The Accounts Commission for Scotland

Agenda

**Meeting on Thursday 20 June 2013,
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 items 16 to 18 in private.

4. **Minute of meeting of 9 May 2013.**

5. **Minute of meeting of Performance Audit Committee of 30 May 2013.**

6. **Minute of meeting of Financial Audit and Assurance Committee of 30 May 2013.**

7. **Chair's introduction:** The Chair will report on recent activity and issues of interest to the Commission.

8. **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.

9. **The Shared Risk Assessment process and Best Value audit work:** The Commission will consider a report by the Controller of Audit.

10. **Statutory performance information 2011/12: an evaluation of how councils are fulfilling their duties on public performance reporting:** The Commission will consider a report by the Controller of Audit.

11. **Statement of recommended practice – charitable trusts:** The Commission will consider a report by the Assistant Auditor General.

12. **Discussion paper on the scrutiny of arm's length external organisations:** The Commission will consider a report by the Controller of Audit.

13. **Annual Audit Scotland transparency and quality report:** The Commission will consider a report by the Assistant Auditor General.

14. **Accounts Commission business planning cycle:** The Commission will consider a report by the Secretary and Business Manager.

15. **Any other business.**

The following items are proposed to be considered in private:

16. **Health and social care integration:** The Commission will consider a verbal briefing by the Controller of Audit.

17. **Independent evaluation of the first audits of community planning partnerships:** The Commission will consider report by the Controller of Audit.

18. **Accounts Commission secure portal:** The Commission will consider a report by the Secretary and Business Manager.

The following papers are enclosed for this meeting:

Agenda Item	Paper number
Agenda Item 4: Minutes of the meeting of the Commission of 9 May 2013	AC.2013.6.1
Agenda Item 5: Minutes of the meeting of the Performance Audit Committee of 30 May 2013	AC.2013.6.2
Agenda Item 6: Minutes of the meeting of the Financial Audit and Assurance Committee of 30 May 2013	AC.2013.6.3
Agenda Item 8: Report by Controller of Audit	AC.2013.6.4
Agenda Item 9: Report by Controller of Audit	AC.2013.6.5
Agenda Item 10: Report by Controller of Audit	AC.2013.6.6
Agenda Item 11: Report by Assistant Auditor General	AC.2013.6.7
Agenda Item 12: Report by Controller of Audit	AC.2013.6.8
Agenda Item 13: Report by Assistant Auditor General	AC.2013.6.9
Agenda Item 14: Report by Secretary and Business Manager	AC.2013.6.10
Agenda Item 17: Report by Controller of Audit	AC.2013.6.11
Agenda Item 18: Report by Secretary and Business Manager	AC.2013.6.12

ACCOUNTS COMMISSION

MEETING 20 JUNE 2013

MINUTES OF PREVIOUS MEETING

Minutes of the meeting of the Accounts Commission held in the offices of Audit Scotland at 18 George Street, Edinburgh, on Thursday, 9 May 2013, at 10am

PRESENT:

John Baillie (Chair)
Michael Ash
Alan Campbell
Sandy Cumming
Colin Duncan
Jim King
Christine May
Bill McQueen
Linda Pollock
Colin Peebles
Graham Sharp
Douglas Sinclair (Deputy Chair)

IN ATTENDANCE:

Fraser McKinlay, Controller of Audit
Russell Frith, Assistant Auditor General [Item 7]
Paul Reilly, Secretary and Business Manager
Anne Cairns, Manager – Benefits, Audit Strategy [Item 7]
David McConnell, Assistant Director, Audit Services [Items 8 and 10]
Martin Walker, Assistant Director, Best Value and Scrutiny Improvement (BVSI) [Items 8 and 10]
Gordon Smail, Portfolio Manager, BVSI [Items 8 and 10]
Kathrine Sibbald, Project Manager, BVSI [Items 8 and 10]
Ronnie Nicol, Assistant Director, Performance Audit Group (PAG) [Item 13]
Claire Sweeney, Portfolio Manager, PAG [Item 13]
Sally Thompson, Project Manager, PAG [Item 13]

Item No	Subject
1.	Apologies for absence
2.	Declarations of interest
3.	Decisions on taking business in private
4.	Minutes of meeting of 11 April 2013
5.	Chair's introduction
6.	Update report by the Controller of Audit
7.	Welfare reform update
8.	Audit of Best Value – City of Edinburgh Council
9.	Any other business
10.	Audit of Best Value – City of Edinburgh Council
11.	Accounts Commission annual plan progress report and draft annual report
12.	Accounts Commission Strategy – update and annual action plan 2013/14
13.	Performance audit: Housing in Scotland

1.   Apologies for absence

There were no apologies for absence.

2.   Declarations of interest

The following declarations of interest were made:

- Michael Ash, in items 8 and 10, as a member of the board of NHS Lothian.

- Alan Campbell, in items 8 and 10, as an adviser in 2008 to the City of Edinburgh Council.

- Christine May, in items 8 and 10, as a consultant in waste management who had undertaken business with the City of Edinburgh Council.

- Bill McQueen, in items 8 and 10, as a resident of the City of Edinburgh.

- Colin Peebles, in items 8 and 10, as a property owner and registered private landlord in the City of Edinburgh, and in item 13, as a registered private landlord.

- Linda Pollock, in items 8 and 10, as a former employee of NHS Lothian.

3.   Decisions on taking business in private

It was agreed that items 10 to 13 should be taken in private as they contained draft reports and confidential issues.

4.   Minutes of meeting of 11 April 2013

The minutes of the meeting of 11 April 2013 were submitted and approved.

5.   Chair's introduction

The Chair reported that:

- On 11 April, he chaired a meeting of the Community Planning Partnerships audit steering group.

- On 18 April, he chaired a meeting of the Local Government Strategic Scrutiny Coordination Group.

- On 22 and 23 April, he joined the rest of the members of the Commission at its annual strategy seminar.

- On 24 April, he – along with the Auditor General - gave evidence to the Parliament's Local Government and Regeneration Committee in relation to its ongoing inquiry on public services reform.

- On 25 April, he attended a meeting of the Audit Scotland Board.

- Also on 25 April, he met with a member of the team leading the ongoing review of Audit Scotland's correspondence process

6.   Update report by the Controller of Audit

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

During discussion the Commission:

- Noted advice from the Controller of Audit that Eileen Howat had been appointed as the Chief Executive of South Ayrshire Council.

- Noted advice from the Controller of Audit that Stuart Carruth had been appointed as the Deputy Chief Executive of Stirling Council.

- Agreed that it receive future reports analysing the cost of audit in England and Wales.

Action: Assistant Auditor General

- Noted that the Public Audit Committee has published its report Tax avoidance: the role of large accountancy firms on 26 April 2013.

- Noted that the Queen's Speech of 8 May included the Local Audit and Accountability Bill which will abolish the Audit Commission.

- Noted advice from the Controller of Audit that he would keep a watching brief on the Children and Young People Bill, which was introduced to Parliament on 18 April.

Thereafter the Commission agreed to note the report.

7.   Welfare reform update

The Commission considered a report by the Deputy Auditor General updating the Commission further on the welfare reform agenda and on Scottish councils' readiness for the upcoming changes.

During discussion the Commission:

- Noted advice from the Assistant Auditor General on the current and projected financial impact on councils of welfare reform.

- Agreed that the report be shared with councils, COSLA and the Scottish Government.

- Agreed that those in receipt be encouraged to share the report – including, in the case of councils, the terms of their own individual response to the survey - with their own stakeholders, including, for example, citizen advisory services.

- Agreed that a progress report – including covering impact on councils of welfare reform – be considered at a future meeting.

Action: Assistant Auditor General

Thereafter the Commission agreed to note the report.

8.   Audit of Best Value – City of Edinburgh Council

The Commission considered a report by the Secretary and Business Manager introducing the Controller of Audit's report of the audit of Best Value in City of Edinburgh Council and seeking direction on how to proceed.

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.

Following consideration, the Commission:

- Noted that the Controller of Audit provide further information on the role of procurement in the achievement of savings across the public sector.

Action: Controller of Audit

- Agreed to note the report and to consider in private how to proceed.

9.   Any other business

The Commission noted that there was no other business to be considered

10.   Audit of Best Value – City of Edinburgh Council [in private]

The Commission agreed that this item be held in private to allow it to consider how to proceed in relation to a report by the Controller of Audit.

Following discussion, the Commission agreed to make findings as contained in the report to be published in early course.

11.   Accounts Commission annual plan progress report and draft annual report [in private]

The Commission agreed that this item be held in private to allow it to consider a draft report.

The Commission considered a report by the Secretary and Business Manager detailing progress against its annual action plan for the year to 31 March 2013 and accompanied by a draft annual report

Following discussion, the Commission agreed:

- The report of progress against its annual action plan for the year to 31 March 2013, subject to members individually providing revision points to the Secretary and Business Manager.
- The style and general content of the draft annual report, subject to members individually providing revision points to the Secretary and Business Manager.
- The publication arrangements as proposed in the report.

12.   Accounts Commission Strategy – update and annual action plan 2013/14 [in private]

The Commission agreed that this item be held in private to allow it to consider a draft report.

The Commission considered a report by the Secretary and Business Manager proposing revisions to its three year strategy following the annual strategy seminar and proposing a new annual action plan for the year to 31 March 2014.

Following discussion, the Commission agreed:

- The revisions to its strategy as proposed in the report.
- An annual action plan for the year to 31 March 2014.

- The publication arrangements as proposed in the report.

13. Performance audit: Housing in Scotland [in private]

The Commission agreed that this item be held in private to allow it to consider actions in relation to its findings.

The Commission considered a report by the Director of Performance Audit proposing a draft performance audit report, *Housing in Scotland*, and accompanying key messages, prepared on behalf of the Accounts Commission and the Auditor General for Scotland.

Following discussion, the Commission agreed:

- That the issue of rent levels for social housing be considered as a possible subject for future performance audits.

- To approve the draft performance audit report *Housing in Scotland* and accompanying key messages, subject to the audit team considering a number of points raised in discussion and consulting further with the sponsors of the performance audit.

Action: Director of Performance Audit

The Chair thanked the audit team for its work.

ACCOUNTS COMMISSION

MEETING 20 JUNE 2013

MINUTES OF MEETING OF PERFORMANCE AUDIT COMMITTEE OF 30 MAY 2013

Minutes of meeting of the Performance Audit Committee of the Accounts Commission held in the offices of Audit Scotland, 18 George Street, Edinburgh on Thursday, 30 May 2013, at 10.30am.

PRESENT: Douglas Sinclair (Chair)
                                  Mike Ash
                                  John Baillie
                                  Alan Campbell
                                  Christine May
                                  Colin Peebles

OTHER COMMISSION
MEMBERS PRESENT: Colin Duncan

IN ATTENDANCE: Fraser McKinlay, Controller of Audit
                                  Paul Reilly, Secretary and Business Manager
                                  Angela Cullen, Assistant Director, Performance Audit Group (PAG) [Items 5 and 9]
                                  Angela Canning, Assistant Director, PAG [Items 6 and 9]
                                  Ronnie Nicol, Assistant Director, PAG [Item 9]
                                  Martin Walker, Assistant Director, Best Value and Scrutiny Improvement (BVSI) [Items 7 and 8]
                                  Andra Laird, Project Manager, PAG [Item 5]
                                  Mark Macpherson, Portfolio Manager, PAG [Item 5]
                                  Mark Pentland, Project Officer, PAG [Item 5]
                                  Liz Ribchester, Senior Performance Auditor, PAG [Item 5]
                                  Steven Hanlon, Project Manager, PAG [Item 6]
                                  Claire Sweeney, Portfolio Manager, PAG [Item 6]
                                  Gordon Neill, Portfolio Manager, BVSI [Item 7]
                                  Fiona Selkirk, Project Manager, BVSI [Item 7]
                                  Peter Worsdale, Project Manager, BVSI [Item 8]

Item no.	Subject
1.	Apologies for absence
2.	Declarations of interest
3.	Minutes of meeting of 28 February 2013
4.	Update report on Performance Audit Programme and Best Value and Scrutiny Improvement Work
5.	Performance audit: emerging messages - Reshaping Scotland's public sector workforce
6.	Performance audit: emerging messages – Reshaping care for older people
7.	How councils work: project brief – Option appraisal
8.	How councils work: project brief – Charging for council services
9.	Performance audit impact reports
10.	Any other business

1.   Apologies for absence

Apologies for absence were received from James King.

2.   Declarations of interest

There were no declarations of interest.

3.   Minutes of meeting of 28 February 2013

The minutes of the meeting of 28 February 2013 were approved as a correct record.

4.   Update report on Performance Audit Programme and Best Value and Scrutiny Improvement work

The Committee considered a report by the Director of Performance Audit and Controller of Audit providing an update on progress of performance audits, the *How Councils Work* series, and impact reports. It also provided information on development work to support the performance audit rolling programme approach.

During discussion, the Committee noted advice from the Secretary and Business Manager that the Commission sponsors for the Local Government Overview Report 2014 would be Alan Campbell and Christine May with further input from the Chairs of the Commission and its two committees.

Thereafter the Committee agreed to note the report.

5.   Performance audit: emerging messages - Reshaping Scotland's public sector workforce

The Committee considered a report by the Assistant Director of Performance Audit outlining emerging messages from the audit of workforce planning across the public sector in Scotland. This was supported by a short presentation by the project team.

Following discussion, the Committee endorsed the emerging messages, subject to a number of agreed revisions, and agreed that a draft audit report should be submitted to the August meeting of the Accounts Commission prior to publication in October.

Action: Controller of Audit

6.   Performance audit emerging messages – Reshaping care for older people

The Committee considered a report by the Assistant Director of Performance Audit outlining emerging messages from the performance audit, *Reshaping care for older people*. Additional information was provided during a short presentation by the audit team.

Following discussion, the Committee endorsed the emerging messages, subject to a number of agreed revisions, and agreed that a draft audit report should be submitted to the August meeting of the Accounts Commission prior to publication in October.

Action: Controller of Audit

7.   How councils work: project brief – Option appraisal

The Committee considered a report by the Controller of Audit proposing the approach to the *How Councils Work* (HCW) report on option appraisal as set out in the accompanying project brief

Following discussion, the Committee agreed:

- That two complementary reports be produced, thus:

    o An initial report in the HCW series setting out good practice in relation to option appraisal, including how it fits with a council's strategic policy in relation to delivering its services, and the key processes needed to support decisions.

    o A future report, outwith the HCW series, using case studies as appropriate, examining current practice in relation to the use of option appraisal; and costs and benefits of different methods of delivery of services.

- That where appropriate in this work, practice beyond Scotland be included.

Actions: Controller of Audit and Secretary and Business Manager

- That the Controller of Audit and Secretary and Business Manager consider the scheduling of this work.

Action: Controller of Audit

8.   How councils work: project brief – Charging for council services

The Committee considered a report by the Controller of Audit proposing the approach to the *How Councils Work* (HCW) report on charging for services as set out in the accompanying project brief.

During discussion, the Committee agreed:

- To note a previous Commission report published in March 1998 entitled *The challenge of charging.*

- That this paper be used as a basis for including in the report an overview of progress since then.

- That the report include a consideration of issues around the impact of charging policy on councils' local economies.

Actions: Controller of Audit

Thereafter the Commission approved the proposed approach to the report.

9.   Performance audit impact reports

The Committee considered reports by the Assistant Director of Performance Audit introducing impact reports on four performance audits published during 2011/12 and proposing a new approach adopted for the format of these reports. The report covered the following performance audits:

- *Modernising the planning system*
- *The role of community planning partnerships in economic development*
- *Commissioning social care*
- *Commonwealth Games 2014 Progress report 2: Planning for the delivery of the XXth Games*

During discussion, the Committee agreed:

- In relation to *Modernising the planning system*:

    - That the findings be discussed with primary stakeholders including councils and the Scottish Government.

    - That a press release emphasising positive progress be produced to accompany publication.

Action: Controller of Audit

- In relation to *The role of community planning partnerships in economic development*, that the findings that "there is little evidence of CPPs working more collaboratively on economic development activity" be discussed with COSLA at the next meeting with them.

Action: Secretary and Business Manager

Thereafter, the Committed endorsed the reports and approved the new format for reporting impact of Commission reports.

10. Any other business

The Committee noted that there was no other business to be considered.

ACCOUNTS COMMISSION

MEETING 30 JUNE 2013

MINUTES OF MEETING OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE OF 30 MAY 2013

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, 30 May 2013, at 2pm.

PRESENT: Bill McQueen (Chair)
       John Baillie
       Sandy Cumming
       Colin Duncan
       Linda Pollock
       Graham Sharp
       Douglas Sinclair

IN ATTENDANCE: Russell Frith, Assistant Auditor General
       Fiona Kordiak, Director, Audit Services
       Fraser McKinlay, Controller of Audit
       Paul Reilly, Secretary and Business Manager
       Gillian Woolman, Assistant Director, Audit Services [Item 4]
       Martin Walker, Assistant Director, Best Value and Scrutiny Improvement [Items 6 and 7]
       Owen Smith, Senior Manager, Audit Strategy [Item 5]

1. Apologies for absence
2. Declarations of interest
3. Minutes of meeting of 28 February 2013
4. Current audit issues in councils
5. A review of current audit plans
6. How councils work: project brief – Option appraisal
7. How councils work: project brief – Charging for council services
8. Any other business

1.   Apologies

It was noted that there were no apologies for absence.

2.   Declarations of interest

There were no declarations of interest.

3.   Minutes of meeting of 30 May 2013

The minutes of the meeting of 30 May 2013 were approved.

Arising therefrom, the Committee:

- In relation to item 3, second bullet point (Dundee Energy Recycling Limited), noted advice from the Director of Audit Services on the ownership of Dundee Energy Recycling Limited.

  Following discussion, the Committee noted advice from the Director that the local auditor would continue to monitor the situation.

- In relation to item 3, fourth bullet point (Local government overview report - COSLA), noted advice from the Controller of Audit that he had engaged with COSLA in relation to issues arising from the local government report.

  The Committee also noted advice from John Baillie that the Local Government and Regeneration Committee had on 29 May considered a briefing from him on the local government overview report.

- In relation to item 4, second bullet point (Arm's length external organisations – COSLA), noted advice from the Controller of Audit that he had yet to liaise with COSLA on how it addresses arm's length external organisations (ALEOs) in its Staffing Watch initiative, but that the issue would feature in the forthcoming performance audit on reshaping Scotland's workforce.

- In relation to item 4, third bullet point (ALEOs – report to Commission), noted advice from the Controller of Audit that he would present a briefing on ALEOs to the Commission at its June meeting.

  The Committee also noted advice from John Baillie that he had written to the Cabinet Secretary for Finance requesting a meeting on various issues, including ALEOs.

- In relation to item 5, sixth bullet point (council budget consultations), noted advice from the Controller of Audit that the issue of council budget consultations would feature in the local government overview report.

- In relation to item 5, seventh bullet point (Highland Change Plan for reshaping the care of older people), noted advice from the Controller of Audit that the Auditor General would be considering the Highland Change Plan in her report on NHS financial performance.

- In relation to item 7 (Prudential Code for Capital Finance), the Committee agreed that the Controller of Audit, in collecting information on application of the Prudential Code for Capital Finance, advise auditors that such research had been requested by the Commission.

  Action: Controller of Audit

4. <u>Current audit issues in councils</u>

The Committee considered a report by the Director of Audit Services outlining emerging issues, recurring themes and individual issues of interest in Scottish councils and joint boards.

The Committee also noted a paper tabled by the Director setting out additional information on the expenditure of councils.

