressed to the pension fund committee and the Controller of Audit.~~

### General considerations

93. Auditors should prepare and issue their outputs promptly, both during the audit and at its completion, and meet any specified reporting deadlines. Auditors' outputs should normally include or cross refer to statements emphasising that:

- management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems;
- weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist;
- communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

94. Auditors should communicate regularly with bodies and ensure that emerging findings are discussed at the appropriate level. Auditors should consult bodies on the factual accuracy of all draft outputs. They should also consider whether their conclusions are consistent with those arising from the work of other auditors and scrutiny bodies.

95. In local government, communicating the strategic issues arising from shared risk assessment and scrutiny coordination will be led by a single point of contact for the scrutiny bodies. The nominated individual will act as the coordinator, ensuring that meetings and discussions with the audited body are organised efficiently and effectively. Bodies are encouraged to engage routinely with this individual. Auditors should engage with this process and co-operate with other scrutiny

bodies to manage contact appropriately at the most senior level of audited bodies. Auditors should also undertake this lead role if requested by Audit Scotland.

96. Auditors should report so that the intended audience understands the:

- nature and scope of their work
- significant issues arising
- conclusions and judgements reached
- action that may be required to secure improvement.

97. Audit outputs should:

- be clear and succinct and relevant to their audience
- be written in plain language, avoiding jargon and technical terms, wherever possible
- draw clear conclusions and make recommendations.

98. Recommendations should be:

- specific and have considered the implications (eg, costs and benefits) for the audited body
- included in an agreed action plan which includes management's responses, target dates for implementing change, and the officer responsible.

99. Auditors should not question the merits of audited bodies' policies (except for accounting policies or legality), but they may examine the arrangements for reaching policy decisions and consider their effects. Bodies are responsible for deciding whether and how to implement recommendations. Auditors should avoid any perception that they have a role in bodies' decision making arrangements.

100. The prime responsibility for monitoring the implementation of audit recommendations rests with the audit committee of the body, or its equivalent, although auditors will also monitor progress and may report accordingly.

101. Where auditors undertake work with other scrutiny bodies they should generally report jointly. The report should clearly identify the auditor as a co-author, be 'badged' appropriately and describe the extent of each party's involvement. In some circumstances, such as reporting overall conclusions from Best Value auditing to the Commission, the auditor cannot be a co-author for statutory reasons.

## **Independent auditor's reports**

102. Having regard to auditing standards and practice notes, and in the interests of consistency, Audit Scotland provides auditors with model forms of independent auditor's reports for the main types of audited body.

## **Annual audit reports**

103. At the conclusion of the annual audit, auditors are required to issue a report summarising the significant matters that arose from the audit as a whole. The annual audit report should be addressed to:

- those charged with governance, which may be elected or board members, the accountable officer or the most senior official charged with governance responsibilities within the audited body; and
- the Auditor General (for bodies audited under the 2000 Act) or the Controller of Audit (for local government bodies).

104. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditors' opinions (ie, on the financial statements) and conclusions and any significant issues arising.

105. The Auditor General or Controller of Audit (Appendix 3) may follow up matters arising from audits and prepare reports for the Scottish Parliament or Accounts Commission, respectively. Annual audit reports are also the main formal source of information for these reports, although auditors should always inform Audit Scotland promptly about any significant matters that arise.

106. The annual audit report should form a key part of discussions with audit committees, either prior to or as soon as possible after the formal completion of the audit of the financial statements. If an audited body does not have an audit committee then the report should be discussed with an appropriate group of members or the accountable officer and senior management.

107. The annual audit report should reflect the responsibilities given to auditors under the Code and have regard to any other guidance issued by Audit Scotland. It should:

- normally include a short executive summary of the most important issues arising
- refer to the respective responsibilities of management and auditors
- expand upon any modified audit opinion, explanatory paragraph or failure to comply with a statutory requirement, included in the independent auditor's report
- refer to any undue delay in the submission of, or if necessary conclusions about the quality of, the financial statements presented for audit (eg, citing material changes required a result of audit)
- include the auditors' views on:
  - the quality and appropriateness of corporate governance and internal control arrangements, including internal audit
  - arrangements for the prevention and detection of fraud, and any significant fraud arising
  - arrangements for maintaining standards of conduct and the prevention and detection of corruption
  - the body's financial position.
- identify any failure by a body to adequately consider relevant national performance audit reports issued by Audit Scotland
- refer, if significant, to the outcome of any statutory objections to the accounts (in local authorities) or correspondence referred to an auditor by Audit Scotland
- include, where relevant, the auditor's view on the appropriateness of arrangements for performance management and achieving continuous improvement (eg, summarising progress against a previous Best Value action plan)
- refer, where relevant and ~~if~~-significant, to other audit reports, reports issued jointly following work undertaken with other scrutiny bodies or reports by inspectorates issued during the period
- generally, direct attention to the significant weaknesses or risks identified from the audit and note the action taken or auditors' recommendations to resolve any such significant issues or areas of concern arising in the period under review and previous periods.