During discussion it was agreed:

- That the Director give further thought to how to present information on ALEOs in relation to

  o Which councils have ALEOs

  o Size (expenditure and staff)

  o Types of ALEOs.

- That a group of Committee members, namely Douglas Sinclair, Bill McQueen and one other to be confirmed, work with the Director to this end.

  Actions: Director of Audit Services

- To note advice from the Controller of Audit that issues around the headcount of staff would feature in the forthcoming performance audit on Reshaping Scotland's workforce.

- That the Controller of Audit liaise with the Commission Chair on the relationship between the headings used in the report and the Commission's strategy.

  Action: Controller of Audit

- That the Controller of Audit and Assistant Auditor General consider how to ensure more consistency in the quality and amount of information from all auditors.

  Action: Controller of Audit and Assistant Auditor General

- In relation to paragraph 13, noted advice from the Director on the updated position with the statutory finance officer in Aberdeen City Council.

- In relation to paragraph 15, agreed that the Assistant Auditor General report to the next meeting of the Commission on the audit of charitable trusts.

  Action: Assistant Auditor General

- In relation to the Appendix to the report:

  o In relation to East Ayrshire Council (effect of UK pension changes on council liability for national insurance payments), noted advice from the Controller of Audit that he would investigate the impact of this issue elsewhere in Scottish local government.

  o In relation to Highland Council (Inverness West Link Road), noted advice from the Controller of Audit that he would be further investigating the issues surrounding the Inverness West Link Road.

  o In relation to Midlothian Council (progress of improvement plan), noted advice from the Director about concerns expressed by the local auditor on the progress being made by the Council in relation to its Best Value improvement plan.

    The Committee agreed to keep a watching brief on this matter.

o In relation to Perth and Kinross Council, noted that there is no statutory requirement for local policing and fire and rescue plans to be approved by the council.

Thereafter the Committee noted the report.

5.   A review of current audit plans

The Committee considered a report by the Assistant Auditor General outlining the findings of a review of the annual audit plans of the 32 councils in Scotland.

During discussion the Committee:

- Agreed that the Assistant Auditor General consider how to feedback the information in the report to councils.

Action: Assistant Auditor General

- In relation to various issues in the report on risks around lack of capacity, noted advice from the Controller of Audit that this issue would feature in the forthcoming performance audit on Reshaping Scotland's workforce.

- That the Assistant Auditor General share with Committee members his information on a council-by-council analysis of the issues raised in the report.

- That the Assistant Auditor General consider how to feature in next year's report risks in relation to continuous improvement and option appraisal.

- That the Assistant Auditor General consider how to feature in next year's report analysis against Audit Scotland and private firm auditors.

Actions: Assistant Auditor General

- Endorsed the report.

- Agreed that it would like to receive similar reports in the future.

Action: Assistant Auditor General

6.   How councils work: project brief – Option appraisal

The Committee considered a report by the Controller of Audit seeking approval of the approach to the *How Councils Work* (HCW) report on option appraisal as set out in the accompanying project brief.

During discussion the Committee:

- Noted advice from the Committee Chair on the decision of the Performance Audit Committee in relation to the report.

- Agreed to endorse the decision of the Performance Audit Committee.

Action: Controller of Audit

7.   How councils work: project brief – Charging for council services

The Committee considered a report by the Controller of Audit seeking approval of the approach to the How Councils Work (HCW) report on charging for services as set out in the accompanying project brief.

During discussion the Committee:

- Noted advice from the Committee Chair on the decision of the Performance Audit Committee in relation to the report.

- Agreed to endorse the decision of the Performance Audit Committee.

Action: Controller of Audit

8.   <u>Any other business</u>

The Committee noted that there was no other business to be considered.

ACCOUNTS COMMISSION

MEETING 20 JUNE 2013

REPORT BY CONTROLLER OF AUDIT

UPDATE REPORT

Introduction

1. The purpose of this report is to provide a regular update to the Commission on 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 a more detailed update on issues arising in local government.

3. The most recent such report was at the Committee meeting of 30 May 2013.

Local government issues

Scottish Government

4. The Scottish Government has published a new bill designed to ensure that the health and social care systems work together effectively to improve the provision of care.

5. The Cabinet Secretary for Health, Alex Neil, has also announced administrative changes to the catchment areas for Health Boards. They will be realigned to match Council boundaries to help them work closer together in the provision of care in the local community. Patients will stay with the same GP practice and continue to receive treatment in their local hospital, even if their catchment area has changed.

Current activity in local government

6. The Local Government Association's (LGA) knowledge hub was established to help council officers to find and share expertise and ideas online. LGA has recently issued a consultation on proposals to close the hub. The Improvement Service are in discussions with the LGA to ensure existing groups continue to gain access to information it holds for as long as possible.. If necessary, the Improvement Service will help Scottish local authorities and their partners to find the right solution for their needs and will help them continue web-based collaborative working.

7. Ministers and COSLA have agreed a collaborative approach to the quality assurance of draft Single Outcome Agreements (SOA). Panels of individuals from across the public sector with practical experience of SOA development will consider drafts against joint SG/COSLA Guidance issued last December. Panels will discuss their work with the relevant CPPs to ensure their findings are informed by and reflect their comments. The Panel, the CPP and the Location Director are then expected to agree a small number of areas for development of the SOA and/or other areas for improvement.

8. The latest version of the Scottish Local Authorities Economic Development (SLAED) Indicators Framework has been developed. It is based on a limited number of indicators

which should help Scottish local authorities to assess both the overall and relative performance of economic development activity.

9. A Regeneration Capital Grant Fund jointly developed by Scottish Government and COSLA is now open for applications. The £25m fund will be available from 2014/2015 to provide grant support for new and or improved infrastructure projects to enhance the economic, social and physical environment of communities.

10. The results of a Judicial review of the call in notices for Comhairle nan Eilean Siar's proposals to change education provision at Carloway and Shawbost Schools have been published. They confirm that the Comhairle treated all communities fairly in its schools consultation process and acted in accordance with the Government's Schools (Consultation) Act 2010.

People update

11. Eileen Howat has been appointed to the post of Chief Executive of South Ayrshire Council. She was previously Director of Resources, Governance and Organisation at the council.

12. Councillor Roddy McCuish has been re-elected as the leader of Argyll and Bute Council following the resignation of James Robb.

13. The Association of Directors of Social Workers has appointed Sandy Riddell as its new President. Mr Riddell is Director of Education and Social Care at Moray Council.

14. David Strang, formerly Chief Constable of Lothian and Borders Police, has been appointed as HM Inspector of Prisons.

Other Audit Agencies

National Audit Office and the Audit Commission

15. The Local Audit and Accountability Bill received its second reading in the House of Lords on 22nd May. It will continue its progress through the Lords before being processed through the House of Commons. The Bill paves the way to formally abolish the Audit Commission. It also introduces powers to allow the NAO to undertake studies that add value both centrally and locally by providing an 'end to end' view of the impact of government policy implementation. The NAO is working with the Department for Communities and Local Government, the Audit Commission and other key stakeholders to plan for the transition of responsibility for the Code of Audit Practice to the NAO.

16. The National Audit office has claimed that the financial impact of its work in 2012 amounted to £1,186 million. The figure represents its estimate of the financial benefits achieved following implementation of its recommendations to government. The estimate is subject to internal quality assurance review, agreement with senior management of the audited bodies, and independent validation by the NAO's external auditors.

Wales Audit Office

17. The Auditor General for Wales has published his 'Strategy for the Auditor General for Wales and the Wales Audit Office 2013-16'. It sets out his vision for the people of Wales to be clear about how public money is being spent on their behalf and for the Wales Audit Office to be recognised as a well-governed and effective organisation that offers helpful insights and encouragement to public bodies on how they can improve services.

Northern Ireland Audit Office

18. The Comptroller and Auditor General for Northern Ireland has issued a report on the accounts of the Northern Ireland Fire and Rescue Service (NIFRS). The report summarises the findings of the investigations undertaken by the Northern Ireland Department of Health, Social Services and Public Safety. The investigations concerned a firefighter recruitment exercise in 2011 and various whistleblowing allegations. The report identifies key strategic issues which NIFRS and the Department need to address in moving forward.

19. He has also issued a report on sickness absence in the NI public sector. The report recognises that improvements being made in the management of sickness absence but notes that targets have not always been met and that there is scope for further improvements. It concludes that if absence levels in NI could be reduced to match those in Great Britain, savings of £37 million are possible.

Conclusion

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

Fraser McKinlay
Controller of Audit
11 June 2013

ACCOUNTS COMMISSION

MEETING JUNE 2013

REPORT BY CONTROLLER OF AUDIT

THE SHARED RISK ASSESSMENT PROCESS AND BEST VALUE AUDIT WORK

Background

1.   At its February 2011 meeting the Commission considered a paper that outlined the Commission's role in relation to the shared risk assessment (SRA) process and the assurance that it can place on the range of Best Value audit activity that flows from the SRA.

2.   At its July 2011 meeting the Commission agreed that:

- the planned programme of targeted Best Value audit work would be reported to the Commission each year as part of the annual feedback on the outcomes of the SRA

- any emerging issues arising from targeted Best Value audit work be reported to the Commission or one of its committees as part of routine current issues reporting

- the outcomes of all targeted Best Value audit work would be routinely reported to the Commission on an annual basis.

3.   This report is an annual update of those two 2011 reports. It reminds Commission members of the assurance that it can place on the range and scope of Best Value audit activity that flows from the SRA process. It also:

- sets out a strategic overview of local government Best Value audit work and other significant scrutiny activity over the period 2010/11 – 2014/15

- summarises the outcomes of the targeted Best Value audit work at Dundee City Council, Aberdeenshire Council, and Moray Council that arose from last year's shared risk assessment (SRA) process

- sets out the proposed Best Value audit work arising from the 2013/14 SRA refresh alongside the planned review of the local government Best Value audit in the context of the advent of the Community Planning Partnership (CPP) audit.

Accounts Commission assurance on the range and level of Best Value audit activity that flows from the SRA process

4.   The SRA process is designed to establish a three-year rolling scrutiny plan for each council in Scotland, including details of any planned Best Value audit activity.

5.   The main factors which might cause a council to be selected for a 'full' Best Value audit through the SRA process include:

- clusters of significant risk or uncertainty concerning:
  - key outcome areas
  - corporate capacity and performance
  - service performance.

- concerns about pace of change and improvement since BV1

6.   Of these two factors, concerns about pace of change and improvement since BV1 has the clearest link with the Commission's interest in ensuring that councils maintain an appropriate focus on continuous improvement, in line with their Best Value obligations. Particular emphasis is placed on the risks associated with an inadequate pace of change and delivery of continuous improvement during the SRA process.

7.   The use of the two factors allows the targeting of 'full' Best Value audit activity towards those councils where there is uncertainty over the extent to which Best Value and continuous improvement are being secured and/or areas of uncertainty or significant risks. Where these risks are present Best Value audit work is an appropriate response, as opposed to inspection activity by one of our scrutiny partners (e.g. SHR, Education Scotland, and the Care Inspectorate).

8.   Where less significant risks are identified through the SRA process a proportionate response is to undertake targeted pieces of Best Value-related audit activity on specific aspects of BV such as performance management, workforce planning, or procurement. In most cases the issues identified through this audit work will generally be reported through the annual report to members rather than as a specific report to the Commission by the Controller of Audit, although the potential exists for full CoA reports to flow from this work depending upon the audit findings.

9.   In most councils the outcome of the SRA process will be that no specific Best Value-related audit activity is identified as a consequence of the local shared risk assessment. In those circumstances the council is still subject to the annual audit process, an important part of which is seeking assurance on issues of governance and accountability and gathering evidence of the council's progress with its improvement agenda. The outcomes of these pieces of audit work are reflected in the annual report to members and the Controller of Audit. These reports to members are one of the main elements underpinning the Commission's annual overview of local government report. They are also used to inform the local SRA process.

Best Value and CPP audit reports considered by the Commission during 2012/13

10.   During 2012/13 the Accounts Commission considered:

- one full council Best Value audit: Midlothian Council (May 2012)

- three Best Value audit follow-up reports: Strathclyde police joint follow-up with HMICS (August 2012), Comhairle nan Eilean Siar (November 2012) and Shetland Islands Council (December 2012)

- three joint police Best Value Audits and inspection reports with HMICS: Dumfries and Galloway police (May 2012), Central police (June 2012) and Fife Constabulary (August 2012)

- the Fire and Rescue Best Value audit overview report (May 2012)

- the joint police Best Value overview report (October 2012)

- three Community Planning Partnership audit reports: Aberdeen City, North Ayrshire and Scottish Borders (February 2013).

11.   In addition, the full Best Value audit of Edinburgh City Council was reported to the Commission at its May 2013 meeting. That Best Value audit was triggered by last year's SRA process.

Targeted Best Value audit work undertaken during 2012/13

12.　　Last year's shared risk assessment process led to audit activity targeted on specific aspects of Best Value at three councils: Dundee City Council, Aberdeenshire Council, and the Moray Council.

13.　　The key audit findings arising from these three pieces of targeted work are set out in Table 1, below.

Table 1

Key findings from targeted Best Value related audit work 2012/13

Council	Key findings from targeted Best Value related audit work 2012/13

Dundee City Council	The 2012-2015 Assurance and Improvement Plan (AIP) for Dundee City Council identified the need for targeted BV audit work on the 'work and enterprise' outcome area. The level of overall scrutiny risk in the council had declined since the previous 2011-2014 AIP. However the 'work and enterprise' outcome remained an area of uncertainty due to mixed and declining performance in this area, so this work was included in the forward scrutiny plan.
	
	The audit work concluded that:
	
	  − **Vision for economic development:** the council and its partners have a clear vision for supporting economic development and creating jobs.
	
	  − **Political leadership:** it was clear the council leadership was committed to economic development and continued to actively promote the local economy.
	
	  − **Working relationships:** the working relationships between the council and its partners are strong and constructive. The Community Planning Partnership (CPP) facilitated knowledge sharing and effective relationship building, but provided limited scrutiny and direction over the partners approach to economic development.
	
	  − **Achievement of outcomes:** the council, working with its partners, was meeting its targets in important areas including employability, business support through the Business Gateway, and the long-term re-development of the Dundee waterfront. However a number of significant economic outcomes for Dundee continued to decline at a faster rate than other Scottish cities.
	
	  − **Performance reporting:** the reporting of economic activity to the council and its committees was found to be limited with a risk that elected members were not being made aware of issues such as under-performance or emerging risk.
	
	In view of the continued economic decline in the area, the report highlighted that it was even more important that the CPP identified those areas where it can make the strongest economic impact, and actively scrutinises progress against these. Doing this would require translating its economic outcome priorities into clear and measurable actions, and clearly identifying the role of partners, including the council, in delivering these.

Council	Key findings from targeted Best Value related audit work 2012/13
Aberdeenshire Council	The 2012-15 Assurance and Improvement Plan (AIP) for Aberdeenshire Council highlighted a range of uncertainties linked to a revision to the council's organisational structure, the introduction of a new self-evaluation model and the challenges the council faced in reducing its workforce.

In November 2012 Audit Scotland undertook audit work focused on the following four risk areas: leadership – specifically the impact of senior management reorganisation; challenge and improvement – including self-evaluation, performance management and competitiveness/benchmarking; managing people – how the council was managing its workforce reductions; and equalities.

The audit work concluded that:

- **Leadership by senior managers:** The council is developing a strong senior management team that is improving strategic leadership.

- **Challenge and improvement:** The council has a good awareness of where it needs to improve and supports a culture of continuous improvement amongst staff. While it has introduced better governance arrangements at officer level to oversee improvement activity, it is still in the early stages of providing clear prioritisation, coordination and reporting on the impact of its improvement work.

- **Performance management and benchmarking:** The council has a clear performance management framework in place and has improved its approach to monitoring and reporting performance. Elected members have a greater focus in scrutinising the council's performance. The council does not systematically collect, monitor and report on benchmarking activity to help it identify where it needs to improve.

- **Managing People:** The council has a comprehensive approach to people management through a workforce strategy and action plan. It is aware of the challenges it faces in recruiting and retaining staff and in maintaining a skilled and resilient workforce. The council works well with staff and their representatives to address these challenges through a variety of initiatives and can demonstrate progress in reducing sickness absence amongst staff and increasing the number of participants in the Worksmart programme.

- **Equalities:** The council has the structures and processes to deliver the equalities duties but needs more engagement from elected members and staff at all levels. It has robust plans in place to identify the main equality issues for the council and its communities and to raise awareness of elected members and staff on equalities issues. |

Council	Key findings from targeted Best Value related audit work 2012/13
Moray Council	The 2012-15 Assurance and Improvement Plan (AIP) for Moray Council highlighted political leadership as an area of significant scrutiny risk, particularly regarding the slow pace of change since the last Best Value progress report in 2010. This was concerning given that report highlighted the need to progress improvement actions quickly. The audit work focussed on the effectiveness of elected member leadership in setting the vision and strategic direction of the council, the pace of change and strategic planning arrangements. The audit work concluded that: – **Leadership and culture:** political and officer leadership has improved since the October 2010 progress report. The council is aware of areas for further and continued improvement. However, the council needs to consolidate its strategic planning arrangements so it can more clearly demonstrate progress. – **Challenge and improvement:** elected members and officers are challenging performance more effectively. The council is making progress with its improvement programmes, however it does not have an overarching approach to prioritise and focus improvement work. The council needs to improve the governance and reporting of its improvement activities. – **Measuring and reporting against SOA outcomes:** The council and the Community Planning Partnership need to ensure their performance management arrangements allow them to know how they are doing against all of the partnership's local outcomes.

Source: SRA/AIP updates (edited)

14. To date I have taken the view that the reporting route for targeted Best Value audit activity depends upon the nature of the audit findings. Reporting options include reporting through the annual report to members, reporting through a specific local report, or statutory reporting from the Controller of Audit to the Commission.

15. All three pieces of targeted Best Value audit work have now been reported to the council in question and considered by a council committee or full council. The work has been well received and is considered to have added value in supporting improved performance. Action plans in response to the improvement recommendations set out in our audit findings are currently being prepared by the three councils.

16. In preparing this report for the Commission I have been reflecting on my experience of undertaking and reporting on targeted Best Value audit work since the introduction of the SRA process and in particular on the reporting approach adopted for the three recent pieces of targeted Best Value audit work set out in Table 1.

17. I am now of the view that the presumption should be that all reporting on Best Value audit work should be either through the annual report to members and me as Controller of Audit, statutory reporting from me as Controller of Audit to the Commission, or both. Both of these reporting routes ensure that audit findings are brought to the attention of all members of the local authority thereby promoting transparency of the audit process.

18. More specifically, I am of the opinion that where the scope of the targeted BV audit work covers important Best Value-related characteristics and there are significant audit findings, then the standard reporting route should be through statutory reporting from the Controller of Audit to the Commission under S102 of the Local Government (Scotland) Act 1973. BV

characteristics that fall into this category would include leadership and governance, partnership working, performance management and/or the pace of improvement in service performance or outcomes

19.	This reporting route not only provides the Commission with specific powers to direct me as Controller to carry out further investigations, state its findings, or hold a hearing but it also ensures that the audit findings are brought to the attention of all members of the local authority thereby promoting transparency of the audit process.

Other significant SRA and BV audit related developments

20.	The implementation of the new CPP audit approach by the Accounts Commission and Auditor General for Scotland has important consequences for the future scope of and approach to the local government Best Value audit given the shared interest that both audits have on the delivery of improved outcomes within a council area and the quality of local government services. We are therefore planning to undertake a review of the local government Best Value audit approach to ensure that any potential duplication with the CPP audit approach is avoided and that the local government Best Value audit approach provides a strong and clear focus on councils' pace of improvement.