108. Annual audit reports should be concerned with achieving change and be accompanied by agreed action plans covering the significant risks identified from the audit and any recommendations. They should also refer to any significant issues where agreement was not reached.

109. Unnecessarily long reports may not hold the attention of their audience. Annual audit reports should not normally include detailed descriptions of management arrangements, budgetary performance, financial outturn, or other information that has already been reported to members by management, unless to set a risk or weakness in sufficient context. Further, the annual audit report is not simply a summary of all audit activity for the year. A reference in an annual audit report should not leave a reader unclear about its purpose.

110. Exceptionally, Audit Scotland may request that a specific topic is referred to in the annual audit report, but will aim to avoid this being used solely as a vehicle for gathering information or intelligence.

111. Audited bodies should be encouraged to make the annual audit report publicly available. In any event, Audit Scotland will publish auditors' annual audit reports on its website. It is particularly important, therefore, that auditors use plain language in annual audit reports whenever possible.

## **Reports to management and those charged with governance**

112. Auditors should communicate findings and views on matters arising during the course of audits through reports to management and, where relevant, to those charged with governance (eg, the report required under International Standard on Auditing 260). These should be submitted promptly following work and copied simultaneously to Audit Scotland. Auditors should plan to deliver management reports for the period before the annual audit report is issued, although this is not a reason in itself for holding back the annual audit report.

113. Auditors should agree the reporting arrangements to be adopted, and the manner in which reports are to be considered by those charged with governance (as well as audit committees, or their equivalent) with audited bodies' senior management.

114. Management reports should be addressed to those who have authority to act on them. In the case of local authorities, a copy of all management reports should be submitted to the proper officer designated under Section 95 of the Local Government (Scotland) Act 1973.

## **Grant claims**

115. Audited bodies are responsible for ensuring the accuracy, completeness and timely submission of any grant claims and returns. The Scottish ministers, sponsoring bodies or others may require independent examination as a condition of accepting claims or returns and before a grant is paid.

116. In conjunction with audited bodies, auditors should identify the claims likely to be submitted for audit and assess, agree and incorporate the resources required in audit plans and fees.

117. However, for further education colleges, the demand for the examination of claims and returns varies significantly and this work should be undertaken outside the remit of the Code as a locally agreed arrangement between the auditor and the body.

118. For local government bodies Audit Scotland notifies auditors about the claims and returns which are approved for examination. Others should not be accepted without consulting Audit Scotland. Auditors should have regard to the grant notes and other guidance issued by Audit Scotland.



## Part 6. Other matters

### Technical support and guidance

119. Audit Scotland provides technical support and guidance to all appointed auditors. While auditors act independently of Audit Scotland, consistency of opinions in similar circumstances is important. Auditors should normally follow such guidance and they should advise Audit Scotland promptly if they intend not to follow guidance issued on an important issue.

### Ad hoc requests for auditors' views

120. Bodies sometimes seek their auditors' views on the regularity, accounting treatment or performance management implications of transactions, or proposed courses of action, before embarking upon them. Auditors should aim to be helpful, but must bear in mind that:

- their independence must not be prejudiced by being involved in audited bodies' decisions
- they are not financial or legal advisers to their audited bodies
- they should not act in any way that might fetter their ability to report on a matter, or to exercise the statutory powers conferred on them, the Auditor General, the Controller of Audit, the Accounts Commission or Audit Scotland.

121. Auditors' responses should not be taken by audited bodies to suggest that proposed transactions or courses of action will be exempt from challenge in future, whether by auditors or others. Bodies and their management are responsible for deciding whether or not to embark on transactions or activities.

### Correspondence

122. Audit Scotland may consider at any time (eg, outside any statutory objection period) correspondence from the public or other interested parties about the finances of an audited body or an issue which is relevant to auditors' functions. Correspondence of this nature received directly by auditors should be referred immediately to Audit Scotland.

123. In all such cases, Audit Scotland will advise the auditor about the extent of any enquiries that may be required. Auditors should have regard to any guidance issued by Audit Scotland when dealing with such correspondence.

### Responsibilities to third parties

124. While the results of audits can be made available to the public, the auditor's duty of care in respect of the audit of the bodies covered by this Code extends only to:

- for local government bodies, the audited body, the Accounts Commission, the Controller of Audit and Audit Scotland
- for all other bodies, the audited body, the Auditor General, Audit Scotland and the Scottish Parliament (under statute, most audited financial statements require to be laid before the Parliament).