21.	The new CPP audit approach also has implications for the shared risk assessment (SRA) process. We are therefore undertaking a formal review of the SRA process with our scrutiny partners. A key objective of that review will be to assure ourselves that the SRA process provides a robust and consistent evidence base on councils' leadership, governance, service performance and pace of improvement.

Planned BV audit activity 2013/14

22.	The outcome from the 2012/13 SRA process, as set out in the National Scrutiny Plan for local government 2013/14 is that we are planning to carry out:

- three targeted pieces of Best Value audit work at Argyll and Bute Council, East Dunbartonshire Council and East Lothian Council

- a Best Value follow-up audit at South Ayrshire Council.

23.	This is in addition to taking forward the Accounts Commission's audit of Community Planning Partnerships (CPPs) at up to five CPP areas later in 2013. These audits will begin once any revision to the CPP audit approach arising from the findings of the independent evaluation of the three early audits has taken place.

24.	The nature of the risk-based and targeted pieces of Best Value-related audit activity planned at Argyll and Bute Council, East Dunbartonshire Council and East Lothian Council and the proposed focus of the Best Value follow-up audit work at South Ayrshire Council are set out in Table 2.

Table 2

Targeted Best Value related audit work 2013/14

Council	Best Value audit risks and proposed audit activity
Argyll and Bute Council: targeted Best Value audit work	Effective leadership and culture are essential components of Best Value. They are important for ensuring councils balance strategic, corporate, operational and local objectives well. They also support good accountability and continuous improvement. The 2013-16 Assurance and Improvement Plan highlighted some areas of uncertainty and risk in these areas in Argyll and Bute Council. Audit Scotland will therefore carry out some targeted Best Value work focusing on Argyll and Bute Council's leadership and culture, specifically the effectiveness of member to member and member to officer working relationships, during 2013/14.
East Dunbartonshire Council: targeted Best Value audit work	Effective performance management and the demonstration of continuous improvement are essential components of Best Value. The 2013-16 Assurance and Improvement Plan has highlighted some areas of uncertainty and risk in East Dunbartonshire Council, largely caused by either apparent slow pace of change or concerns about improvement capacity. Audit Scotland will therefore carry out some targeted Best Value work during 2013/14 focusing on: • performance and information management • workforce planning • asset management • procurement.
South Ayrshire Council: Best Value follow-up audit work	The 2010 BV progress report for South Ayrshire found that the council had made good progress in addressing important aspects of the improvement agenda arising from the first Best Value audit of the council in 2009. However, further work was needed on implementing a comprehensive performance management system, developing a more strategic approach to service review and strengthening community engagement. The report also highlighted the need for a more corporate approach to managing change and improvement. Follow-up audit work in 2010 highlighted further progress, but noted that many developments were still at an early stage. The 2013/14 shared risk assessment process has highlighted a number of corporate areas where scrutiny is required to ensure that the performance improvement is sustained by the council. Targeted BV audit work is planned in 2013 focusing on: • vision and strategic direction • performance management • leadership and culture • challenge and improvement (specifically what management and scrutiny there has been of the council's improvement programme and its progress in completing the programme).
East Lothian Council: Joint Best Value-related audit work with Education Scotland	In 2011 East Lothian and Midlothian Councils agreed to develop a phased approach to sharing education and children's services by bringing together the central management and operational support service for education into one integrated structure. It was anticipated that the decision would lead to the appointment of a joint Head of Education, although it was agreed that the existing governance arrangements for education and children's services would remain in place within each of the two local authorities. As a consequence of recent uncertainties about how aspects of the management and leadership of the shared services initiative will now be taken forward there will be scrutiny activity on the impact of shared education and children's services led by Education Scotland during 2013, supported by Audit Scotland. Education Scotland will be focusing on the educational impacts of the shared services initiative and Audit Scotland will review the corporate governance arrangements of the proposed new service. The External Auditor (KPMG) will also assist by looking at the financial impacts

Council	Best Value audit risks and proposed audit activity
	of the proposed shared services arrangements.

Source: Audit Scotland

A strategic overview of BV audits and other significant scrutiny activity 2010/11 – 2014/15

25. The SRA process is designed to establish a three-year rolling scrutiny plan for each council in Scotland. For that reason the range and type of Best Value audit activity and other significant scrutiny across Scotland's councils is best considered over an extended period. That way a more strategic overview can be taken of the level of assurance the Best Value audit programme and other significant scrutiny activity offers to the Accounts Commission and the public. Appendix 1 to this report sets out BV audit activity (BV2 audits, targeted Best Value audit work and Best Value follow-up audits) covering the five year period 2010/11 – 2014/15.

26. The table shows that nine councils (Clackmannanshire, East Renfrewshire, Fife, Inverclyde, North Lanarkshire, Perth and Kinross, Renfrewshire, South Lanarkshire and West Lothian) have either not received or are currently not scheduled for targeted or full BV audit activity, or a Community Planning Partnership audit over the period 2010/11 – 2014/15. These plans may change on the basis of future shared risk assessments.

Recommendations:

27. The Commission is invited to:

(i) note the key audit findings from the three pieces of targeted Best Value audit work which arose from last year's shared risk assessment process and consider whether it would like further information from the CoA on these audits

(ii) endorse the proposed Best Value audit activity arising from the recent shared risk assessment refresh process, in the context of the planned review of the local government Best Value audit and the advent of the Community Planning Partnership (CPP) audit

(iii) agree that in future the reporting of all Best Value audit work should be either through the annual report to members and the Controller of Audit, or through statutory reporting from the Controller of Audit to the Commission, or both.

Fraser McKinlay
Controller of Audit
12 June 2013

Appendix 1: Five-year overview of scrutiny activity (2010/11 – 2014/15)

Council	Past Audit Scotland Best Value audit activity	2010/11	2011/12	2012/13	2013/14	2014/15
Aberdeen City	Best Value 1 audit and public hearing (2008) Follow-up audit (2009)	• SWIA – Prison inspection • HMIE – INEA (FT) • HMICS/AS - Grampian Police BV Audit and Inspection • HMIE - EPSI • SWIA - ISLA follow up • HMIE - Child Protection • CC - Adoption and Fostering • SHR – homelessness and asset mgmt.	• SCSWIS – Child Protection • AS – Fire and Rescue	• CI – ISLA • AS – maintaining roads follow-up • AS – housing benefits • **AS – CPP audit**	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • SHR – targeted scrutiny	
Aberdeenshire	Best Value 1 audit (2008)	• SWIA – Prison inspection • HMICS/AS - Grampian Police BV Audit and Inspection • SWIA - ISLA follow-up • CC - Adoption and Fostering	• SHR – monitoring homelessness improvement plan • AS – Fire and Rescue	• AS – maintaining roads follow-up • AS – housing benefits S102 follow-up • SHR – homelessness self assessment • **AS – targeted BV work**	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • CI – Adult Services Inspection	

Council	Past Audit Scotland Best Value audit activity	2010/11	2011/12	2012/13	2013/14	2014/15
Angus	**Best Value 2 Pathfinder audit (2010)**	• SWIA - ISLA follow-up • HMIE - Education support work • HMIE - Child Protection • CC - Adoption and Fostering • SHR – review of self-evaluation	• AS – Fire and Rescue • SCSWIS – Child Protection • SCSWIS – looked after children	• AS – housing benefits • CI – Children's Services Inspection • SHR – homelessness self-assessment • AS – maintaining roads follow-up	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • Housing Benefit Audit	• **Focused BV scrutiny activity to assess the impact of the council's leadership and change programme**
Argyll & Bute	Best Value 1 audit (2006) BV1 follow-up (2008)	• SWIA - ISLA • HMIE - EPSI • CC - Adoption and Fostering • HMICS/AS - Strathclyde Police BV Audit and Inspection	• AS – housing benefits • SCSWIS – Child Protection & adoption and fostering • AS – Fire and Rescue	• AS – maintaining roads follow-up • SHR – homelessness self-assessment • ES – VSE requested by council • CI – Children's Service Inspection	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • **AS – Targeted Best Value audit** • CI – Children's Services Inspection	• Housing Benefit performance audit

Council	Past Audit Scotland Best Value audit activity	2010/11	2011/12	2012/13	2013/14	2014/15
Clackmannanshire	Best Value 1 audit (2007)	• Local auditor work – financial management and competitiveness • SWIA – Prison inspection • SHR – review of self-evaluation • CC - Adoption and Fostering • SWIA - ISLA	• HMIE – engagement and scrutiny planning • SCSWIS - Adoption and Fostering • AS – Fire and Rescue • SCSWIS - ISLA	• AS – maintaining roads follow-up • AS – housing benefits	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • CI – Children's Services Inspection (with Stirling) • SHR – SHQS	• ES - Validated self-evaluation of shared services in education across Clackmannanshire and Stirling councils
Dumfries & Galloway	Best Value 1 audit (2009) Targeted BV audit work on leadership, performance management and resource management took place in (summer 2010)	• SHR – review of self evaluation • SWIA – prison inspection • SWIA - ISLA follow up • CC - Adoption and Fostering • SWIA and AS collaborative work on self-evaluation	• HMICS/AS – D&G Police BV Audit and Inspection • SCSWIS – Adoption and Fostering • AS – Fire and Rescue • SHR – homelessness self-evaluation review	• AS – maintaining roads follow-up • ES – education services • AS – housing benefits	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • Housing Benefit Audit • CI – Children's Services Inspection • LAN – strategic mid-year review	• LAN mid-year priorities, risks and performance review workshop with CMT • External audit follow-up on social work man. arr. and financial controls • **Best Value audit follow-up activity to assess progress against Improvement Plan**

Council	Past Audit Scotland Best Value audit activity	2010/11	2011/12	2012/13	2013/14	2014/15
Dundee City	Best Value 1 audit (2005) **Best Value 2 Pathfinder audit (2010)**	• SHR – review of self-evaluation • HMIE - Child Protection follow up • SWIA - ISLA • CC - Adoption and Fostering	• SCSWIS – ISLA • AS – BV follow-up • AS – Fire and Rescue • SHR – housing and assets • HMIE – Child Protection and Adoption and Fostering	• AS – maintaining roads follow-up • AS – targeted BV work	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • Housing Benefit Audit • ES – validated self-evaluation	
East Ayrshire	Best Value 1 audit (2006) **Best Value 2 Pathfinder audit (2010)**	• SWIA – prison inspection • HMIE – EPSI • SWIA – performance inspection follow-up • SHR – review of self-evaluation • HMICS/AS - Strathclyde Police BV Audit and Inspection • CC - Adoption and Fostering	• SHR – review of council house maintenance • AS – Fire and Rescue • SCSWIS - ISLA • SCSWIS – post ISLA	• AS – maintaining roads follow-up • SHR – evictions and tenancy sustainment self-assessment	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • Housing Benefit Audit • ES – validated self-evaluation • SHR – self-assessment submission	

Council	Past Audit Scotland Best Value audit activity	2010/11	2011/12	2012/13	2013/14	2014/15
East Dunbartonshire	Best Value 1 audit (2009)	• LAN activity - outcomes • HMIE – EPSI • SHR – review of self-evaluation • CC - Adoption and Fostering • SWIA - ISLA • HMICS/AS - Strathclyde Police BV Audit and Inspection	• SCSWIS/Local auditor – collaborative work • SHR - homelessness and SQHS compliance • AS – Fire and Rescue	• AS – maintaining roads follow-up • ES – VSE requested by council • CI – Children's Services Inspection	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • **AS – Targeted Best Value audit** • CI – Children's Services Inspection	
East Lothian	Best Value 1 audit (2007)	• HMIE – VSE requested by council • HMIE – EPSI • SWIA - ISLA • HMIE – Child Protection • CC - Adoption and Fostering	• HMICS/AS – L&B Police BV Audit and Inspection • SHR – homelessness and SQHS compliance • SCSWIS – ISLA • AS – Fire and Rescue • AS – housing benefits • SCSWIS – post ISLA	• AS – maintaining roads follow-up • AS – housing benefits	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • CI – Children's Services Inspection • LAN – support and challenge on HGIOC • Collaborative work – AS/ES/LAN	• **Possible BV2 based upon progress against financial plans and governance arrangements**

Council	Past Audit Scotland Best Value audit activity	2010/11	2011/12	2012/13	2013/14	2014/15
East Renfrewshire	Best Value 1 audit (2005)	• HMIE – EPSI • HMIE – Child Protection • SWIA - ISLA follow-up • SHR and AS collaborative work – housing • CC - Adoption and Fostering • HMICS/AS - Strathclyde Police BV Audit and Inspection	• AS – Fire and Rescue • SHR/AS – collaborative work on housing	• AS – maintaining roads follow-up • SHR – AS – stock condition date, SHQS progress and business plan implications • SHR – homelessness self assessment	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up	
Edinburgh, City of	Best Value 1 audit (2007)	• SWIA – prison inspection • Local auditor work – trams • AS and SWIA collaborative work – care and support services • CC - Adoption and Fostering • HMIE – EPSI FT • SWIA - ISLA	• AS – housing benefits • SCSWIS – ISLA • HMICS/AS – L&B Police BV Audit and Inspection • AS – Fire and Rescue • HMIE – EPSI follow- up	• AS – maintaining roads follow-up • ES – supported self-evaluation focussing on literacy, requested by council • SHR – homelessness self-evaluation • AS – housing benefits • **AS BV2 Audit** • ES –Children's Services Inspection	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up	
Eilean Siar	Best Value 1 audit (2006) Targeted BV follow-up activity focusing on leadership and culture, and capacity for change (2010).	• **AS – targeted BV work** • CC - Adoption and Fostering	• HMIE – EPSI follow- up • AS – BV2 Audit • SCSWIS – ISLA • AS – Fire and Rescue • AS – housing benefits	• AS – maintaining roads follow -up • AS – housing benefits follow-up • ES – EPSI follow up • **AS – BV follow-up**	• CI – SSE CJ Social Work • Local auditor work – Reshaping Scotland's public sector workforce/SPF follow-up • ES – VASE/ Ed. Psych. follow-up	

Council	Past Audit Scotland Best Value audit activity	2010/11	2011/12	2012/13	2013/14	2014/15
Falkirk	Best Value 1 audit (2008)	• SWIA – prison inspection • SWIA – performance inspection follow-up • CC - Adoption and Fostering • SHR – review of self-evaluation • HMIE – VSE requested by council	• HMIE – Child Protection and Fostering and Adoption • AS – Fire and Rescue • SHR – review activity • SCSWIS - ISLA	• AS – maintaining roads follow-up	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • Housing Benefit Audit • Local audit work – corporate risk management	• **<u>Audit Scotland - targeted best value audit work</u>** • Scottish Housing Regulator - improvement plan follow-up self-assessment
Fife	Best Value 1 audit (2009)	• SHR – baseline • Local auditor work – review of SPIs and service delivery model • SWIA – ISLA follow up • CC - Adoption and Fostering • Local auditor and SWIA collaborative work: competitiveness • HMIE – Child Protection follow up	• SCSWIS/**<u>Local Auditor – competitiveness</u>** • **<u>AS/Local Auditor – sustainability</u>** • AS – Fire and Rescue • HMIE – Child Protection and Adoption and Fostering	• AS – maintaining roads follow-up • SHR – self-assessment	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • Housing Benefit Audit	

Council	Past Audit Scotland Best Value audit activity	2010/11	2011/12	2012/13	2013/14	2014/15
Glasgow City	Best Value 1 audit (2006) BV1 follow-up (2009)	• SWIA – prison inspection • HMIE – council requested work on culture and sport • SWIA – ISLA • HMIE – progress report • HMIS – EPSI • HMICS/AS - Strathclyde Police BV Audit and Inspection • CC - Adoption and Fostering • HMIE – Child Protection	• AS – Fire and Rescue • HMIE – VSE requested by council	• AS – maintaining roads follow-up • AS – housing benefits • SHR – supported self-evaluation	• CI – SSE CJ Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • **AS – CPP audit** • SHR – homelessness service	
Highland	Best Value 1 audit (2006) **Best Value 2 Pathfinder audit (2010)**	• SWIA – prison inspection • SHR – regulatory work • SWIA – ISLA • CC – Adoption and Fostering	• SCSWIS – ISLA • SHR – homelessness and SQHS compliance • AS – Fire and Rescue • HMIE – council requested culture & sport	• AS – maintaining roads follow-up • AS – ChaP follow up	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • Housing Benefit Audit • CI – Children's Services Inspection • SHR – homelessness follow-up • ES – community learning and development	• Review of new arrangements for delivery of social care services

Council	Past Audit Scotland Best Value audit activity	2010/11	2011/12	2012/13	2013/14	2014/15
Inverclyde	Best Value 1 audit (2005) BV1 follow-up: 1 (2005) BV1 follow-up: 2 (2007) BV1 follow-up: 3 (2009)	• SWIA – prison inspection • HMIE – EPSI • SWIA – ISLA follow-up • CC – Adoption and Fostering • HMIE – Child Protection • HMICS/AS – Strathclyde Police BV Audit and Inspection • SHR – review of self-evaluation	• AS – Fire and Rescue • AS – housing benefits	• AS – maintaining roads follow-up	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up	
Midlothian	Best Value 1 audit (2008)	• Local auditor work – commercial services/financial sustainability/maximising business opportunities/customer focus & responsiveness/effective services/competitiveness • CC – Adoption and Fostering • SHR – review of self-evaluation	• SCSWIS – ISLA and post ISLA • SHR – post 2008 inspection scrutiny activity • SCSWIS – Child Protection and Adoption and Fostering • HMIE – EPSI follow up • AS – housing benefits • HMIC/AS – L&B Police BV Audit • AS/HMIE – collaborative work on competitiveness and customer focus • AS – Fire and Rescue	• AS – maintaining roads follow-up • AS – housing benefits follow-up • ES – EPSI follow- up • SHR – scrutiny of progress since 2010 inspection • **Best Value 2 Audit**	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • CI – Children's Services Inspection • SHR – follow-up • ES – Education Psychology Service Follow-up	• **Best Value 2 Follow-up scrutiny**

Council	Past Audit Scotland Best Value audit activity	2010/11	2011/12	2012/13	2013/14	2014/15
Moray	Best Value 1 audit (2006) BV1 follow-up: 1 (2007) BV1 follow-up: 2 (2009) Targeted audit and inspection work on political leadership, member leadership on equalities and educational improvement and member training and development (2010)	• HMIE/AS – leadership BV work • HMIE – Child Protection follow-up • CC – Adoption and Fostering • HMICS/AS – Grampian Police and Grampian Joint Police Board BV Audit and Inspection • SWIA – ISLA	• AS – housing benefits • SHR – Homelessness Improvement Plan • SCSWIS – ISLA • AS – Fire and Rescue • HMIE – EPSI follow up • AS – customer focus approach • SCSWIS – Child Protection and Adoption and Fostering	• AS – maintaining roads follow-up • SHR – self-assessment on elements of homelessness service • **AS – targeted BV work**	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • CI – Adult Services Inspection	• **Audit Scotland review activity on Partnership Working and community leadership** • Housing Benefit Work – follow-up
North Ayrshire	Best Value 1 audit (2005) **BV2 audit (2010/11)**	• HMIE – Child Protection • AS – BV2 audit • HMICS/AS – Strathclyde Police BV Audit and Inspection • SWIA – ISLA • CC – Adoption and Fostering • SHR – review of self-evaluation	• SCSWIS – ISLA • AS/HMIE – collaborative work on education • AS – Fire and Rescue	• AS – maintaining roads follow-up • ES – VSE requested by council • CI – Children's Service Inspection • **AS – CPP audit**	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up	
North Lanarkshire	Best Value 1 audit (2008)	• SWIA – prison inspection • SWIA – PI follow-up • HMICS/AS – Strathclyde Police BV Audit • HMIE – Child Protection • CC – Adoption and Fostering • SHR – progress review	• SCSWIS – post ISLA • SHR – review of identified areas of uncertainty • AS – Fire and Rescue • SCSWIS – ISLA	• AS – maintaining roads follow-up	• CI – SSE CJ SW • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • SHR –SHQS	

Council	Past Audit Scotland Best Value audit activity	2010/11	2011/12	2012/13	2013/14	2014/15
Orkney Islands	Best Value 1 audit (2008) **Targeted BV audit work on workforce management (2010).**	• SWIA – community care file reading • SWIA – ISLA follow-up • AS/Local Auditor – people management • CC – Adoption and Fostering	• SCSWIS – Adoption and Fostering • SCSWIS – Home Care Scrutiny • Local Auditor – review of capital project management • AS – Fire and Rescue • SCSWIS/Local Auditor – CHSCP outcomes and impacts/CHSCP governance • Local Auditor – review of marine services	• AS – maintaining roads follow-up • SHR – self-assessment on elements of housing inc. SHQS • CI – Children's Service Inspection • CI/Local Auditor – health & care performance outcomes and impact	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up	
Perth & Kinross	Best Value 1 audit (2008)	• SWIA – prison inspection • SHR – review of self-evaluation • HMIE – council requested work on culture and sport • CC – Adoption and Fostering • SWIA – ISLA follow-up	• AS – housing benefits • SCSWIS – Child Protection and Adoption and Fostering • AS – Fire and Rescue	• ES – council requested capacity improvement in relation to Community Campus's • AS – maintaining roads follow-up • SHR – SHQS & rent arrears • AS – housing benefits follow-up	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • Housing Benefit Audit	

Council	Past Audit Scotland Best Value audit activity	2010/11	2011/12	2012/13	2013/14	2014/15
Renfrewshire	Best Value 1 audit (2006)	• HMIE – Child Protection • CC – Adoption and Fostering • SWIA – performance inspection follow-up • HMICS/AS – Strathclyde Police BV Audit and Inspection	• AS – Fire and Rescue	• CI – ISLA • AS – maintaining roads follow-up • ES – VSE requested by council	• CI – SSE CJ Social Work • Local auditor work – Reshaping Scotland's public sector workforce/SPF follow-up	
Scottish Borders	Best Value 1 audit (2007) **Best Value 2 Pathfinder audit (2010)**	• SWIA/HMICS/HMIP – management of offenders • CC – Adoption and Fostering • SHR – review of self-evaluation	• SCSWIS – post ISLA • HMIC/AS – L&B Police BV Audit and Inspection • SHR – delivery of homelessness services • SCSWIS – Child Protection and Adoption and Fostering • AS – housing benefits • AS – Fire and Rescue • HMIE – VASE requested by council	• AS – maintaining roads follow-up • **AS – CPP audit**	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • LAN – strategic mid-year review	• LAN mid-year priorities, risks and performance review workshop with the council's Corporate Management Team • Housing Benefit inspection • Scottish Borders Community Planning Partnership audit follow-up activity

Council	Past Audit Scotland Best Value audit activity	2010/11	2011/12	2012/13	2013/14	2014/15
Shetland Islands	Best Value 1 audit (2005) BV1 follow-up (2007) **S102 report and public hearing (2010)**	• SWIA – ISLA follow-up • CC – Adoption and Fostering • SHR – review of self-evaluation • AS – Accounts Commission Statutory Report additional audit work	• SHR – review of targeted risk areas • AS – BV follow-up • AS – Fire and Rescue • SCSWIS – Child Protection and Adoption and Fostering	• AS – maintaining roads follow-up • AS – housing benefits • **AS – targeted BV work**	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • SHR – homelessness and SHQS • ES – SHQS and homelessness	• **Best Value focussed review**
South Ayrshire	Best Value 1 audit (2009) **Best Value 1 follow-up audit (2010)**	• CC – Adoption and Fostering • SWIA – perf. inspection follow-up • SHR – review of SHQS progress • HMICS/AS – Strathclyde Police BV Audit and Inspection • CC – review of recruitment processes • **AS – follow-up of BV audit**	• AS – Fire and Rescue • SCSWIS – Child Protection	• AS – maintaining roads follow-up • AS – housing benefits • CI – ISLA	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • Housing Benefit Audit • **AS – Follow-up Best Value**	

Council	Past Audit Scotland Best Value audit activity	2010/11	2011/12	2012/13	2013/14	2014/15
South Lanarkshire	Best Value 1 audit (2009)	• SWIA – ISLA follow-up • CC – Adoption and Fostering • HMIE – Child Protection • HMIE – EPSI • HMICS/AS – Strathclyde Police BV Audit and Inspection	• AS – housing benefits • AS – Fire and Rescue	• AS – maintaining roads follow-up • SHR – scrutiny of progress to 2012 inc allocations • AS – housing benefits	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up	•
Stirling	Best Value 1 audit (2005)	• SWIA – prison inspection • SWIA – performance inspection follow-up • SHR – homelessness obligations • CC – Adoption and Fostering • AS – BV2 audit	• SCSWIS – post ISLA • **AS – BV2 audit** • AS – fire and rescue • SCSWIS – Child Protection and Adoption and Fostering	• AS – maintaining roads follow-up • AS – housing benefits • SHR – stock condition data, SHQS progress and business plan	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • Housing Benefit Audit • CI – Children's Services Inspection (with Clack'shire) • SHR – SHQS and rent arrears	• ES – Validated Self-evaluation of shared services for education across Stirling and Clackmannanshire councils.

Council	Past Audit Scotland Best Value audit activity	2010/11	2011/12	2012/13	2013/14	2014/15
West Dunbartonshire	Best Value 1 audit and hearing(2007) BV1 follow-up: 1 (2008) BV1 follow-up: 2 (2009) **BV1 follow-up: 3 (2010)**	• LAN activity – outcomes • CC – Adoption and Fostering • SWIA – performance inspection follow up • HMICS/AS – Strathclyde Police BV Audit and Inspection	• AS – fire and rescue • SCSWIS – Child Protection and Adoption and Fostering	• CI – ISLA • SHR – self-assessment on progress since inspection • AS – maintaining roads follow-up	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • Housing Benefit Audit	
West Lothian	Best Value 1 audit (2005)	• SWIA – prison inspection • HMICS/AS/LAN – performance on crime statistics • HMIE – Child Protection • SWIA – ISLA • CC – Adoption and Fostering	• SCSWIS – ISLA • SCSWIS – Adoption and Fostering • HMIC/AS – L&B Police BV Audit and Inspection • AS – Fire and Rescue	• ES – VSE requested by council • AS – maintaining roads follow-up • AS – housing benefits • SHR – self-assessment on elements of homelessness and allocation	• CI – Supported Self-Evaluation Criminal Justice Social Work • Local auditor work – Reshaping Scotland's public sector workforce • Local audit work – Scottish Public finances follow-up • CI – Adult Services Inspection • SHR – homelessness submission	

ACCOUNTS COMMISSION

MEETING 20 JUNE 2013

REPORT BY CONTROLLER OF AUDIT

STATUTORY PERFORMANCE INFORMATION 2011/12: AN EVALUATION OF HOW COUNCILS ARE FULFILLING THEIR DUTIES ON PUBLIC PERFORMANCE REPORTING

Purpose

1. This is the third year that we have reported on councils' approach to public performance reporting (PPR), following the more flexible approach given to councils to meet their statutory duties in relation to SPIs.

2. The SPI guidance is designed to be flexible in order that councils determine how best they present their performance information for the year, within the context of specific guidance given on the corporate performance themes to be covered (SPI 1) and service areas to be covered (SPI 2). This report presents a snap shot in time on the quality of public performance reporting material across councils.

3. The aim of this report is to support the Accounts Commission to consider how well councils are implementing SPI guidance in relation to PPR. PPR guidance allows for councils to produce PPR material within 12 months of the year to which it pertains. This meant we began our evaluation of council's PPR material in April 2013. The SPI Direction must be published at least three months prior to the financial year for the period in which the data is to be collected. This means the SPI Direction for 2013/14 was agreed by the Accounts Commission in December 2012. This report identifies some issues that can be considered when setting the next SPI direction and accompanying guidance in December 2013.

4. The aim of our report to the Commission this year is to:

    •   Provide the Commission with an assessment of the quality of public performance reporting against the corporate management themes under SPI 1 and the service performance themes under SPI 2, as set out in the Direction.

    •   Identify whether there has been improvement in how councils are reporting their performance from the baseline year of 2009/10.

    •   Identify where improvement is still required in terms of public performance reporting.

Background

5. The Commission has a statutory power to define the performance information that councils must publish locally, and to do so by means of a direction to councils. Since the SPI Direction approved in 2008, covering the audit year 2009/10, councils have had greater flexibility in what information they report and how they report it; ensuring that it is accessible to members of the public.

6. While the SPI Direction sets this flexible approach, it does define corporate management themes and service performance areas that should be included in PPR. These are outlined in Exhibit 1. Our approach to evaluating the quality of performance reports is based on these themes and the council's approach to presenting and explaining its performance information.

Exhibit 1

Councils need to ensure they cover a range of corporate management themes under SPI 1 and service areas under SPI 2.

COUNCILS

Corporate management

SPI 1:   Each council will report a range of information, sufficient to demonstrate that it is securing Best Value in relation to:

- responsiveness to its communities
- revenues and service costs
- employees
- assets
- procurement
- sustainable development
- equalities and diversity.

Service performance

SPI 2:   Each council will report a range of information sufficient to demonstrate that it is securing Best Value in providing the following services (in partnership with others where appropriate):

- benefits administration
- community care
- criminal justice social work
- cultural & community services covering at least sport & leisure, museums, the arts and libraries
- planning (both environmental and development management)
- the education of children
- child protection and children's social work
- housing & homelessness
- protective services including environmental health, and trading standards
- roads and lighting
- waste management services.

Source: Accounts Commission. Local Government Act 1992, Statutory Performance Indicators. Direction 2008, Dec. 2008

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7.   The more flexible approach outlined in the SPI Direction came with the expectation that the local government sector would develop its own performance measures to facilitate benchmarking and continuous improvement. SOLACE and the Improvement Service have been leading work in this area through the Local Government Benchmarking Framework (LGBF). This framework provides a comparative benchmarking framework for Scottish Local Government covering all major service areas with a strong emphasis on cost information. The LGBF indicators draw on existing performance information including the local financial returns to the Scottish Government and other indicators sourced from Government departments and the Scottish Household Survey.

8.   The Accounts Commission has received several updates on progress of this project. SOLACE and the Improvement Service published their first data set in March 2013. This includes a range of indicators for the following services and two years worth of data, for 2010/11 and 2011/12:

- Children's Services
- Corporate Services
- Social Work Services
- Culture and Leisure Services

- Environmental Services
- Housing Services.

9. In March 2013 SOLACE and the Improvement Service also published an overview report covering broad trends and variations for the service areas. This can be found at http://www.improvementservice.org.uk/benchmarking/documents/overview.pdf. The benchmarking site has interactive capabilities to extract data sets both on a council basis and for individual indicators, allowing councils to undertake their own detailed analysis.

10. The LGBF data for 2011/12 only became available in March 2013 and therefore does not feature heavily in the PPR material yet. We expect there will be greater use of these indicators in council's PPR material for 2012/13 when these indicators should facilitate improved benchmarking and comparisons between councils. The SPI Direction for the audit year 2013/14, which the Commission approved in December 2012, includes a new SPI (SPI 3) for councils to report its performance in accordance with the LGBF.

11. In addition to this report on progress with PPR arrangements, the Accounts Commission previously received an update report to the November 2012 meeting, which included reference to the availability of the 25 specified SPIs being published on the web-site. The audit year 12/13 will be the last year the 25 specified SPIs are collected and the Commission will again receive notification of their publication in the autumn of this year. The LGBF has incorporated these SPIs or introduced alternative performance indicators to build on them.

Review methodology

12. Our review considered PPR arrangements for all 32 councils' for the 2011/12 financial year. Councils were invited to explain their PPR arrangements and we reviewed the material available. Our review considered the following:

- How well councils have reported performance against the corporate assessment themes and service areas set out in the Direction for SPIs 1 and 2
- The extent to which councils included:
  - local performance indicators (including cost and service user feedback)
  - contextual information
  - trend and target data
  - comparative data (over time and/or with other councils)
  - customer satisfaction levels with the councils' services.
- The extent to which more detailed or further information is available, signposted and accessible to the reader.
- The extent to which performance improvement areas are identified and explained.

13. The **assessment definitions** used to underpin our analysis are:

- **Fully** – there is evidence that the council has moved beyond the Accounts Commission's 25 specified SPIs, with no obvious or major gaps in the comprehensiveness of the data reported. The data is explained through a clear narrative to allow the reader to understand the performance issues.
- **Partially** – the council has reported information which goes beyond the Accounts Commission's 25 specified SPIs, but there are important gaps in the overall

coverage. For example, either there is an absence of reporting on important services within a specific service area (eg museums and libraries within cultural and community services), or important aspects of service performance have not been covered (eg cost or customer satisfaction).

- **No** – the council has simply reported the Accounts Commission's 25 specified SPIs, or has not reported any information at all in relation to this aspect of corporate activity or service performance.

14. We assessed whether each council is fully, partially or not meeting the corporate assessment themes and service areas set out in the Direction. We focused on highlighting where there has been improvement and where continued improvement is required. The full results of our assessment can be found in Appendix 1.

15. The quality of the exercise was ensured by checking each SPI criteria to ensure we had been consistent and fair in our assessments of 'fully', 'partially' and 'not' meeting the criteria across all councils. For the first time this year we have more clearly set out what we have seen within council PPR material that lead us to our specific assessments. We have captured the benchmarks set by councils in their 2011/12 PPR material in Appendix 2.

16. Since we have now reviewed councils' PPR material for three years, we are now in a position to be able to take stock. We will reflect on our experience of conducting our evalutions into public performance reporting and take this forward when we ask the Commission to approve the SPI Direction in December 2013. We will also clarify the guidance accompanying the SPI Direction in order that it supports councils to improve their PPR arrangements.

Conclusions

There has been clear improvement in the quality of councils' public performance reporting.

- Overall, councils' PPR arrangements have significantly improved over the three years, in comparison with the baseline year of 2009/10. There has been improvement across all the corporate assessment themes and service areas for SPI 1 and SPI 2, with more councils fully or partially meeting them than not.

- In 13 out of the 18 SPI themes, there has been an increase in the number of councils who **fully meet** our assessment definition.

- The SPI themes which have experienced the greatest rate of improvement in the number of councils now **fully meeting** our assessment definitions are:

  - revenues and service costs – (20 councils are now fully meeting our assessment definitions compared to only seven councils in 09/10)

  - sustainable development – (16 councils are now fully meeting our assessment definition compared to only ten councils in 09/10)

  - employees – (11 councils are now fully meeting our assessment definition compared to only six councils in 09/10)

  - equalities and diversity – (Nine councils are now fully meeting our assessment definition compared to only four councils in 09/10)

- All councils have reported on sustainable development and community care (whereas 14 and 13 respectively failed to do so in 2009/10).

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- All councils have provided either a full or partial coverage of the 25 SPIs (whereas 17 failed to do so in 2009/10).

- All councils have included comparisons over time (16 councils failed to do so in 2009/10).

- Fifteen councils reported against all the corporate assessment themes (SPI 1) and service areas SPI 2 (with either full or partial coverage). This means those 15 councils did not receive any 'not met' assessments.

There is still room for improvement.

- The SPI themes where the highest number of councils received a 'no' assessment, meaning their public performance reporting was minimal, are:
    - procurement (15 councils),
    - criminal justice social work (seven councils),
    - child protection and children's social work (five councils).

- The SPI themes which have experienced a reduction in the number of councils that **fully meet** our assessment definitions are:
    - Cultural and community services – there has been a reduction in the number of councils fully meeting our assessment definition over the three years. (Only six councils fully met the criteria in 11/12 compared with 11 in 2009/10).

    - Education of children – there has been a reduction in the number of councils fully meeting our assessment definition between 2010/11 and 2011/12 (13 councils fully met in 11/12 compared with 17 in 10/11).

    - Housing and homelessness – there has been a reduction in the number of councils fully meeting the criteria over the three years (down by one council).

    - Assets - there has been a reduction in the number of councils fully meeting the criteria between 2010/11 and 2011/12. (Seven councils fully met the criteria in 11/12 compared with nine in 10/11)

    - Procurement – there has been a reduction in the number of councils fully meeting the criteria between 2010/11 and 2011/12 (down by one council).

- There is no council that **fully meets** all the corporate assessment themes (SPI 1) and service areas (SPI 2). This means we are not able to point to one council as an illustration for how to fully meet the assessment criteria across SPI 1 and 2.

- Less than a third of councils **fully meet** our assessment criteria for how they listen to and respond to stakeholders (31 per cent compared to 22 per cent in 2009/10).

- Only 25 per cent of councils **fully meet** the general guidance to include improvement targets.

- Forty-one per cent of councils still do not compare their performance with other councils (although this has improved from 81 per cent in 2009/10).

- Overall, there continues to be a lack of narrative and contextual summary to help the reader understand the indicators and performance information provided. In many

cases the council does not do enough to help set the data in context, to give the reader an understanding of how this information fits into a picture of performance and improvement planning.

- There is insufficient use of targets, trends, progress with initiatives or actions being taken to address underperformance to help the reader understand how well the council is performing.

Next steps

17. This year we have set out what we have seen within councils' PPR material that resulted in us identifying them as fully, partially or not meeting the themes under SPI 1 and 2. This is set out in Appendix 2. Within that we have also identified which councils have fully met each theme. This information will be shared with local auditors and councils (through the SPI contact officers and the Scottish Performance Management Forum) to promote benchmarking and improvement. Local auditors will liaise with councils on how they have been assessed in terms of fully, partially or not meeting the themes. This, alongside our identified council benchmarks will help support councils in improving their PPR material.

Recommendation

18. It is recommended that the Commission:

- Notes the clear progress councils have made in fulfilling their obligations for public performance reporting as set out in the SPI Direction.

- Notes those areas where there remains room for improvement.

- Notes that Audit Scotland will follow-up with auditors and appropriate stakeholders.

- Agree what action, if any, the Accounts Commission wishes to take in response to this report, to encourage continued progress.

19. The findings of this report will be revisited later in the year to support the Commission in determining its SPI Direction 2013, for audit year 2014/15, and to develop the supporting guidance.

Fraser McKinlay
Controller of Audit
12 June 2013

STATUTORY PERFORMANCE INDICATORS: 2011/12 OUTTURN DATA

Breakdown of responses by criteria

SPI 1 - Does the council report on a range of information, sufficient to demonstrate that it is securing Best Value in relation to:

	2009-10		2011-12		2009-10		2011-12		2009-10		2011-12	
	Fully				**Partially**				**No**			
	Total	**%**	**Total**	**%**	**Total**	**%**	**Total**	**%**	**Total**	**%**	**Total**	**%**
responsiveness to its communities	12	38%	13	41%	6	19%	15	47%	14	44%	4	13%
revenues and service costs	7	22%	20	63%	8	25%	9	28%	17	53%	3	9%
employees	6	19%	11	34%	10	31%	20	63%	16	50%	1	3%
assets	4	13%	7	22%	11	34%	22	69%	17	53%	3	9%
procurement	7	22%	8	25%	6	19%	9	28%	19	59%	15	47%
sustainable development	10	31%	16	50%	8	25%	16	50%	14	44%	0	0%
equalities and diversity	4	13%	9	28%	11	34%	22	69%	17	53%	1	3%

Please note that some percentages may not sum to 100% due to the affect of rounding.