125. Although reports may be addressed to members or managers, they are prepared solely for the use of bodies referred to above. Auditors do not undertake to have responsibilities to members, directors, accountable officers, managers or the Scottish Ministers in their individual capacities, or to third parties.

# Appendix 1

## Auditors' statutory duties

### *For bodies falling within the Auditor General's remit*

Auditors' statutory duties are derived from appointment by the Auditor General under the Public Finance and Accountability (Scotland) Act 2000. Auditors' reports (ie, the auditor's independent report in relation to the financial statements) must set out the auditor's findings on:

- whether the expenditure and receipts<sup>1</sup> shown in the financial statements were incurred or applied in accordance with:
  - any enactment by virtue of which the expenditure was incurred or the income received
  - the Budget Act(s) for the financial year, or any part of the financial year, to which the financial statements relate
  - Sections 4 to 7 of the 2000 Act, relating to the Scottish Consolidated Fund (the Fund)
- where sums have been paid out of the Fund for the purpose of meeting such expenditure, whether the sums were applied in accordance with Section 65 of the Scotland Act 1998
- whether the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable guidance (whether as to propriety or otherwise) issued by the Scottish ministers
- whether the financial statements comply with any applicable direction by virtue of any enactment.

Auditors must send the financial statements, including the auditor's report, to the Auditor General who may prepare a report on the financial statements under Section 22 of the 2000 Act.

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<sup>1</sup> The relevant accounting frameworks require most audited bodies under the Auditor General's remit to prepare financial statements on an accruals basis and the independent auditors' report usually refers to income rather than receipts.

### ***For local government bodies***

Auditors' statutory duties for local government bodies are contained principally within Part VII of the Local Government (Scotland) Act 1973. These are to:

- audit the financial statements and place a certificate (ie, independent auditors' report) on the statements stating that the audit has been conducted in accordance with Part VII of the Act
- satisfy themselves that:
  - the financial statements have been prepared in accordance with all applicable statutory requirements
  - proper accounting practices have been observed in the preparation of the financial statements
  - the body has made proper arrangements for securing Best Value and is complying with its community planning duties<sup>2</sup>
  - a local authority has made adequate arrangements for collecting, recording and publishing prescribed performance information
- hear any objection to the financial statements lodged by an interested person.

Auditors should also be familiar with the responsibilities in Section 102 of the Local Government (Scotland) Act 1973, summarised in Appendix 3.

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<sup>2</sup> The Accounts Commission has approved arrangements under Section 53 of the Local Government in Scotland Act 2003 so that a team in Audit Scotland is primarily responsible for discharging the auditors' responsibilities in this area – providing overall conclusions on a local government body's arrangements in a public report by the Controller of Audit. The auditor is a key member of this team.

## Appendix 2

### Public rights of inspection and objection under the Local Government (Scotland) Act 1973

The wider public interest dimension to the audit of public money is explained throughout the Code. For the audit of the financial statements of local government bodies, auditors are required to have regard to the right of citizens to:

- inspect a local authority's accounts, books and records and take copies or extracts thereof
- lodge with the auditor a written objection to those accounts, together with a statement of the grounds thereof
- appear before and be heard by the auditor with respect to that objection.

Written objections require to be lodged directly with the local authority, any officer concerned, the auditor and the Controller of Audit<sup>3</sup>. Auditors should advise the Controller of Audit promptly of any objections or submissions received directly. If requested by the objector, the local authority or any officer of the authority who may be concerned, the auditor must give the relevant party an opportunity to appear before, and be heard by, the auditor with respect to the objection.

Auditors should have regard to any additional guidance issued by Audit Scotland when dealing with objections to the accounts of a local authority.

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<sup>3</sup> Audit Scotland may also consider correspondence received at any time about the finances of an audited body or an issue which is relevant to auditors' functions. See Part 6. Other Matters.

## Appendix 3

### Statutory reports under Section 102 of the Local Government (Scotland) Act 1973

#### Section 102(1)

Under Section 102(1) of the Local Government (Scotland) Act 1973 the Controller of Audit may, and if required by the Accounts Commission, shall submit reports to the Commission about:

- the accounts of local authorities
- any matters arising from the accounts or the audit of local authorities that the Controller considers should be considered by a local authority or brought to the attention of the public
- the performance of a local authority of their duties relating to Best Value and accountability and community planning set out in the Local Government in Scotland Act 2003.

Section 102(2) requires any report under Section 102(1) to be copied to any local authority named in the report and to any other persons that the Controller thinks fit.