SPI 2 - Does the council report a range of information sufficient to demonstrate that it is securing Best Value in providing the following services (in partnership with others where appropriate):

	Fully				Partially				No			
	2009-10		2011-12		2009-10		2011-12		2009-10		2011-12	
	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%
benefits administration	7	22%	16	50%	9	28%	12	38%	16	50%	4	13%
community care	12	38%	21	66%	7	22%	11	34%	13	41%	0	0%
criminal justice social work	5	16%	14	44%	7	22%	11	34%	20	63%	7	22%
cultural & community services covering at least sport & leisure, museums, the arts and libraries	11	34%	6	19%	9	28%	25	78%	12	38%	1	3%
planning (both environmental and development management)	1	3%	12	38%	16	50%	18	56%	15	47%	2	6%
the education of children	14	44%	13	41%	5	16%	18	56%	13	41%	1	3%
child protection and children's social work	7	22%	14	44%	10	31%	13	41%	15	47%	5	16%
housing & homelessness	15	47%	14	44%	6	19%	17	53%	11	34%	1	3%
protective services including environmental health, and trading standards	2	6%	16	50%	11	34%	14	44%	18	56%	2	6%
roads and lighting	4	13%	10	31%	14	44%	21	66%	14	44%	1	3%
waste management services	12	38%	13	41%	9	28%	18	56%	11	34%	1	3%

Please note that some percentages may not sum to 100% due to the affect of rounding.

Appendix 2

20011/12 Identified Council PPR Benchmarks

| | Characteristics of councils who have… | | | |
	…fully demonstrated the SPI criteria	…partially demonstrated the SPI criteria	…not demonstrated the SPI criteria	Councils that have fully met the criteria
SPI 1				
responsiveness to its communities	PPR material provides a fuller picture of performance across the range of consultation activities and customer feedback information. This is prominently reported within high-level PPR material. Councils summarise how they use feedback information to improve services. There is evidence of feedback information being sought at both a corporate and a service level. In some cases, councils ask for feedback on the usefulness of performance reports and provide links to additional surveys to make this easier for the reader.	PPR material provides some ad hoc examples of consultation activities but with insufficient explanatory narrative to draw out main findings. There is a lack of evidence of how feedback has been used to improve services.	There is little or no evidence of councils reporting information from consultation or customer feedback exercises within their PPR material. Main PPR information does not include information on how the council is responsive to its communities or how customer feedback information has been used.	• Aberdeenshire • Angus • Dundee • East Dunbartonshire • East Lothian • Highland • Midlothian • North Ayrshire • South Ayrshire • South Lanarkshire • Stirling • West Dunbartonshire • West Lothian
revenues and service costs	PPR material brings together a range of cost information, such as total expenditure as well as a breakdown by service areas. Council has gone further and included some local indicators that go beyond the past specified SPIs. Reports make use of local indicators such as meeting efficiency savings targets. In some cases the council has also made comparisons, benchmarking themselves against other councils or the Scottish average. There is good use of narrative or charts to put the actual figures in context.	PPR material has some specific indicators on revenues and service costs, such as total council expenditure or the past specified SPIs on cost per dwelling of collecting council tax, gross cost per case for benefits administration and/or income due on council tax collection. However, there is a lack of indicators that inform beyond the SPIs and a lack of	There is a lack of commentary on revenue and service costs and the council has not published any local indicators that inform beyond the SPIs. In some cases, the web site information has not been kept up to date with 11/12 information.	• Aberdeenshire • Angus • Dumfries and Galloway • Dundee • East Ayrshire • East Dunbartonshire • East Lothian • Edinburgh • Fife • Highland • Midlothian • North Ayrshire

	Characteristics of councils who have…			
	…fully demonstrated the SPI criteria	…partially demonstrated the SPI criteria	…not demonstrated the SPI criteria	Councils that have fully met the criteria
		narrative to set performance in context.		• North Lanarkshire • Orkney • Perth and Kinross • Renfrewshire • South Ayrshire • South Lanarkshire • Stirling • West Dunbartonshire
employees	PPR material extends beyond past specified SPIs to include wider performance measures, such as: job satisfaction, cost of HR function and staff survey data. The council has identified key findings from the staff survey. High level PPR material contains narrative to set performance in context and there are links to more detailed reports. If staff survey results are not yet available it indicates when they will be available.	PPR material is limited and concerned mainly with the past SPI on sickness absence or that theme. There is no reference to whether the council has conducted a staff survey, or if there is, what priorities it has taken from it. There is a lack of narrative to set performance in context.	There is a lack of commentary on performance in relation to employees. There is an absence of performance indicators, or PPR material has not been kept up to date with 11/12 performance.	• Angus • Clackmannanshire • Fife • Glasgow • Highland • Inverclyde • Midlothian • Perth and Kinross • Renfrewshire • South Ayrshire • West Dunbartonshire
Assets	PPR material brings together a range of performance measures in relation to assets. Extends beyond the past specified SPIs and includes local indicators, such as indicators on maintenance of property repairs and spend on property maintenance per m2. Includes narrative which helps put measures in context and to aid the public's understanding, such as commentary on progress with its corporate asset management plan.	PPR material is limited and concerned mainly with the past SPIs on operational accommodation that is in a satisfactory condition or suitable for its current use, or that theme. In some cases there may be additional indicators but these lack narrative to assist the reader in understanding performance in relation to how the council manages assets.	There is a lack of commentary on performance in relation to assets or if there is a reference there is a lack of performance measures to evidence performance. In some cases information is out of date and does not include up to date performance for 2011/12.	• Aberdeen City • East Dunbartonshire • East Renfrewshire • Falkirk • Fife • South Ayrshire • Stirling

	Characteristics of councils who have…			
	…fully demonstrated the SPI criteria	…partially demonstrated the SPI criteria	…not demonstrated the SPI criteria	Councils that have fully met the criteria
Procurement	PPR material brings together a range of evidence sources to present a higher level view of procurement activity. Evidence sources include improvement resulting from collaborative spend or use of electronic methods to award, source and process procurement activities (eg e-procurement). In some cases there is a link to a specific section on the council website to do with procurement.	PPR material may contain references to performance on procurement such as an identified range of cash savings or a procurement capability assessment. However, there is a lack of explanatory narrative to aid the reader understand performance on procurement.	There is little or no reporting in relation to performance on procurement. Procurement activity may be mentioned but there is a lack of measures or cost information to help the reader understand performance.	• Angus • East Renfrewshire • Inverclyde • North Lanarkshire • Perth and Kinross • Renfrewshire • South Ayrshire • West Dunbartonshire
sustainable development	*The focus of our assessment framework is on environmental sustainability (in line with our best value toolkit)* PPR material brings together a range of material to present a wider picture of performance in relation to sustainable development. Includes use of local indicators such as energy consumption, council co2 emissions, fleet emissions, derelict land, parks and outdoor spaces, and biodiversity actions and targets. Includes narrative or contextual information, such as targets and trends, to help the reader understand performance.	*The focus of our assessment framework is on environmental sustainability (in line with our best value toolkit)* PPR material is focused on the past specified SPIs that have an environmental theme, such as refuse collection. Performance summary does not go wider and there is no mention of carbon emissions and the wider environmental impact. In addition there is a lack of commentary or narrative to explain performance.	*The focus of our assessment framework is on environmental sustainability (in line with our best value toolkit)* There is little or no reporting on performance for sustainable development. Reporting is limited to the past specified SPIs but with minimal narrative or trend information to put this in context. No council was assessed as not meeting the criteria in 11/12.	• Aberdeenshire • Angus • Clackmannanshire • East Dunbartonshire • East Lothian • Fife • Glasgow • Highland • Midlothian • North Ayrshire • Perth and Kinross • South Ayrshire • South Lanarkshire • Stirling • West Dunbartonshire • West Lothian
equalities and diversity	PPR material brings together a range of performance material including local indicators that give a wider	PPR material is focused on past SPIs or those themes, such as	There is little or no reporting on performance	• East Dunbartonshire • Glasgow

	Characteristics of councils who have…			
	…fully demonstrated the SPI criteria	…partially demonstrated the SPI criteria	…not demonstrated the SPI criteria	Councils that have fully met the criteria
	picture of performance, such as service user satisfaction with specific services. There is good narrative putting performance into context for the reader. PPR material recognises equalities & diversity in its broader sense, ie covering tackling inequality.	percentage of highest paid employees that are women, and accessibility of council premises for people with a disability. There may be some additional indicators, but PPR material does not contain enough narrative to help the reader get a sense of performance on equalities and diversity.	for equalities and diversity. Reporting is limited to the past specified SPIs but with minimal narrative to put this in context.	• Midlothian • North Ayrshire • North Lanarkshire • Perth and Kinross • Renfrewshire • South Ayrshire • West Lothian
SPI 2				
benefits administration	PPR material gives a fuller picture, going beyond the past SPI and provides additional local indicators – eg time taken to administer benefits. In addition, narrative puts performance in context and in some cases provides trend information over time. High-level PPR material references or links to relevant reports where appropriate.	PPR material is limited to the past specified SPI on benefit administration costs. There is an absence of further local indicators or narrative to put performance in context and aid the reader.	PPR material either has no reference to benefits administration or if there is a reference, does not include supporting data to provide evidence of performance.	• Aberdeen City • Aberdeenshire • Angus • Clackmannanshire • East Ayrshire • East Dunbartonshire • East Renfrewshire • Edinburgh • Falkirk • Highland • Inverclyde • Moray • North Lanarkshire • Renfrewshire • South Ayrshire • Stirling
community care	PPR material gives a fuller picture, going beyond the past specified SPIs on community care and provides additional local indicators, such as:	PPR material is limited to reference to our past specific SPI on home care, covering	PPR material either has no reference to community care services, no indicators	• Aberdeenshire • Angus • Argyll & Bute

	Characteristics of councils who have…			
	…fully demonstrated the SPI criteria	…partially demonstrated the SPI criteria	…not demonstrated the SPI criteria	Councils that have fully met the criteria
	• % of service users satisfied with their involvement in the design of their care packages • number of people waiting longer than target time for service per '000 population • the percentage of personal carers who are qualified to SSSC (Scottish Social Services Council) standard. In some cases, user survey results are provided. High-level PPR material references or links to more detailed reports. Narrative puts performance into context, such as trend information and performance against target.	numbers, hours for age 65+ and personal care, service during evenings/overnight and weekends. PPR material has one or two additional indicators but without any narrative to set these into context.	or a casual reference to community care but without any supporting data. In addition, in some cases the performance information is out of date. No council was assessed as not meeting the criteria in 11/12.	• Dumfries and Galloway • East Ayrshire • East Dunbartonshire • East Lothian • East Renfrewshire • Edinburgh • Eilean Siar • Falkirk • Fife • Glasgow • Highland • Midlothian • Moray • North Ayrshire • North Lanarkshire • South Ayrshire • Stirling • West Dunbartonshire
criminal justice social work	PPR material gives a fuller picture of performance, providing a range of local indicators such as: • the number of community payback orders started within 7 working days • % of community payback orders successfully completed • reconviction rates. In some cases, PPR material links to a higher level strategic theme within the SOA related to criminal justice social work and community safety. High-level PPR material references or links to more detailed reports, narrative puts performance into context, such as trend information and performance against target.	PPR material provides a range of performance indicators, but there is an absence of narrative or trend information to help the reader understand how the council is performing. In some cases there is no reference to performance against criminal justice social work in the high-level PPR material, although indicators may be available if the reader has the knowledge how to dig further.	PPR material either has no reference to criminal justice social work services, or a casual reference without any supporting data. In some cases there is reference to crime data, but this does not provide an assessment of performance on criminal justice social work services.	• Angus • East Ayrshire • East Dunbartonshire • East Lothian • East Renfrewshire • Edinburgh • Falkirk • Glasgow • Inverclyde • Midlothian • North Lanarkshire • South Ayrshire • West Dunbartonshire • West Lothian

	Characteristics of councils who have…			
	…fully demonstrated the SPI criteria	…partially demonstrated the SPI criteria	…not demonstrated the SPI criteria	Councils that have fully met the criteria
cultural & community services covering at least sport & leisure, museums, the arts and libraries	PPR material gives a fuller picture of performance and covers the four specified strands of cultural & community services. Provides additional indicators that give a wider picture of performance such as: • cost per attendance • service user satisfaction • specific improvement actions are detailed In some cases, PPR material links to a higher level strategic theme, making clear linkages with the community or corporate plan priorities.	PPR material is based on the existing and/or past specified SPIs, such as visits to museums, library usage, attendance at pools, indoor sports and leisure facilities. There is some narrative to put performance in context but this does not cover the four specified strands and there is a lack of evidence or trend information to support assessments on performance.	There is little or no reporting on performance on cultural & community services, lacking even basic SPI information. Other cultural activities may be mentioned, but with a lack of evidence to give an assessment of performance.	• Angus • Dundee • Glasgow • Highland • North Lanarkshire • Renfrewshire
planning (both environmental and development management)	PPR material gives a fuller picture of performance going beyond the past specified SPIs to cover the wider context of planning, eg progress on local development plans. In some cases, includes feedback on customer satisfaction with the planning service and service costs.	PPR material is limited to the past specified SPI, the average time to deal with major and local planning applications, but they do contain narrative to help the reader make sense of performance.	PPR material either has no reference to planning or is limited to the past specified SPI but without any narrative to put performance in context or actual indicators to evidence performance.	• Angus • Argyll & Bute • Dumfries and Galloway • East Ayrshire • East Dunbartonshire • East Lothian • East Renfrewshire • Midlothian • Moray • South Ayrshire • Stirling • West Lothian
the education of children	PPR material gives a fuller picture of performance, covering key aspects of the education of children. Pinpoints key SQA/SQCF attainment but also includes additional local indicators. Provides supplementary narrative to set performance in context. In some cases, signposts and provides links to key council or community planning objectives and	PPR material reports some aspects of education performance, but there are significant gap areas. There is an absence of narrative to help the reader understand performance. In some cases	PPR material does not include an evaluation of performance for the education of children within high level public performance reports.	• Angus • Argyll & Bute • East Ayrshire • East Dunbartonshire • East Lothian • Falkirk • Glasgow

	Characteristics of councils who have…			
	…fully demonstrated the SPI criteria	…partially demonstrated the SPI criteria	…not demonstrated the SPI criteria	Councils that have fully met the criteria
	the performance indicators that underpin those. In some cases includes satisfaction information or links to more detailed information, such as Education Scotland Inspection reports.	the quality of performance information is variable, with some areas being incomplete or not up to date.		• Inverclyde • Midlothian • North Ayrshire • South Ayrshire • Stirling • West Lothian
child protection and children's social work	PPR material provides a fuller picture of performance, covering both child protection and children's social work services. Provides a comprehensive range of indicators such as: • placement of looked after children, • % of children seen by a supervisor officer within 15 days • children on the child protection register. Narrative sets performance in context, such as how they compare with other councils and how they plan to improve.	PPR material reports on some elements of performance but tends not to provide a range of information to cover both child protection and/or children's social work. There is a lack of narrative to put performance in context.	PPR material contains little or no reference to child protection and children's social work. There is an absence of indicators or the indicators provided are not up to date.	• Angus • Argyll & Bute • East Ayrshire • East Lothian • Falkirk • Fife • Glasgow • Inverclyde • Midlothian • North Ayrshire • South Ayrshire • Stirling • West Dunbartonshire • West Lothian
housing & homelessness	PPR material provides a fuller picture of performance in relation to housing & homelessness, with local indicators such as • rent arrears • SHQS • energy efficiency • levels of house building • proportion of affordable homes • performance in relation to homelessness. There is good narrative to help the reader make sense of performance, in some cases this covers trend and target information. High level PPR	PPR material provides only a limited coverage of housing and homelessness services. There is a lack of narrative to put performance in context and aid the reader. In some cases there is narrative, but without quantitative indicators to evidence performance.	PPR material contains little or no reference to housing and homelessness services. In some cases there is limited narrative on the service, but there is a lack of key indicators to evidence performance.	• Angus • East Ayrshire • East Dunbartonshire • East Lothian • Fife • Highland • Midlothian • Moray • North Ayrshire • Perth and Kinross • Renfrewshire • South Ayrshire

	Characteristics of councils who have…			
	…fully demonstrated the SPI criteria	…partially demonstrated the SPI criteria	…not demonstrated the SPI criteria	Councils that have fully met the criteria
	material links to more detailed reports on housing and homelessness performance. In some cases, user survey results are provided.			• Stirling • West Lothian
protective services including environmental health, and trading standards	PPR material provides a fuller picture of performance against the range of protective services. Includes local indicators such as: • food safety, pest control, flood alleviation and customer satisfaction of these services. PPR material includes good narrative that assists the reader to make sense of performance, and in some cases includes trend data and national comparisons and performance against target.	PPR material provides only a limited picture of performance and lacks coverage across a broader range of protective services including both environmental health and trading standards. In some cases the focus is only on the past specified SPIs on trading standards consumer complaints and business advice requests.	PPR material contains little or no reference to protective services and there is no use of the past specified SPIs related to these services.	• Aberdeen City • Aberdeenshire • Angus • Argyll & Bute • Clackmannanshire • East Ayrshire • East Dunbartonshire • East Renfrewshire • Inverclyde • Midlothian • Moray • North Ayrshire • North Lanarkshire • Renfrewshire • Stirling • West Lothian
roads and lighting	PPR material provides a fuller picture of performance across a range of road and lighting information. There is good narrative to help the reader make sense of performance, in some cases this covers trend and target information. High level PPR material links to more detailed reports on specific aspects of the services. Examples of local indicators: • traffic light failure repairs • winter maintenance works completed during instructed time period • % of road network resurfaced.	PPR material provides only a limited picture of performance, normally focusing on roads or lighting, but in the main, not both. In some cases the focus remains on the past specified SPIs, eg carriageway condition. If local indicators are used they do not cover the range of roads and lighting performance areas.	PPR material contains little or no reference to roads and lighting services. If there is reference it is limited to the past specified SPIs.	• Angus • Dumfries and Galloway • East Ayrshire • East Dunbartonshire • East Lothian • Fife • Inverclyde • South Lanarkshire • Stirling • West Lothian

	Characteristics of councils who have…			
	…fully demonstrated the SPI criteria	…partially demonstrated the SPI criteria	…not demonstrated the SPI criteria	Councils that have fully met the criteria
waste management services	PPR material provides a fuller picture of performance across the range of waste management services. Information goes further than the past specified SPIs to include local indicators such as • service costs • bin collection rates In some cases satisfaction information is reported. PPR material provides good narrative to explain and contextualise performance, such as trends, targets and benchmarking.	PPR material is focused very much on the past specified SPIs and does not provide a wider picture of performance. Although there is some narrative, contextualising performance, the range of information is limited.	PPR material contains little or no reference to waste management services.	• Angus • Clackmannanshire • Dumfries and Galloway • East Dunbartonshire • East Lothian • East Renfrewshire • Falkirk • Fife • North Ayrshire • Renfrewshire • South Ayrshire • Stirling • West Lothian

ACCOUNTS COMMISSION

MEETING 20 JUNE 2013

REPORT BY ASSISTANT AUDITOR GENERAL

AUDIT OF LOCAL AUTHORITY CHARITIES

1. **Purpose of Report**

   The purpose of this report is to brief the Commission on the current and potential future audit arrangements for the 1200 or so registered charities with total assets of around £43 million as at 31 March 2012 administered by Scottish local authorities.