#### Section 102(3)

Having considered any matter arising out of the audit of the accounts of a local authority, and having made such enquiries as the Controller sees fit, in certain circumstances the Controller may, under Section 102(3), make a special report to the Accounts Commission. A report may be made where the Controller is of the opinion that:

- an item of account is contrary to law; or
- there has been a failure on someone's part to bring into account a sum which ought to have been brought into account; or
- a loss has been incurred or deficiency caused by the negligence or misconduct of a person, or by the failure of an authority to carry out a duty imposed on them by any enactment; or
- a sum which ought to have been credited or debited to one account of an authority has been credited or debited to another account and the authority has not taken, or is not taking, steps to remedy the matter.

A fundamental feature of the process which might give rise to a report to the Accounts Commission is the role which auditors play in bringing circumstances which could give rise to a report to the attention of the Controller. For example, should the auditors of a local government body identify a matter which could potentially lead to a report under Section 102(3), immediate contact should be made with Audit Scotland. The need to draw early attention to the matter takes priority over the need to have prepared a detailed report or for the auditor to have formed a definitive view on the matter.

Immediate notification to Audit Scotland should normally be followed by the submission of a detailed report.

# Appendix 4

## Glossary of terms

### Audit

Work carried out by auditors to meet any of the requirements of the Code.

### Audited body (or body)

A body (or account) for which the Auditor General or the Accounts Commission is responsible for appointing an auditor<sup>4</sup>, comprising the members of the body (eg, elected members of a local authority or executive and non-executive directors of NHS bodies), an accountable officer, management and other officers, as appropriate.

### Auditing Practices Board

The body responsible in the UK for issuing auditing and ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

### Auditors (or appointed auditors)

External auditors of public bodies appointed by the Accounts Commission under Section 97 of the Local Government (Scotland) Act 1973 or the Auditor General under Section 21 of the Public Finance and Accountability (Scotland) Act 2000. These include appointed auditors in Audit Scotland's Audit Services Group and private firms.

Where indicated in the Code, auditors also include other staff from Audit Scotland (eg, the staff primarily responsible for the audit of Best Value in local government).

### Authorities

Relevant Acts of Parliament or the Scottish Parliament, statutory instruments, directions, regulations, or other guidance with which audited bodies are required to comply.

### Best Value

A duty of audited bodies or accountable officers. Defined in statute for local authorities as continuous improvement in the performance of functions. In securing Best Value local authorities are required to balance issues of quality and cost, have regard to efficiency, effectiveness, economy and the need to meet equal opportunity requirements, and contribute to the achievement of sustainable development.

### Best Value audit

A Best Value audit may be part of an assurance and improvement plan for a body, following the shared risk assessment process undertaken by a joint scrutiny network (also referred to as a local area network or LAN). An assurance and improvement plan sets out the shared risk assessment of a body and the proposed scrutiny response. It includes all scrutiny activity at corporate and service level in a body.

### Code (the)

This Code of Audit Practice issued by Audit Scotland with the approval of the Auditor General and the Accounts Commission.

### Controller of Audit

The officer appointed by the Accounts Commission under Section 97(4) of the Local Government (Scotland) Act 1973. The Controller of Audit has statutory reporting functions, in particular those referred to in Appendix 3 of the Code.

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<sup>4</sup> [The local government pension scheme is a fund of the administering council. The council's appointed auditor is responsible for the audit of the council's main financial statements and those of the pension fund.](#)

## **Ethical Standards**

Ethical Standards issued by the APB.

## **Financial statements**

Annual or periodic financial statements, abstract(s) of accounts or the account in the prescribed form on which the auditor expresses an opinion.

## **Fraud**

Intentional distortion of financial statements and accounting records and/or misappropriation of assets involving deception to obtain an unjust and illegal financial advantage.

## **Joint scrutiny network**

A joint forum for developing a shared risk assessment and assurance and improvement plan, comprising inspectors, regulators and auditors. Also referred to as a local area network.

## **Local government bodies**

Councils, joint boards, committees and other associated bodies, established under the Local Government (Scotland) Act 1973, as amended or replaced by the Local Government etc. (Scotland) Act 1994.

## **Materiality (and significance)**

An expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the independent auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included within them. A public sector audit is different in that entities other than the addressees of the auditor's report may be regarded as principal users of the financial statements, their use being formally stated or implied in statute. The auditor of a public sector body considers whether there are any principal users, in addition to the addressees of the auditor's report, whose decisions might be influenced by omissions or misstatements.

## **Members**

The individuals responsible for the governance and overall direction and control of the audited body, including elected or appointed members or accountable officers.

## **Other (joint) scrutiny bodies**

Inspectorates and other public sector organisations that have a role in assessing aspects of organisational performance, compliance with professional standards and the competence of professional staff.

In local government, the relevant organisations are listed in Schedule 14 of the Public Services Reform (Scotland) Act 2010 alongside the Accounts Commission. They have a duty to co-operate with each other and, where appropriate, with the Scottish ministers, under the Act.

## **Regularity (of expenditure and income)**

Whether, subject to the concept of materiality, expenditure and income has been incurred or applied in accordance with (i) any applicable enactment by virtue of which the expenditure was incurred or the income received and guidance issued by the Scottish ministers; (ii) the Budget Act or Acts for the financial year, or any part of the financial year, to which the financial statements relate, and (iii) Sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000. Strictly, the legislation refers to receipts rather than income. Where the accounting framework requires audited bodies to account for income this is the term more commonly used in independent auditors' reports.

## **Shared risk assessment (SRA)**

A process involving a joint approach using key information about a body to plan scrutiny activity that is proportionate and based on risk. SRA is undertaken by a joint scrutiny network and leads to the preparation of an assurance and improvement plan, part of which may be the conduct of a Best Value audit.

**Statement on internal control**

Depending on the relevant authorities, audited bodies are required to publish an annual governance statement, statement on internal control or internal financial control with their financial statements. The disclosures in these statements are supported and evidenced by the body's assurance framework.

**Third sector**

The third sector includes voluntary and community organisations, charities, social enterprises and cooperative and mutual organisations.

**Those charged with governance**

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'. In most cases, for example, this might be a full council or board of management, an audit committee (where established) or another committee with delegated responsibility for receiving the financial statements.

**Whole of Government Accounts (WGA)**

The WGA initiative is to produce a set of consolidated financial statements for the entire UK public sector on commercial accounting principles. The larger public sector bodies in Scotland are required to submit a consolidation pack to the relevant Scottish Government directorate which is based on, but separate from, their statutory accounts.



## **ACCOUNTS COMMISSION**

**MEETING 17 MARCH 2011**

### **ACCOUNTS COMMISSION DIGEST**

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This digest is intended to provide Commission members with background information that may be of interest.

This month the digest includes:

- Further details on parliamentary and government activity of interest to local government
- An outline of recent media coverage of relevance to the Commission
- Recent publications of interest.

### **Parliamentary and government activity**

The Controller of Audit's update report includes information on the activity of most relevance to the Commission. Members may also be interested in the following:

The Cabinet Secretary for Justice, Kenny MacAskill MSP, has announced his intention to proceed towards merger of the functions of the **Police Complaints Commissioner for Scotland** with the Scottish Public Sector Ombudsman. He has set up a short-life working group with officials from the two bodies and the Scottish Parliamentary Corporate Body (which sponsors the Ombudsman) to identify and consider solutions to all the practical issues involved in a transfer, so that advice on this can be given to the next administration.

The first public meeting of the **Future Delivery of Public Services Commission, chaired by Campbell Christie**, was to be held at South Lanarkshire Council headquarters in Hamilton on 7 March

The Minister for Transport and Infrastructure, Keith Brown MSP, has confirmed his acceptance of the central recommendations of the recently-published performance audit report ***Maintaining Scotland's Roads***, and announced a national review would be undertaken, to report in the Autumn. It is anticipated the review will consider opportunities for better collaboration between local authorities and with Transport Scotland, and will be taken forward jointly by Transport Scotland, COSLA and SCOTS with input from stakeholders from the road users community. The Scottish Government has also announced that it has allocated an extra £2 million to tackle the pothole problem.

### **News summary 8 Feb – 7 March**

There has been considerable coverage in the last month of several Accounts Commission reports:

**Local Government Overview report:** coverage of comments made by John Baillie at the Parliament's Local Government and Communities Committee, in Public Finance magazine.

### **Maintaining Scotland's Roads**

This report attracted an extremely high level of interest, which is ongoing. So far there are hundreds of items mentioning the report, many more than for other reports published in recent years. This included coverage of comments made at the Parliament's Public Audit Committee and the Scottish Government's response to the report. There were comments from all political parties, COLSA and the Scottish Government, and an article by Nicola Sturgeon for the Evening Times

**Highland Council and the Caithness Heat and Power project.** This report received local and national coverage, focusing on corporate failure and the action taken by the council to improve. A few items named the individuals criticised in the findings. P&J, Scotsman, Herald, Caithness.org, Moray Firth FM, BBC Radio Scotland, BBC website 2 March.