2. **Background**

   Historic position

   Section 106 of the Local Government (Scotland) Act 1973 (the 1973 Act) states that "The foregoing provisions of this Act [ie sections 93 to 105] and any regulations under section 105 shall, subject to any necessary modifications, apply to… the trustees for any charity, foundation, mortification or other purpose, where a local authority, or some members of such an authority as such, are the sole trustees for such charity, foundation, mortification or other purpose".

   This section therefore applies all of the accounting and auditing provisions of the 1973 Act, including the appointment of auditors, to local authority charities in the same way that they apply to the authorities themselves.

   Whilst in theory the Commission could have made 1200+ separate audit appointments since 1973, in practice, for as many years as anyone can remember, this has been implemented by each local authority preparing a brief summary of the income and expenditure and financial position of its charities and including this as a note to the accounts. The summary has then been subject to audit as part of the accounts of the local authority ie no separate audit plan, calculation of materiality or audit opinion is done.

   This was a proportionate response to what would otherwise have been a significant time and cost burden.

   When the 1973 Act was passed there was no separate charity regulation in Scotland (unlike England after 1960) and charities were recognised by the Inland Revenue on the basis of a written request.

   Charities legislation

   The Charities and Trustee Investment (Scotland) Act 2005 introduced the formal registration and regulation of charities into Scottish law. The Charities Accounts (Scotland) Regulations 2006 as amended (the 2006 Regs.) set out the accounting and auditing rules for Scottish registered charities. They therefore apply to all local authority registered charities.

The 2006 Regs set out different scrutiny requirements for different sizes of charity and many of the smaller local authority charities would ordinarily fall to only have an independent examination rather than a full audit.

However Regulation 10 requires an auditor to prepare a report to the trustees where an audit is required by inter alia, any other enactment or a decision of the charity trustees. In this case section 106 of the 1973 Act falls into the category of any other enactment that requires an audit.

An audit must be carried out by an auditor eligible for appointment under the Companies Act or by an auditor appointed by the Accounts Commission for Scotland or the Auditor General for Scotland.

Implementation of the 2006 Regulations

When the 2006 Regulations came into effect Audit Scotland raised the issue of compliance by local authorities with the sector through LASAAC and attended several meetings with OSCR, CIPFA and some DoFs. This resulted in a very reasonable and proportionate approach from OSCR which set out increasing levels of compliance culminating in fully compliant accounts and external scrutiny by 2013/14. At the point when this was agreed it was envisaged that all councils would make use of the reorganisation provisions of the Charity & Trustee Investment (Scotland) Act 2005 to substantially reduce the number of individual charities down to maybe a handful for each council. Due to difficulties in identifying original documentation such as trust deeds and bequests and the amount of resource required this has not happened to anything like the degree expected.

Each year OSCR has written to all councils commenting on the levels of compliance being achieved and restating the need to make more progress. The last letter was issued in June 2012 and the 2013 letter is expected shortly.

For the very largest local authority charities (ie those that meet the size criteria for a full audit) separate audit reports are already required and are being given by auditors appointed by the trustees and which include the auditors of the administering councils.

From 2013/14 an audit report will be required for all local authority charities regardless of their size.

3.   **Issues and options**

The combination of requirements from the different pieces of legislation means that smaller local authority charities will, from 2013/14, be subject to a greater compliance burden than private sector charities of equivalent size which can have an independent examination and poses the question as to how full compliance with both can be achieved at a proportionate cost.

In considering the options it should be borne in mind that the 2005 Act did increase the accountability requirements for all Scottish charities and that the existence of the 2006 Regs was always going to increase compliance costs for councils whichever route is adopted.

Many of the charities are individually very small, for example, endowments for the provision of a subject prize for the local high school. The cost of a full audit

would wipe out the total assets of such charities within a year should they be passed on by the administering authority.

There are ways in which local authorities can reduce the number of charities and/or the number of separate audits required.

They can use the reorganisation provisions of the charities legislation to merge charities although this can be a very time consuming and expensive process as original documentation is not always readily available.

Authorities can seek to wind up some of their charities and pass the assets to a charity with similar objectives. This also requires time to achieve in those cases where it would be possible.

Authorities can use the connected charities provisions of the charities legislation to prepare a single set of accounts for similar charities under common administration. Information is still required for each charity but the reporting burden is reduced.

Overall it is likely that there will be significantly less than 1200 separate sets of accounts by 2013/14 but progress is very patchy depending on the priority given to the issue by councils and the complexities of their individual circumstances.

Local authority auditors have been asked to provide updated information on council plans and this will also have been discussed at a meeting of local authority auditors on 14 June. The Commission will be updated at its meeting on that discussion.

Options for discussion

The Commission has the duty to appoint auditors to section 106 bodies including local authority charities. The Commission could formally extend the appointment of each local authority auditor to cover all charities covered by section 106. This will ensure compliance with both the 1973 Act and the 2006 Regs. There is a risk of an adverse reaction due to the costs involved but some cost increase for authorities will occur in any event.

It would be possible for the Commission to decide to run a separate appointment competition for this work but as it would be above the EU threshold this would take around six months and be costly in terms of the time taken. The likely value of the work is well within the amounts that can be added to existing appointments.

Alternatively the Commission could decide that it is content with the existing arrangements as still representing compliance with the 1973 Act and let local authorities make their own arrangements for compliance with the 2006 Regs. This may be more or less expensive for the authority depending on the prices charged by such auditors but raises questions about whether the Commission is fully complying with the 1973 Act now that there is more modern legislation requiring individual scrutiny of all charities in Scotland. Depending on the timing of locally appointed auditor work there could also be duplication of effort if it is not available before the local authority auditor signs off.

For the longer term, if it is felt desirable that local authority charities should be subject to the same scrutiny burden as their private sector equivalents, the

Commission could propose a change in legislation. Such a change could be an amendment to the 2006 Regs to exclude section 106 of the 1973 Act as a piece of other legislation requiring an audit under section 10 of the Regulations. An alternative might be to propose amendment to the 1973 Act to amend section 106 to bring in the concept of independent examination for smaller bodies but an amendment to primary legislation would be likely to be on a much longer timeframe.

4.   Recommendation

The Commission is invited to discuss the paper and to advise on its preferred approach to the audit of 2013/14 local authority charities and whether it wishes Audit Scotland to explore the possibility of legislative change to equalise the burdens on smaller local authority charities with those in the private sector.

Russell Frith
Assistant Auditor General
13 June 20123

ACCOUNTS COMMISSION

MEETING 20 JUNE 2013

REPORT BY CONTROLLER OF AUDIT

DISCUSSION PAPER ON THE SCRUTINY OF ARM'S LENGTH EXTERNAL ORGANISATIONS (ALEOs)

Purpose

1. At recent meetings of the Commission and its committees members have raised questions about the governance and accountability of ALEOs and the extent to which ALEOs are covered by the public audit model. This paper provides the Commission with contextual information and identifies some issues relating to local authority ALEOs and offers some potential next steps.

Background

2. Councils use ALEOs to deliver a wide range of activities such as leisure services, economic development and property maintenance. ALEOs offer an alternative to more traditional 'in-house' or contract-based service delivery and usually take the form of companies or trusts. They are 'arm's-length' because they operate autonomously from the council. The council retains a degree of control or influence over their operating and financial policies, usually through some form of service level agreement and funding arrangements. In recent years the range of services provided through ALEOs has increased.

3. While the ALEO takes on responsibility for service delivery, the council remains responsible for ensuring that the ALEO uses the public funds it provides to the ALEO properly and can demonstrate best value. In other words, the council remains accountable for the funds used to deliver public services, regardless of the means by which the service is delivered. Consequently, it is important for councils to be able to 'follow the public pound' to the point where it is spent.

4. The Accounts Commission has had an interest in ALEOs for a long time, both in general terms and on specific issues. In 1996 the Accounts Commission and COSLA published a *'Code of Guidance on Funding External Bodies and Following the Public Pound'*[1] which set out the principles of best practice for councils when establishing funding relationships of this type.

5. In February 2001 a committee established by the Treasury published 'Holding to Account: The review of audit and accountability for Central Government[2]' which developed the concept of 'public money' beyond the measures of public expenditure rooted in national accounts and the concept of following the public pound. It noted:

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[1] Reproduced in the Appendix to Following the public pound report (2004) http://www.audit-scotland.gov.uk/docs/local/2003/nr_040311_following_public_pound.pdf

[2] Holding to Account: The review of audit and accountability for Central Government (2001) – Lord Sharman of Redlynch http://www.hm-treasury.gov.uk/d/Holding_to_Account.pdf

> '*2.2 Therefore, it is necessary to start by defining what is meant, for accountability purposes, by the term 'public money', so that it can be identified regardless of the type of body spending it. In doing this, the underlying assumption is that, where public money is involved, some level of public accountability is required, regardless of the status of the body handling that money.'*

6. The Local Government (Scotland) Act 2003 made amendments to the Local Government (Scotland) Act 1973 to provide auditor information and access rights to 'any person who, by arrangement or agreement with any such body, is discharging any function of the body'[3]

7. In March 2004 we published the 'Following the public pound' report[4]. In its findings the Commission expressed 'concerns about councils' funding of arm's length bodies, and particularly about the lack of reliable information on the position.' The Commission also noted that 'these issues will grow in significance as councils become increasingly involved in partnership working and innovative ways of delivering services' The Commission went on to ask Audit Scotland to carry out further work on the subject.

8. The follow up report[5], published in December 2005 noted that Councils needed better information about their support for ALEOs, the intended benefits and what is obtained for the money provided it also highlighted the need for better compliance with the code.

9. In June 2011 the Accounts Commission published a report in the 'How Councils Work' series called 'Arm's-length external organisations (ALEOs): are you getting it right?[6]' The report provided guidance on setting up and the governance of ALEOs.

10. Issues related ALEOs have also featured in various audit reports, performance audit reports and specific statutory reports, including:

    *   Local Government Overview reports[7]
    *   Annual audit reports[8]
    *   Physical Recreation in Local Government (2010)[9]
    *   Shetland Islands Council – related to the qualification on the opinion on the accounts based on the Shetland Charitable Trust (various reports between 2009 and 2013) [10]
    *   The Highland Council – related to Caithness Heat and Power (reports in June 2010 and March 2011). [11]

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[3] The Local Government (Scotland) Act 2003 http://www.legislation.gov.uk/asp/2003/1/section/54

[4] Following the public pound (2004) http://www.audit-scotland.gov.uk/docs/local/2003/nr_040311_following_public_pound.pdf

[5] Following the public pound follow up report (2005) http://www.audit-scotland.gov.uk/docs/local/2005/nr_051215_public_pound.pdf

[6] Arm's-length external organisations (ALEOs): are you getting it right? (2011) http://www.audit-scotland.gov.uk/docs/local/2011/nr_110616_aleos.pdf

[7] LG Overview reports http://www.audit-scotland.gov.uk/work/local_national.php

[8] http://www.audit-scotland.gov.uk/docs/local/2009/fa_0809_edinburgh_city.pdf

[9] http://www.audit-scotland.gov.uk/docs/local/2010/nr_101021_physical_recreation_councils.pdf

[10] http://www.audit-scotland.gov.uk/work/local_statutory.php

[11] http://www.audit-scotland.gov.uk/work/local_statutory.php

11. The challenging financial environment facing the public sector also extends to ALEOs and this means they too are operating in a risky environment. In this context the importance of effective governance and accountability is even greater.

What do we mean by 'ALEOs'?

12. ALEOs are used to deliver both statutory and discretionary public services. There is no single definition of an ALEO beyond the components of the acronym itself, though this phrase is now in common usage. ALEOs therefore take a wide variety of forms, for example:

    • Some are set up as a way of providing services which most people would recognise as 'council services', like leisure services.
    • Some ALEOs are essentially commercial operations, like the SECC ltd. which is subsidiary of Glasgow City Council.
    • Some are specific bodies for a particular purpose, for example many councils have joint venture companies set up to develop industrial units to support economic development in an area.
    • Where a council has a stake in a venture in terms of assets/ liabilities, for example business parks and joint ventures.

13. The term ALEOs is generally associated with councils, however if we use the broad characteristics of an ALEO there are also examples across the public sector. Group financial statements are prepared in other parts of the public sector, for example there is a sub-consolidation of all NHS Boards which are then consolidated with the Scottish Government, as are all agencies. Certain non departmental public bodies have to produce their own group financial statements, including Scottish Enterprise.

How many ALEOS are there, how big are they and range of services do they provide?

14. Given there is not a strict definition of what an ALEO is - and the range and scale of ALEOs varies significantly - it is difficult to put an exact number of how many ALEOs there are.

15. In the 2011 HCW ALEOs report we noted that 'a brief review of councils' accounts shows that the majority of the 32 Scottish councils operate ALEOs and that there are currently around 130 major ALEOs in total.'

16. Within councils it is possible to identify a range of ALEOs by considering the group accounts where there is a requirement under the Code of Practice on Local Authority Accounting to disclose information in the group accounts relating to
    • A subsidiary (where a council has the ability to control the entity – typically through over half of the 'voting rights')
    • An Associate (where the council has 'significant influence')
    • A Joint venture.

17. A basic review of the 2011/12 group accounts of the 32 councils using these definitions (as interpreted by the councils and disclosed in the accounts) tell us:
   • ALEOs provide a wide rage of services, including; sports and leisure, exhibition and conference facilities, arts and culture, transport, IT services, recycling services, economic development and social work services.

- there are 172 listed ALEOs (including 51 subsidiaries, 31 associates, 10 joint ventures, 35 listed as non material and 33 others).
- that a number of the subsidiaries and associates themselves have ALOEs.
- that large numbers of other organisations receive public money – but that this is classified as non material in terms of the accounts.
- ALEOs range in considerably in size, but this is not immediately apparent from the way in which this is disclosed in the councils accounts, which typically show net assets/ liabilities and occasionally turnover.

What are the risks and benefits associated with ALEOs?

18. The HCW report identified some of the risks and benefits of associated with ALEOs and other service delivery options (Exhibit 1)

Exhibit 1

Overview of delivery options and their potential advantages/disadvantages
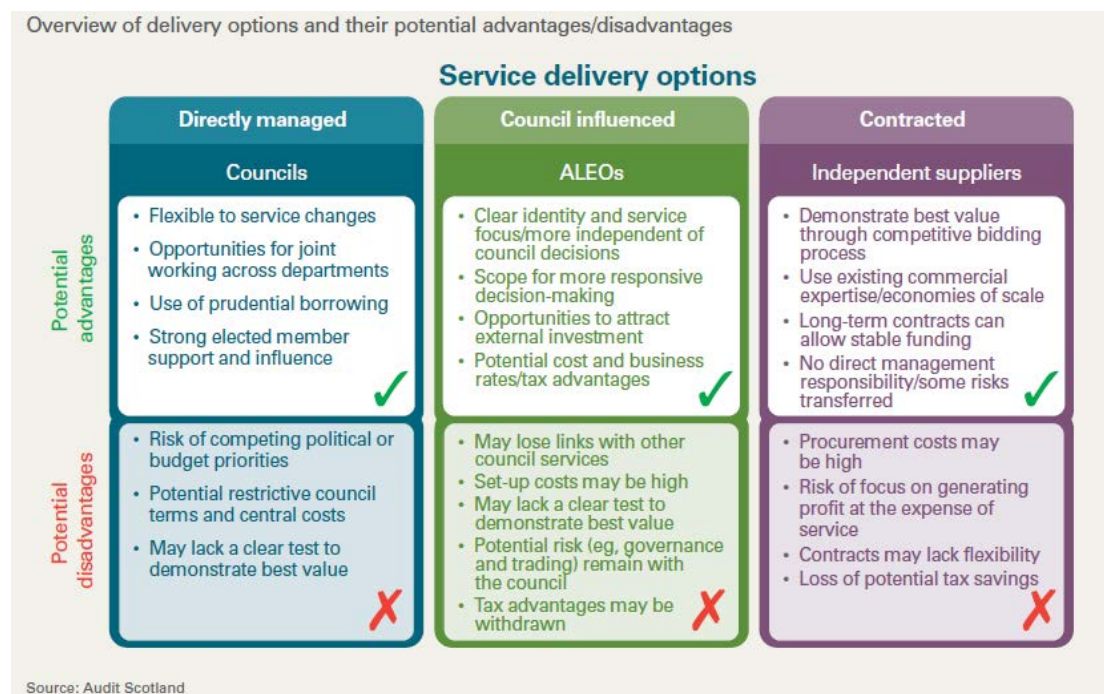
Source: Audit Scotland

19. The 'arm's length' nature of ALEOs typically means that they have more flexibility than directly delivered services, on the basis that they can:

- offer a distinct (and separate) identity
- access different forms of funding, like grants
- generate income through trading
- gain tax advantages, for example by having charitable status and gaining non domestic rates relief
- provide services on a more commercial basis
- operate different terms and conditions for employees.

20. By definition, being at arm's length means that the operation of ALEOs also brings risks, including:

- less direct control by the council
- wide variations in the governance arrangements – within the ALEO itself and between the ALEO and the council
- variations in the scrutiny arrangements and how effective scrutiny is
- potential conflict of interests or confusion on the part of elected members who are members of a board
- the ALEOs objectives not being wholly consistent with a Council's strategic objectives.

21. There is also a significant risk relating to the dependency a council might have on the organisation to fulfil obligations in the event of an ALEO failing. This would typically take the form of additional funding or a service being brought back 'in house'. The council is in effect the 'lender of last resort' and/ or the service provider 'of last resort', particularly for statutory services. In addition there is a significant reputational risk to a council in event of an ALEO failure.

Who scrutinises ALEOs and how?

22. The scrutiny of ALEOs takes a variety of forms and depends on the nature and size of the operation.

23. The ALEO itself should have the following arrangements in place:

- internal management arrangements for finance and performance
- summaries of these would typically be reported to the ALEO's Board
- often the Board will include elected members from the council
- the ALEO appoints an external auditor.

24. The council, as the 'commissioner' of the service should have the following arrangements in place:
- some form of contract/ SLA setting out objectives and financial and service performance reporting arrangements
- reports from the ALEO should be considered by a committee of the council
- summary information about the consolidated ALEO appears in the council's group accounts
- the council's internal audit team has access to the ALEO.

25. The appointed auditor considers ALEOs through the financial audit of the group accounts. Auditors comply with ISA600 which relates to the audits of group financial statements, including the work of component auditors. This includes:

- understanding the group, its components and their environments
- understanding the component auditor
- materiality
- assessment of risk
- the consolidation process itself
- communicating with the component auditor
- evaluating the audit evidence obtained
- communication with group management and those charged with governance of the group.

26. The external audit opinion applies to the group financial statements.

27. The accounting code specifies that group accounts do not need to be prepared where an authority's interests are not material. It is not clear, however, whether this relates to interests in aggregate or in relation to individual entities.   In the interests of good governance, and for consistency with the private sector, CIPFA recommends that, if group accounts are required, all entities should be included rather than omit individual entities. This is on the basis that pursuing business objectives through other entities introduces a risk that will almost always be material from a qualitative point of view.

28. ALEOs can also be the subject of scrutiny by other agencies, including:

   • OSCR – for charities/ trusts
   • SPSO – who have a remit to investigate services provided 'on behalf of' a council
   • The Care Inspectorate – for ALEOs which deliver care services
   • Scottish Information Commissioner – under recently tabled proposed changes to FOI legislation which extends to cover leisure trusts.