**Grampian Police and Joint Police Board.** Some coverage focused on specific issues from the report, such as a rise in complaints against officers and racially motivated crimes. Herald, Scotsman, P&J, Northsound, BBC Radio Scotland, Reporting Scotland, BBC Radio Aberdeen, BBC Radio Inverness

- *Liberal Democrat Justice Spokesperson Robert Brown* said the report showed that “*any move towards a single police force risks totally eradicating the strong service that police forces like Grampian provide for the community they serve.*”
- An inspector's report is proof that Grampian Police should not be abolished, its chief said. Evening Express 24 Feb

### **Edinburgh trams interim report.**

There has been extensive on-going media interest in the Edinburgh trams project, with mentions of the recent AC/AGS report. Audit Scotland has been criticised for “accepting at face value everything that Transport Scotland, the City of Edinburgh Council and Transport Initiatives Edinburgh said”. The firms at the centre of the tram dispute have written to MSPs complaining they were sidelined in the audit. TIE chairman, Vic Emery has endorsed the report, calling it a fair reflection of where the project is. Sunday Herald At the Public Audit Committee, Sue Bruce of Edinburgh City Council and TIE officials admitted they had not ruled out asking ministers for more public money. Extensive media coverage

The Public Audit Committee published its report on **Looked after children in residential care**, which attracted media interest. There was also other coverage relating to the issues raised: There were calls for a £20million fund to reintroduce health visitors and parenting lessons after it was revealed the number of children in care is the highest in almost 30 years. Daily Express 24 Feb. A new centre of excellence to improve the lives of children in care is to be established in Scotland, children's minister Adam Ingram has announced. Herald 24 Feb.

### **Auditor General report on The Gathering**

The leaders of City of Edinburgh Council were under pressure to resign after a damning parliamentary report blamed them for leaving Scottish businesses with huge debts. Extensive coverage, 25 February. Council leader Jenny Dawe today revealed she had been receiving hate mail after she was branded "not credible" in a damning Scottish Parliament report - and is taking legal advice over the "serious slur" on her character .

### **Workforce issues**

Coverage has continued of items relating to workforce issues at individual councils, including terms and conditions and redundancies. Coverage included—

- A deal guaranteeing no compulsory redundancies in the public sector in Scotland is understood to be close, the BBC has learned. The agreement, to run until

January, would be in return for pay constraints and other cost-cutting measures. Talks on the deal have involved the Scottish government, unions and councils. BBC 28 Feb. Claims that an agreement was close to being reached to prevent compulsory redundancies in the Scottish public sector began to crumble last night, when both employers and unions denied its existence. Times, Herald, Scotsman 1 March

- The EIS teaching union is to ballot members over proposed changes to pay and working conditions. Herald, Scotsman 1 March
- Up to 6500 workers in **Renfrewshire** council could be sacked and re-employed on **altered terms and conditions** as part of a cost-cutting drive to help the council achieve savings of £75m over three years. Evening Times

## Pensions

The final report of the Commission on Public Service Pensions led by Lord Hutton is expected to be published on 10 March.

The GMB union has found that nearly 40% of its members will abandon the Local Government Pension Scheme if contributions increases go ahead as planned. Public sector Executive magazine

“Pension schemes for town hall employees cost Scottish taxpayers £867 million last year. Previously, a report by Audit Scotland had warned that the bill for filling gaps in the Local Government Pension Scheme was running out of control.” Mail on Sunday

**Service changes and charging for services** are continuing to attract media and public interest, primarily at a local level.

## Education

Coverage on education issues has included—

- **HMIE’s scrutiny approach:** article and editorial about the reduction in scrutiny and the new risk based approach, with comment “School inspectors must try harder. Reducing the number of school inspections and lengthening the time between them will cause unease among parents at a time when cash-strapped councils are preparing to cut the number of teachers and classroom assistants.” Herald 25 Feb. Editorial – supporting the principles of inspection and value of external evaluation. Herald 25 Feb
- The Cabinet Secretary for Education, Michael Russell MSP, has called for a national debate on **removing schools from council control** and accused COSLA of ‘preferring to shy away from talking about this subject’. TESS 25 Feb
- Articles on how **education budgets in individual councils** have been affected. TESS 4 March
- Primary teachers in **Renfrewshire** have indicated a strong willingness to pursue industrial action over plans to cut the teaching week. BBC. The Council is to axe a controversial scheme to replace primary teachers with unqualified staff as part of moves to save more than £1 million. Herald, Courier, Scotsman 22 Feb
- Education Secretary Michael Russell has been cleared of any wrong-doing by Holyrood’s Presiding Officer over his decision to campaign against school closures in Argyll. Herald 24 Feb

## Police and fire services

The Scottish Government’s announcement of a consultation on the structure of police and fire services continued to receive coverage

- An emergency motion was lodged at the Scottish Liberal Democrat conference on joint police forces and the party confirmed it will campaign against such a move.
- Senior police chiefs have accused the Scottish government of misleading the public over attempts to cut the number of police forces in Scotland. The Government had estimated savings of £200m if the eight police forces were to be merged into one. Scotland on Sunday
- Senior police officers have accused ministers of manipulating a consultation exercise on introducing a single force. Daily telegraph, Times, Daily mail 7 March
- The Scottish Government is facing calls to publish details of the cost of setting up a single police force. Comments made in Parliament by Tavish Scott MSP Scotsman, P&J 25 Feb
- Northern Police officers have voted against the idea of a single national force for Scotland. Daily Express, Scotsman, P&J 16 Feb
- The Chief Constable of Strathclyde, Scotland's largest police force, backed plans for a single national unit as the right solution to tackle crime . Sunday Express, News of the World, Scotland on Sunday, Sunday mail, Sunday post
- Ministers have demanded that plans for new headquarters for Strathclyde police force be shelved while the future structure of Scottish policing remains uncertain. Herald 25 Feb. A new Strathclyde Police HQ will be built on the banks of the Clyde despite government ministers wanting to put the £40m project on hold. Justice Secretary Kenny MacAskill has urged police forces to consider the cost effectiveness of long-term investment plans ahead of possible major reforms. Courier 26 Feb, Evening Times

The Police Complaints Commissioner for Scotland published a report containing new minimum standards for police forces when dealing with complaints against them. The Holding to Account report "follows an audit by the PCCS that looked at how police boards hold Chief Constables to account in terms of recording and monitoring complaints." Herald 7 March

**Strathclyde, Lothian & Borders:** Scotland's two biggest police forces have been criticised for "deficiencies and failings" over their failure to respond quickly enough to 999 calls. Daily Express, Herald, Scotsman 14 Feb

The SNP failed to meet a pledge to put a thousand extra police officers on Scotland's streets during its term in office, official figures suggested yesterday. Daily Telegraph, Sun, Herald, Scotsman, 2 March

### Individual councils

Below is a limited selection of some other issues being covered in relation to individual councils:

- Audit Scotland/ HMIE **Moray** best value work: A councillor said Audit Scotland is interfering in political decisions and tarring all councillors with the same brush. During discussion in the chamber there was a show of hands on who had been interviewed by auditors. Council agreed to do more on training, and to follow up other recommended actions. Northern Scot
- There are fears that **Moray Council** could be plunging into a 40-year debt to pay for a flood scheme with only paper promises of joint funding from the Scottish Government." The Scottish Government has pledged a contribution of £55.6 to the project while Moray council needs to pay the remainder of the costs and pay back £2m a year for the next 40 years. P&J 12 Feb

- **Aberdeenshire:** Archaeolink history centre is to close. The council leader and another councillor have been acting as trustees for the past five years. They took this route as it was cheaper for the council to keep running the centre via a trust rather than close it down – grant aid of £2.5m would have had to be repaid. The council managed to cut costs and increase visitor numbers, but not enough to make it value for money. P&J and other coverage using quotes from Audit Scotland's 06/07 annual audit report.22 Feb
- “There was shock among **Shetland** councillors this week when it was revealed just how much it is costing the SIC to get its finances in order. The auditing of Shetland Islands council's accounts is costing the local authority around quarter of a million pounds per year. According to Audit Scotland that is as high as it possibly could be and is a result of the huge amount of work its staff have had to put in to help bring the SIC's finances and annual budgets up to date.” BBC Radio Shetland, 22 Feb
- **Shetland** Councillors will meet on Monday 7 March to decide the new decision making structure. P&J & BBC/ BBC Radio Shetland
- **Shetland:** Cllrs Sandy Cluness and Josie Simpson cleared by the Standards Commission over the Oct 2009 complaint they made against Cllr Jonathan Wills. Wills wrote to them to acknowledge the verdict and said ““I'm sure we can all draw lessons from this unpleasant episode and share the hope that nothing like it ever happens again in our council.” Shetland News
- Head of Finance Services at **Shetland Islands Council** Graham Johnston has been granted **early retirement** and will complete his last day with the Council on 31st March. His department came under criticism over the past few years from the council's outside auditors Audit Scotland, who expressed increasing frustration at the refusal to group the council's accounts with those of Shetland Charitable Trust. He said someone else should take on the role of trying to convince Audit Scotland and the Accounts Commission. Shetland News
- **Inverclyde:** the leader is stepping down, for personal reasons. He says this is not connected with the suspension of four senior officials after the collapse of the council's Future Operating Model. Herald 15 Feb. “Labour councillors last night unanimously elected Iain McKenzie as their new leader on Inverclyde Council. He will now also be their candidate in the upcoming battle to be the man at the helm of the local authority. Greenock Telegraph 17 Feb
- **Western Isles Council** reiterated its support for a single authority delivering all public services in the islands. P&J 28 Feb. The Western Isles health board has made it clear to the Islands Council that it doesn't share its vision of a single authority delivering all public services in the Islands. BBC Radio Inverness
- **Western Isles, Orkney and Shetland** councils have joined forces to avert the threat of public sector jobs being moved to the mainland” They are looking at alternative ways of providing services and have commissioned the Centre for Scottish Public Policy to look at models. They hope to be able to put forward its own suggestions, ahead of the Scottish Government's anticipated reforms. Functions of HIE could also be included. They are also exploring integrating some functions of VisitScotland and Scottish Water, and considering how to maintain a police presence. P&J 21 Feb
- A Stornoway-based haulage firm has been offered a hefty compensation package from **Comhairle nan Eilean Siar**, following what is understood to be faults during a recent competitive tendering process. West Highland Free Press
- **North Lanarkshire Council** is hoping the Scottish Government will approve £73 million of Tax Incremental Funding to allow the Ravenscraig project to go ahead. Over £100 million has already been spent on the site. Wishaw press, BBC