29. The wide range, structure and size of ALEOs means that the amount, quality and rigour of scrutiny may vary considerably in practice. As a result, there are risks in terms of:

   • the transparency of the use of public funds
   • the assurance offered by public scrutiny bodies, including the Accounts Commission on the cost and quality of services
   • an assumption by the public that public services would be maintained, even if an ALEOs were to fail.

Summary points

30. The range, nature and scale of services delivered through ALEOs have all increased substantially since the following the public pound code was drawn up in 1996.

31. The size and nature of ALEOs varies from multi million pound/ quasi commercial operations, like City Buildings (Glasgow), the SECC and Lothian Buses to small scale joint ventures which are not material enough to feature in a council's group accounts.

32. ALEOs are subject to various forms of scrutiny, but they do not fall directly within the public audit model in the same way as directly delivered services. This presents a degree of risk.

33. The principles of 'following the public pound' are sound. The challenge is to ensure that scrutiny and audit provide sufficient assurance to stakeholders while remaining proportionate and not compromising the flexibility which underpins the original raison d'etre for ALEOs.

Next steps

34. We already have work planned which has some relevance to this issue, including:

- consideration of the ways in which to share information with the Commission on which councils have ALEOs, the size of the operations and the services they provide (FAAC 30 May 2013)
- a 'How Councils Work' report on options appraisal (project brief agreed by PAC and FAAC May 2013)
- a report on shared services , using case studies as appropriate, examining current practice in relation to the use of option appraisal; and costs and benefits of different methods of delivery of services (PAC May 2013).

35. The Commission may wish to consider:
- what further information it requires to gain assurance on the effectiveness of the scrutiny of ALEOs
- how it might engage with interested stakeholders, including COSLA, SOLACE and Scottish Government officials to explore the potential 'scrutiny deficit' further.

36. This could then lead to:

- a review and refresh of the 1996 FTTP code, in conjunction with COSLA
- a compliance check against the renewed code at a future date

Recommendation

37. The Commission is invited to note report and advise what it wishes the next step to be.

Fraser McKinlay
Controller of Audit
12 June 2013

ACCOUNTS COMMISSION

MEETING 20 JUNE 2013

REPORT BY CONTROLLER OF AUDIT

ANNUAL TRANSPARENCY AND QUALITY REPORT

1.   Purpose

The purpose of this report is to provide the Commission with assurance about the quality of audit services delivered on its behalf by Audit Scotland and the professional firms. The report is attached.

2.   Background

In previous years Audit Scotland has produced an annual report on audit quality as part of the assurance provided to the Audit Scotland Audit Committee and Board prior to the signing of the annual report and accounts and governance statement.

In 2012/13 Audit Scotland revised its Corporate Quality Framework which is also attached for information. This framework requires a broader Transparency and Quality report which includes information about the structure and governance of Audit Scotland as well as information on quality.

Transparency reports are required to be produced by major audit firms and are increasingly being produced on a voluntary basis by UK audit agencies including the NAO (from late 2012) and the Audit Commission (until 2012).

3.   Overall conclusion

The conclusion in the report is that "Overall, on the basis of the arrangements in place and activity for the year, it is reasonable to conclude that Audit Scotland and the private firms continue to provide the Auditor General and the Accounts Commission with high quality work".

4.   Recommendation

The Commission is requested to discuss the report and to note its conclusion.

Russell Frith
Assistant Auditor General
12 June 20123

Transparency and Quality Report

2012/13

June 2013

Contents

Introduction

1. Audit Scotland carries out financial and performance audits on behalf of the Auditor General for Scotland and the Accounts Commission. In carrying out this work Audit Scotland seeks to be transparent in its governance and operations and to produce consistent high quality audits.

2. Audit Scotland's Quality Framework, which sets out the high level principles underpinning the quality of our work, was updated in 2013 following publication of the Corporate Plan 2012-15 *Priorities for 2013.* The revised Framework takes account of a number of national and international initiatives and publications including the International Audit and Assurance Standards Board's *A Framework for Audit Quality* (2013) and the Financial Reporting Council's *Professional Scepticism* (2012). The revised Framework 2013 requires that the annual quality report for 2012/13 onwards takes the form of a *Transparency and Quality Report* in line with best practice for auditors of public listed entities in the private sector.

3. This fourth annual report therefore combines information on the overall structure and governance of Audit Scotland (*transparency*) with information on the arrangements in place for producing high quality work, by Audit Scotland and the appointed firms, in the services provided to the Auditor General and the Accounts Commission (*quality*). The report is prepared for Audit Scotland's Audit Committee to provide assurance to it and to the Board prior to the sign-off of the Annual Report and Accounts.

4. Audit Scotland is a statutory body established under the Public Finance and Accountability (Scotland) Act 2000 to carry out audits and examinations for the Auditor General for Scotland and the Accounts Commission. The Auditor General audits or appoints the external auditor of most public bodies in Scotland except for local authorities where the Accounts Commission is responsible for securing audits.

5. The work undertaken in 2012/13 covers over 200 organisations including:

   • 77 central government bodies (Scottish Government, non-departmental public bodies, agencies and others)

   • 23 NHS bodies

   • 32 councils

   • 11 local government pension funds

   • 45 joint boards and committees (including police and fire and rescue services)

   • 37 further education colleges

   • Scottish Water

6. Audit Scotland supports the Auditor General and the Accounts Commission to ensure public money in Scotland is used properly, efficiently and effectively. It does this by carrying out financial, performance and Best Value audits for the organisations listed above whose total annual spend is approximately £40 billion per annum.

7. A glossary has been included at the end of the report to assist the reader in understanding the acronyms and terms used in the report.

Transparency

Vision, Values and Priorities

Vision

8. Audit Scotland's Corporate Plan 2012-2015 sets out our vision to be a world-class audit organisation that improves the use of public money. The organisation's key function is to provide independent assurance to the people of Scotland that public money is spent properly and provides value for money.

Values

9. Audit is at the heart of the work carried out by Audit Scotland staff. The principles which guide this work are set out in the Code Of Audit Practice:

- Auditors are independent of the organisations that they audit
- Public audit is wide in scope to reflect the accountabilities attached to the use of public money
- Audits are based on comprehensive risk assessment
- Reports are made public
- Auditors work in partnership with each other
- Auditors work collaboratively with other scrutiny bodies
- Auditors work as catalysts to help public bodies improve their performance
- Audits are carried out to a high standard using skilled and experienced staff
- Audits are informed by assessment of costs and benefits and achievement of Best Value or value for money
- Auditors balance confidentiality and information security with public accountability and freedom of information

10. During 2012 Audit Scotland refreshed its values following consultation with staff. The core values derived from these discussions were:

- Independence and integrity: these values are integral to the credibility of the audit and it is important that auditors exhibit appropriate values, ethics and attitudes when carrying out their work
- Valuing people: we empower and support our staff to be engaged, highly skilled and perform well

- Quality: we systematically improve the quality and impact of our work - our arrangements for securing high quality are described in this report

- Cooperation: we work together as one organisation

- Great communication: we seek out and manage information and intelligence to deliver excellent audits.

Priorities

11. The Corporate Plan priorities for 2013 focus on developing the quality and sustainability of our work with the launch of specific projects as follows:

- A review of audit expectations to help maximise the impact of our work

- A review of Audit Services Group's (ASG) audit methodology to streamline audit work

- Development of an audit intelligence function to improve the use of data and judgements made.

Governance and Structure

Governance

12. Audit Scotland is governed by a five-member board which has overall responsibility for the strategic direction of the organisation and for approving significant policies. The Board oversees our work and seeks to ensure high standards of governance and management. The Board members are:

- An independent chair, Ronnie Cleland, and two independent non-executive members, Katharine Bryan and John Maclean, who are appointed by the Scottish Commission for Public Audit (SCPA)

- The Auditor General for Scotland, Caroline Gardner who is also the Accountable Officer for Audit Scotland. She is independent of the audited bodies and was appointed by the Crown for a fixed term of eight years from 1 July 2012

- The Chair of the Accounts Commission, John Baillie: the Accounts Commission is responsible for local authority audits and is independent of local government; the Chair and Commission members are appointed by Scottish Ministers

13. The SCPA, a parliamentary body, scrutinises Audit Scotland's budget, annual report and accounts and appoints an external auditor.

14. The Board is supported by two committees:

- An audit committee which supports the Board by reviewing the internal controls, risk management processes and governance arrangements. The committee oversees the appointment of internal auditors and considers the Annual Report and Accounts and reports from both internal and external auditors

- A remuneration and human resources committee which supports the Board in determining the remuneration of management team members and the remuneration

policies for all staff. The remuneration of the Auditor General is set by the Scottish Parliamentary Corporate Body.

15. A management team of seven oversees Audit Scotland's day-to-day operations. The members are:

   - Caroline Gardner, Auditor General for Scotland

   - Diane McGiffen, Chief Operating Officer, who chairs the management team meetings and is responsible for Audit Scotland's internal operations and business performance

   - Russell Frith, Assistant Auditor General, who is responsible for the external strategic and development work of financial audit, as well as auditing and accounting standards, technical support and quality assurance; he is also our designated Ethics Partner

   - Fraser McKinlay, Director of Best Value and Scrutiny Improvement, who is also Controller of Audit and manages the Best Value (BV) and Scrutiny Improvement Group (BVSIG)

   - Fiona Kordiak, Director of Audit Services, who is responsible for the in-house audit services provided by ASG to the health, central, further education and local government sectors; she is also our designated ethical compliance partner

   - Barbara Hurst, Director of Performance Audit, who manages the Performance Audit Group (PAG)

   - Lynn Bradley, Director of Corporate Programmes, who is responsible for key areas of development including corporate knowledge and information management and corporate performance reporting.

16. Audit Scotland's stakeholders are:

   - The Scottish Parliament

   - The people of Scotland

   - The Scottish Government

   - All Scottish public organisations.

Operational Structure

17. During 2012/13 Audit Scotland was structured around five business groups as follows:

   - Audit Services Group (ASG) which carries out annual risk-based audits on a five year appointment cycle

   - Audit Strategy whose key responsibilities are audit procurement, technical guidance and support, reviewing and reporting on audit quality, coordination of the National Fraud Initiative exercise in Scotland and delivering benefits performance audits for local government

   - Best Value and Scrutiny Improvement (BVSIG) which carries out Best Value (BV) audits of local authorities, scrutiny improvement including shared risk assessments, Community Planning Partnership (CPP) audits and public and overview reporting

- Corporate Services which includes staff in communications and media, finance, information services, human resources and organisational development, facilities management and business support

- Performance Audit Group (PAG) which is responsible for delivering the Auditor General and Accounts Commission's programme of national performance audits

18. During 2013/14 BVSIG and PAG will be combined to form a single group to focus on performance related audit work.

19. Appointments to carry out annual audits are split between ASG staff and seven private firms; the latter carry out just under half of these engagements. The appointments are made by the Auditor General or the Accounts Commission for a period of five years with the current appointments ending with the 2015/16 audits. The Appendix contains a break-down of sector appointments by firm.

20. Audit Scotland has a workforce of approximately 260 whole-time equivalent staff, over half of whom are in ASG. Staff are based at our offices in Edinburgh, East Kilbride (Glasgow from May 2013) and Inverness.

Finances

21. Audit Scotland submits annual budget proposals to the SCPA for consideration. The SCPA takes evidence in public on the proposals and then makes a report to the Scottish Parliament as part of the annual Budget Act approval process.

22. Audit Scotland's activities are funded through direct funding from the Scottish Consolidated Fund (2012/13: budget £6.5 million) plus audit fees paid by the audited bodies, bank interest and miscellaneous income (2012/13: budget £18.1 million).

23. We embarked on a four-year plan in 2010 to reduce the cost of audit by at least 20% in real terms by 2014/15 and over the three years to the end of 2012/13 we have delivered a cumulative real term reduction in fees of 22.6%.

Quality

The components of a quality audit

24. In keeping with our vision to be a world-class audit organisation, we have revised our Corporate Quality Framework to take account of the five elements of a quality audit set out in the International Audit and Assurance Standards Board's (IAASB) A Framework for Audit Quality which was issued in 2013. The Framework states that:

> **A quality audit is likely to be achieved when the auditor's opinion on the financial statements can be relied upon as it was based on sufficient appropriate audit evidence obtained by an engagement team that:**
>
> - Exhibited appropriate values, ethics and attitudes
> - Was sufficiently knowledgeable and experienced and had sufficient resources allocated to perform the audit work
> - Applied a rigorous audit process and quality control procedures
> - Provided valuable and timely reports and
> - Interacted appropriately with a variety of different stakeholders

Source: IAASB, A Framework for Audit Quality, Consultation Paper, IFAC, January 2013, Para 18

25. Our revised Quality Framework sets out how these important components are relevant to Audit Scotland's work. Key quality appraisal activities such as biennual audit quality surveys issued to audited bodies for feedback and internal or peer reviews of our work provide assurance on these criteria. The remainder of this report describes in more detail how we demonstrate these elements across our business groups through the quality control arrangements which have been put in place and the results of quality control activities during the year.

Quality arrangements

26. As was noted in the Transparency section of this report, our staff consider quality as one of the core values underlying the work which they carry out. Our Corporate Plan confirms our commitment to systematically improve the quality and impact of our work. This commitment is embedded in our Quality Framework document which sets out the following principles:

- Quality is the responsibility of everyone in Audit Scotland
- Our approach to quality will drive continuous improvement across Audit Scotland
- Quality will be assessed in terms of outputs, outcomes and impact, as well as inputs and processes

27. The overall quality framework is shown in the diagram below:
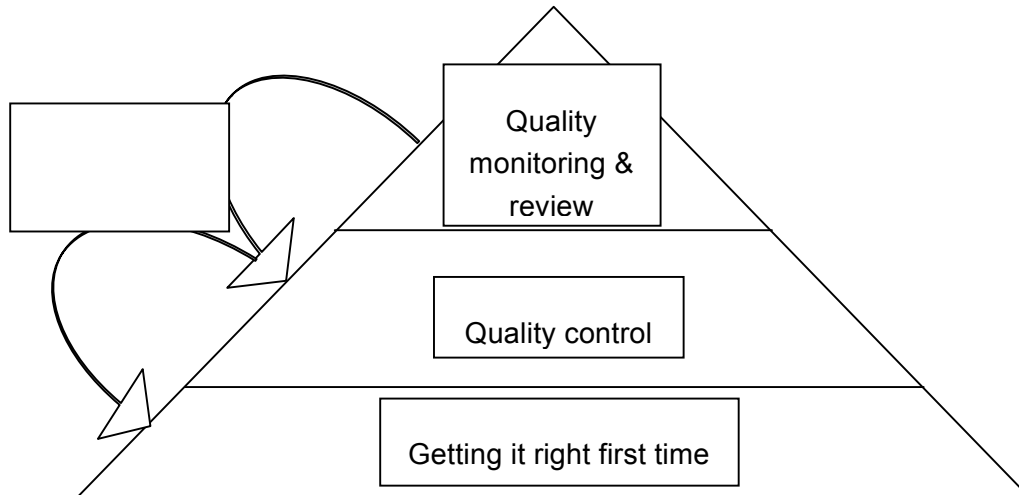
28. Getting it right first time is key to Audit Scotland being a high quality, efficient and effective audit organisation and requires that quality is embedded in all our thinking, our processes and our activities. Each member of staff in Audit Scotland has a responsibility to get it right first time, and needs to demonstrate a commitment to quality in everything they do.

29. Quality control refers to quality management during an audit or project. It may involve peer review and in some cases external input. There are four principal characteristics of quality control:

   • Review at regular intervals by staff internal or external to the organisation

   • Regular internal challenge sessions

   • Formal assessment of adherence to local quality processes

   • Proportionality of quality control activities to maximise the quality and efficiency of work and allow staff to retain a sense of ownership.

30. Quality monitoring and review which ensures that all types of audit work is reviewed and lessons are learned and used to improve our processes and methodologies. The activities undertaken as part of quality control and quality monitoring and review are described in more detail in the sections below on quality arrangements and results of quality control activity.

31. Our Corporate Plan priorities for 2013 confirm that we will continue to develop professional and ethical requirements in line with international developments and make sure they inform all of our judgements. We have revised our quality framework to reflect our vision and priorities and focus on professional scepticism, making reports valuable and our use of resources.

32. Business groups are responsible for establishing the quality arrangements for their activities including the processes for getting it right first time, quality control and quality monitoring and review. Key documents are available to staff on the Audit Scotland intranet.

33. The Corporate Quality Group supports the maintenance of the Corporate Quality Framework and the preparation of this Transparency and Quality Report. With representatives from each business group, it co-ordinates and shares best practice in quality monitoring and review and

supports each business group's quality control and monitoring procedures. These arrangements are described in detail in the Appendix to this report.

34. The following sections of the report outline the results of our quality control activity during 2012/13 and developments in audit quality arrangements taking place in each business group.

Results of Quality Assurance Activity

Audit Services

Internal Quality Monitoring Reviews

35. In 2012 ASG Management Team agreed that a five year cycle of 'cold' reviews would be developed to align with the current 2011-16 audit portfolio timescales. Cold reviews are comprehensive audit reviews undertaken by the Quality Monitoring Team (QMT) or partner-body (see below) after publication of the annual audit report. A total of eight audits were selected for coverage in this first year of the programme, based on a combination of the risk profile of the audit, planned coverage of engagement leads and a mix of sectors.

36. The QMT undertook six of these cold reviews in February/March 2013, with the Welsh Audit Office (WAO) and Northern Ireland Audit Office (NIAO) undertaking a review each, as part of the reciprocal arrangements developed in 2012.

37. For all eight reviews, the overall conclusion was that the audits were completed in compliance with International Standards on Auditing and ASG's Audit Guide in all material respects. However, a number of areas for improvement were identified by the reviewers across all audits and action plans put in place to implement the improvements.

38. The main recurring issues which came up in a number of the reviews were:

   • Late approval and closure of files

   • Improvements required in the team risk discussion process

   • Improvements required to the process for tracking identified risks

   • Inadequate documentation of the sampling approach.

39. The key messages from the reviews will form part of the annual technical update sessions for all ASG staff and will be reinforced within ASG. 'Hot' reviews for 2012/13 commenced in April 2013 and include a focus on the issues identified through the cold review process. A hot review takes place during the live audit process and examines audit judgements and risks.

Engagement Peer Reviews

40. ASG's Audit Guide sets out the criteria for an audit to be considered for an engagement peer review under ISQC1. Twelve 2011/12 audits met the criteria for a peer review. In each case, the peer reviews were completed in a timely manner and confirmed that the audit opinions were appropriate.

Audit Strategy

Financial Reporting Council Audit Quality Review Reports

41. The Financial Reporting Council's (FRC) Audit Inspection Unit (AIU) carries out annual audit quality inspections. The AIU issued public reports in June 2012 for three of the seven firms which undertake audits for the Accounts Commission and the Auditor General:

     • PricewaterhouseCoopers

     • Deloitte

     • KPMG.

42. The reports cover a review of the firm-wide systems and processes for ensuring audit quality, and a sample of their audits of public interest entities. The AIU did not include Grant Thornton in the 2011/12 review but this firm is scheduled to be reviewed in 2012/13. The AIU has also produced an annual report summarising all of its inspection work. This brings together common findings and examples of good practice.

43. The three firms' public reports show a similar performance as the whole population inspected by the AIU, with 50% of the audits sampled being assessed as *good with limited improvements required,* 47.5% as *acceptable overall with improvements required*, and 7.5% *requiring significant improvement.* The firms have formally accepted the AIU's recommendations for improvement and the AIU has recommended to the Audit Registration Committees of the relevant professional accountancy bodies that their audit registrations should continue.