- Proposal to move fortnightly-paid council employees to monthly pay will save North Lanarkshire Council around £50,000 per year. A motion has been lodged in the Parliament about it. Wishaw Press
- **East Ayrshire** councillors gave their backing to a full-scale review of the authority's management structure. Kilmarnock Standard
- **Angus Council** is using money saved through restructuring its housing division to secure millions of pounds that will go towards forming long-term partnerships with developers. Brechin Advertiser
- A decision by **Transport Scotland** on whether councils should have responsibility for enforcing bus lane offences is expected soon. The agency is considering the move after being approached by **Edinburgh, Glasgow and Aberdeen** councils. Glasgow alone expects to raise £250,000 through fines next year, if the change is approved. BBC
- **Aberdeen City:** Cllr Leslie, convener of the city council's children's services committee and the vice convener of the social care and wellbeing committee, has been asked to stand down from his committee roles. He has been charged with offences related to prostitution. The Lib Dem group on the council is expected to meet to decide on possible suspension. BBC
- SNP MSP Alex Neil has called for a criminal investigation into **South Lanarkshire Council's** planning department. This follows a BBC investigation which revealed relationships between a millionaire developer and senior politicians. The investigation reveals allegations that Michael McCann, the new Labour MP for East Kilbride, Strathaven and Lesmahagow, has had an undeclared relationship with local property tycoon and Labour donor James Kean. Mr McCann did not declare a relationship whilst he was a councillor, serving on the planning and estates committees in South Lanarkshire. BBC

### **Audit Commission**

Communities Secretary Eric Pickles has come under fire today after proposing new scrutiny on pay settlements for senior local authority staff. Public Finance

Article commenting on Whitehall civil servants' struggle to find an alternative to the Audit Commission, resulting in delays to legislation which will mean the Audit Commission is likely to last until at least 2014. Public Finance

### **Recent publications**

#### Audit Commission reports

(reports can be found at: <http://www.audit-commission.gov.uk/Pages/default.aspx>)

#### **Efficiency in mental health services**

**3 February 2011**

This report is produced jointly by the NHS Confederation, the Audit Commission, and the National Mental Health Development Unit. It provides a guide to support local mental health communities to gain a better understanding of their local acute care pathway for adult mental health and, where necessary, to help come up with solutions that provide better value for money.

#### **Auditing the accounts of 2009/10:**

##### **Quality and timeliness of local public bodies' financial reporting**

**24 February 2011**

This report provides a summary of the quality and timeliness of financial reporting by councils, police authorities, fire and rescue authorities and local government bodies. The report covers:

- auditors' work on the 2009/10 financial statements;
- the results of auditors' 2009/10 local value for money work;
- the public interest reports and statutory recommendations issued by auditors since December 2009; and
- the key financial management and financial reporting challenges for 2010/11.

### **2011/12 Work programme and scale of fees**

**25 February 2011**

The Audit Commission has announced that it is again cutting audit fee scales for health and local government and community safety organisations next year. Scale audit fees for bodies will be between 5 and 20 per cent lower in 2011/12 than in 2010/11.

#### National Audit Office reports

(Reports can be found at: <http://www.nao.org.uk/>)

### **Progress in improving financial management in government**

**3 March 2011**

This follow-up report concludes that, despite good progress in improving the professional capability and capacity of government finance departments, good financial management is still not embedded in the civil service culture, and financial matters do not have sufficient influence over departments' strategic decision making.

#### Northern Ireland Audit Office

(Reports can be found at: <http://www.niauditoffice.gov.uk/pubs/reports.asp>)

### **National Fraud Initiative 2008-09**

**16 February 2011**

The NIAO has published its report on the NFI, which included 74 public bodies and has so far identified £11 million of fraud, error and overpayment.

#### Other reports

The **Scottish Information Commissioner**, Kevin Dunion, has published his 2010 annual report, revealing that campaigners and members of the public are making more requests under Freedom of Information (Fol) and authorities are more likely to disclose information than withhold it. Mr Dunion *also told the Scotsman* that Fol laws should be extended to include private organisations that spend "*millions of pounds of public money*" and criticised exemptions for "*arms-length*" bodies.