44. The results of the AIU's inspection work provide Audit Strategy with additional assurance over the quality of audit work carried out by three firms who collectively audit approximately one quarter of our audited bodies.

45. The FRC underwent restructuring in 2012 and the AIU has been replaced by the Audit Quality Review Team which will continue to carry out the audit quality inspections for 2012/13.

The Institute of Chartered Accountants of Scotland Audit Monitoring

46. The three appointed firms outwith the AIU inspection scope (Scott-Moncrieff, Wylie & Bisset and Henderson Loggie) are registered by the Institute of Chartered Accountants of Scotland (ICAS) to carry out audit work and thereby fall within its audit monitoring responsibilities (as do the four larger firms covered by the AIU). ICAS's Annual Audit Monitoring Report for 2012 was reviewed and the overall outcomes from the 40 monitoring visits ICAS made to firms were analysed. 67% of firms (not named) visited had satisfactory outcomes in terms of no or minimal follow-up action being requested. 20% of firms were required to submit further evidence of action taken and 13% were deemed unsatisfactory (none of our appointed firms fell into this category) and have had conditions and/or restrictions imposed on them. The report reflects a robust monitoring process and provides Audit Strategy with assurance over the quality of audit work provided by all seven firms.

Firms' own quality control results

47. Firms carry out their own internal audit reviews each year and Audit Strategy request copies of any reports issued from these activities and review them. During 2012/13 three such reports were received relating to public sector audits procured for the Auditor General or Accounts Commission. The findings from the review were satisfactory in terms of the quality of the internal review work carried out.

Review of audit outputs

48. A sample of annual audit reports was reviewed by Audit Strategy for their compliance with the Code of Audit Practice, and as an assessment of the quality of reporting to the audited bodies. For the 2011/12 audits, one report for each audit provider for each sector was reviewed.

49. The key findings from the product read exercise were that reports were on the whole compliant with the Code and were of a good quality. Examples of good and poor practice will be reported back to auditors in time to be addressed for the 2012/13 annual reports.

Audit service quality surveys

50. Audit service quality surveys were issued to all health bodies (23) and further education (FE) colleges (31) asking for feedback on the 2011/12 audits. Response rates were 65% and 52% respectively.

51. The key indicators are:

- What audited bodies thought of the quality of service provided by the auditors
- Whether the audit had made an impact on the bodies in the four areas defined in our corporate impact framework (note that the FE survey was updated to reflect the changes to this framework)
- Whether relevant national performance reports had had an impact on the body.

52. A summary of the responses received is shown in the tables below. The feedback was significantly positive in terms of the quality of audit service delivered and the impact of audit and national performance reports. The results on impact are more mixed and are being analysed further to identify areas for attention and improvement. The survey instrument is revised every five years and therefore limited direct comparison can be made to the previous health and FE surveys from 2009/10; for those aspects where comparison is possible, the 2009/10 figures are shown in brackets.

Table 1: Health Bodies

	% positive responses (09/10 comparators)
Overall quality of service	100 (94)
Impact of audit on:	
Assurance & accountability	93 (94)
Planning & management	73 (87)
Economy & efficiency	60 (71)
Effectiveness & quality of services	67 (64)
Overall audit impact	87 (Finance Directors) 93 (Audit Committee Chairs)
Impact of national performance report (s)	65

Table 2: FE Colleges

	% positive responses (09/10 comparators)
Overall quality of service	88 (100)
Impact of audit on:	
Financial sustainability	50
Transparency of reporting (financial & performance)	88
Value for money	19
Governance & financial management	75
Overall audit impact	75 (Finance Directors) 94 (Audit Committee Chairs)
Impact of national performance report (s)	75

Output monitoring

53. Table 3 below sets out the key outputs from each sector for the audits of the 2011/12 financial statements:

Table 3: Outputs

	LG	**Health**	**CG**	**FE**
Audit opinion on time	30 September 12 86/88 (98%)	30 June 12 20/23 (87%)	31 October 12 65/73 (89%)	31 December 12 1/37 (3%)
Annual audit report on time	31 October 12 77/88 (88%)	31 July 12 23/23 (100%)	30 November 12 65/73 (89%)	31 December 12 1/37 (3%)
Accounts sent for laying on time	N/A	31 December 12 23/23 (100%)	31 December 12 73/73 (100%)	30 April 13 35/37 (95%)

54. The delays in submitting audit certificates and annual audit reports in the FE sector was due to a regulatory query regarding the colleges' financial year-end which was not resolved until January 2013. The statutory deadline for laying accounts was met in all but two cases.

55. During 2012/13, PAG delivered 14 reports against a target of 10-12 and BVSI delivered 8 Best Value reports against a target of 5-8.

Oversight of acceptance of non-audit work

56. Audit Strategy oversees any requests by auditors to carry out additional work outwith the external audit. These requests must be made to Audit Strategy in writing and be accompanied by express assurance that the designated Ethics Partner has reviewed the proposed work and does not consider it to pose any threats to the auditors' independence.

57. During the year Audit Strategy has given approval to a small number of such requests, having assessed them against current Ethical Standards and obtaining assurance that the independence of the external auditors would not be compromised.

Respond proportionately to complaints about auditors and audit work

58. A new complaints process was introduced by Audit Scotland during 2012/13 which conforms to the complaint handling procedures set out by the Scottish Public Services Ombudsman. Complaints are systematically analysed, investigated and reported to Management Team and the Board. Two formal complaints were considered during the year: following due consideration, neither was upheld. There have been no complaints by audited bodies about

the quality of work undertaken by auditors this year. This is an important element of our overall assurance on the quality of auditors' work.

Consideration of conflicting audit judgements between auditors

59. There have been no significant conflicting judgements between auditors this year. Guidance on key technical matters to inform auditors' judgement has been provided by the Technical Services Unit (TSU). In addition, in the course of the year, there have been regular sectoral meetings and technical forums involving auditors from each of the four sectors where emerging or contentious technical issues were discussed.

Independent reviews of audits by Audit Strategy

60. Monitoring of the quality of audit provision during 2011/12 has not highlighted any audits requiring an independent review by Audit Strategy. Two specific issues have emerged from events occurring in 2012/13 which will be reviewed in 2013/14 to assess whether any improvements in audit quality can be made.

Best Value and Scrutiny Improvement

61. The review of quality assurance (QA) arrangements for the main audit work in BVSI has consolidated the QA arrangements during 2012/13.

62. The existing QA arrangements for BV audits in councils, police and fire were refined to support the delivery of the audits of the three CPPs carried out during 2012/13. The lessons learned reviews, which are carried out at the end of each piece of audit work, are used to inform future audit work.

63. During 2012/13 members of the Accounts Commission met with representatives of ten audited bodies following the publication of audit reports. The meetings focus on key audit findings, the audited bodies' response to those issues and feedback from the audited bodies on the audit process itself. Feedback from the audited bodies has been positive and constructive.

Performance Audit

64. Partner audit agencies completed reviews of three of PAG's published reports in the year. The findings were generally positive, with particular emphasis on the effective use of clear language, the flow of recommendations from the audit findings and efforts to apply the findings and recommendations to the wider public sector. Areas for potential improvement included whether particular findings could have been given more emphasis and possible improvements to structure.

65. PAG held one review of project reviews during the year. This looked at overall findings from all project reviews completed since PAG introduced the process. The review indicated that there had been improvements in many areas over time, but that some issues persisted – many of the persistent issues had already been identified through the 'lean' review discussed under 'developments' below, and actions identified to address them. In other cases, the review

found some issues would always be present, and that awareness of them, and appropriate risk mitigation, was the best way to address these.

66. External expert review of three questionnaires issued in the period led to improvements in the approach used and the final questionnaire design. In all cases, the audit teams reported that responses had been secured more easily and were more complete. PAG's Management Team considered the results and agreed PAG should undertake similar reviews, using external experts, for a further eight questionnaires.

Developments in Audit Quality Arrangements

Audit Services: Developments

67. ASG has a well established framework for delivering audits which complies with relevant auditing standards. In 2013 the opportunity is being taken to develop a lean improvement approach, aimed at improving workflow and eliminating waste in the planning and risk assessment process, while maintaining full compliance with relevant auditing standards and meeting stakeholder expectations. A short life working group has been put in place, consisting of members of the Business Improvement Unit (BIU), Professional Standards Group (PSG), QMT and other staff providing a broad representation from across ASG, to roll out the lean review. A series of roadshows are being delivered to staff to encourage feedback on any changes to the approach before adoption of a revised methodology.

68. During 2012 the BIU successfully adopted some changes to the overall audit approach through a review of electronic audit programmes. These changes, together with the adoption of the leaner planning and risk assessment process will be incorporated into a revised Audit Guide, with a target date for revision of October 2013.

69. The QMT is continuing to develop its reciprocal arrangements with the NIAO and WAO and will be maintaining on-going dialogue to learn lessons from these arrangements and to explore further development opportunities.

70. During 2013 the QMT will review ASG's quality monitoring framework and programme of work to move beyond process to culture and judgements. ASG aims to ensure an appropriate focus and coverage of audit judgements and professional scepticism and will develop training to cover essential auditing skills.

Audit Strategy: Developments

71. Audit quality surveys for the health and FE sectors were revised during the year. Survey questions were varied to incorporate both positive and negative phrasing and extended to elicit comments on PAG reports.

72. Transparency reports published by the larger firms were obtained and reviewed to ensure the information within them was consistent with our own understanding of quality arrangements within the firms which provide external audit work for the Auditor General and the Accounts Commission.

73. ASG extended its audit output monitoring to cover audit plans for 2012/13; all audit plans for the local government sector were reviewed and analysed to identify examples of good and poor practice with findings being provided to auditors.

74. Technical guidance and practical assistance to inform the judgement of auditors was provided by the TSU. Visits to ASG super teams were arranged by Audit Strategy in order to inform audit staff about the quality work being undertaken and to disseminate initial findings from that work. Feedback from this work is also to be provided to the firms.

Performance and Best Value Audits: Developments

75. During 2013/14 the group will be reviewing a range of its core areas of work and this will include an assessment of the quality assurance arrangements as follows:

   • For BV audits, a review of the BV audit methodology in the light of the introduction of the CPP audits

   • For CPP audits, an independent review of the new audit approach will be completed by May 2013. This report will inform any improvements in audit approach for the next series of CPP audits

   • For the shared risk assessment (SRA) process, a strategic review including consideration of locality based scrutiny, information and intelligence, capacity building and the core risk assessment process

   • An independent review of correspondence procedures will be completed by May 2013. This report will inform any improvements in how the group deals with the changing nature of correspondence it receives

   • For statutory performance indicators (SPIs), there will be development of the quality assurance framework for verifying public performance reporting (PPR) and SOLACE benchmarking data from 2013/14 onwards.

76. More generally, the group will be strengthening its audit review framework during 2013/14 to provide a more consistent and comprehensive approach to learning lessons from its work to support continuous improvement.

77. During 2012/13, PAG undertook work on a number of improvement projects. The most significant projects were:

   • "Lean" training and review – PAG used an external expert to facilitate a review of its performance management framework in January 2012. The purpose of the review was to identify where there may be scope for improvements in the process used by PAG to carry out its performance audits. PAG developed an action plan for 2012/13 to facilitate a number of changes and improvements. The outcome will be evaluated in the first quarter of 2013/14.

   • Data and statistical analysis – following awareness training for all staff, PAG developed specific guidance on using statistics and data, to support staff in their efforts to make effective use of both existing data and data gathered during audits.

- Benchmarking – PAG has agreed with the other UK audit agencies a small set of indicators to benchmark performance on costs and processes. Information for 2012/13 will be collated and shared during 2013/14.

Conclusion

78. Overall, on the basis of the arrangements in place and activity for the year, it is reasonable to conclude that Audit Scotland and the private firms continue to provide the Auditor General and the Accounts Commission with high quality work.

79. In particular, the quality appraisal work carried out by Audit Strategy on the work of the firms and ASG has confirmed that each auditor:

- Understands and complies with the Ethical Standards in force during the course of the audit and is independent of the audited body

- Has the required professional competence to carry out the audit in accordance with relevant standards and the Code of Audit Practice

- Operates in a regulatory environment that actively oversees auditors

- Has delivered audit opinions that can be relied upon

- Delivered timeous reports which have met the needs of a majority of key stakeholders

The audits undertaken by ASG and the firms would therefore satisfy IAASB's definition of a quality audit (as per section 24 above).

80. The report demonstrates that arrangements across Audit Scotland's working groups are continuing to develop, with the aim being to ensure that our quality monitoring framework remains effective.

Appendix: Quality Arrangements

This appendix summarises the quality arrangements in place across the organisation.

Audit Services: Quality arrangements

ASG has had a quality framework in place since 2005, which reflects the corporate quality framework. ASG's framework covers financial audit, ethical and quality standards as required by the FRC. The foundation of ASG's quality framework is the ASG Audit Guide, which incorporates the application of professional auditing, quality and ethical standards together with the Code of Audit Practice, into an audit methodology which is used across all audits in ASG. The audit guide is supported by a number of guidance notes on specific issues such as audit testing guidance.

The PSG, which consists of staff members from across ASG and reports directly to ASG's Management Team, oversees the development of the Audit Guide and the integration of any new standards into ASG's audit approach.

In addition to complying with the Audit Guide, auditors are required to complete audit engagements using a software tool called MK Insight, an electronic working paper package which allows auditors to document their work to provide evidence of compliance with relevant auditing standards. The package also incorporates appropriate levels of supervision and management.

International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. An updated ISQC1 arrangements questionnaire, describing the quality control and quality monitoring arrangements in place within ASG, was completed and submitted to Audit Scotland's Audit Strategy Group in 2012, in support of its quality appraisal process.

As part of the system of quality control, ISQC1 states that an engagement quality control review, known in ASG as a Peer Review, should be performed for all audits meeting certain criteria. ASG Management Team has set out the criteria, which include among other things the size of fee, risk, and previous or anticipated qualified opinions on the financial statements.

Peer reviews involve discussion with the appointed auditors, a review of the financial statements and supporting information, and consideration of whether the proposed opinion is appropriate. ASG Management Team nominate peer reviewers from the assistant directors group to carry out the reviews – peer reviewers have no involvement with the audit in the current or recent financial years, in line with ASG's rotation policy.

ASG operates a rotation policy which complies with the Ethical Standards. The policy is designed to reinforce auditor independence by rotating key senior staff every five years and thus protect against threats to independence such as over-familiarity with management at an audited body. ASG staff must complete an annual fit and proper declaration which covers time spent on particular audits as well as compliance with Audit Scotland's Code of Conduct.

The QMT, which is led by experienced senior staff, work closely with the PSG. Each year the team undertakes 'hot' and 'cold' reviews of audits. Hot reviews are carried out during the live audit process, focusing on judgements and risks and ensuring that audits are carried out in accordance with ASG's Audit Guide. Cold reviews are undertaken after the issue of the audit report and cover the same issues, but with additional work which looks more broadly at the wider conduct of the audit including the soundness of the audit opinion and the impact on the public body. A programme of cold reviews has been developed which aims to ensure that all financial audit engagement leads are subject to review over the portfolio appointment period. The QMT reviews enable the team to report on areas for improvement, training needs and good practice.

A programme of external monitoring is also in place, which includes cold reviews of audits, as well as considering compliance with quality control standards. The last external cold review programme was undertaken by ICAS and was completed in February 2012. As part of this review, ICAS concluded that ASG's quality control arrangements, in conjunction with the Audit Guide and the Code of Conduct, were considered generally effective and appropriate for the organisation. ICAS is due to conduct a further review in 2014.

For the 2011/12 cold reviews external monitoring was developed further, with reciprocal review arrangements put in place with both the NIAO and the WAO. These arrangements allowed for two of the audits selected as part of the 2011/12 cold review programme to be subjected to an independent review.

The work of the PSG and the QMT, along with findings from external monitoring, feeds into the annual learning and development plan which incorporates mandatory annual practitioner updates for all ASG staff. These annual update sessions provide training on changes to the Audit Guide and developments in auditing and professional standards.

Appointed Firms: Quality arrangements

At the start of the five year audit cycle in 2011/12, all the appointed audit firms were also required to complete a detailed questionnaire setting out how their quality arrangements complied with ISQC1. As part of this initial process, the firms and ASG submitted details of their internal quality monitoring activity for the audits which they would carry out under their appointment by the Auditor General for Scotland and the Accounts Commission.

Where firms plan to undertake any non-audit work for the audited bodies to which they have been appointed, they must declare to Audit Strategy that they consider such work permissible under Ethical Standards. Audit Strategy reviews any such assertions and permits non-audit work only where it agrees that the work is consistent with Ethical Standards. This review enhances the independence and ethical conduct of the audits.

The firms involved in auditing bodies under appointment from the Auditor General and the Accounts Commission in 2012/13 are:

No of audit appointments: Firm	Central Government	Local Government	Health	Further Education	Total
KPMG LLP	9	9	0	6	24
PWC LLP	10	7	4	0	21
Scott-Moncrieff	1	2	7	7	17
Grant Thornton UK LLP	5	6	0	4	15
Deloitte LLP	1	6	3	0	10
Henderson Loggie	0	0	0	6	6
Wylie & Bisset LLP	0	0	0	6	6
Total	26	30	14	29	99

Audit Strategy: Quality arrangements

Audit Strategy carries out a quality appraisal function for all financial audits conducted under appointment from the Auditor General for Scotland and the Accounts Commission by the firms and ASG. This work is described in detail in Audit Strategy's Quality Appraisal Framework which was approved in May 2012.

The principal objectives of the quality appraisal work are to:

• Provide assurance to the Auditor General and the Accounts Commission on the quality of audit work undertaken

• Promote improvements and good practices in auditing

Audit Strategy carries out a number of activities in its monitoring role:

• Reviews firms' and ASG's quality arrangements including Transparency reporting by firms

• Reviews external assurance, in particular reports issued by the FRC's Audit Quality Review team (formerly the AIU) on professional firms as well as monitoring reports produced by ICAS and ICAEW

• Reviews and assesses audit outputs, giving feedback to firms on examples of good and bad practice

- Issues and reports on audit quality surveys, audited bodies in each sector being asked for their views every two years and findings being relayed to auditors and to the Management Team

- Monitoring audit outputs for timeliness and completeness

- Oversight of acceptance by firms of non-audit work

- Responding proportionately to complaints about auditors

- Considering the impact of conflicting audit judgements between auditors

- Independently review audits

Each of these activities is expanded upon in the 'Results of Quality Control Activity' section in the main body of the report.

None of the measures in place provides absolute assurance for any of the elements of the quality appraisal framework. However, absolute assurance cannot be gained, nor is it an aim of the framework to do so.

Best Value and Scrutiny Improvement: Quality arrangements

Best Value and Scrutiny Improvement's (BVSI) work is managed under a Best Value Quality Framework. The framework covers the wide range of work covered by the group including:

- Shared Risk Assessment (SRA) process

- Best Value (BV) audit work

- Audits of Community Planning Partnerships (CPPs)

- Joint Accounts Commission/Auditor General for Scotland reports

- Statutory reports

- The local government overview report

- Reports in the 'How Councils Work' series

- Statutory performance reporting

- Correspondence

The framework is supported by a range of processes, procedures and guidance, including BV toolkits, which provide guidance and direction for staff carrying out BV audit work. The BV toolkits are also available on the Audit Scotland website to ensure openness and transparency and help support improvement activity within audited bodies.

During 2012/13 BVSI oversaw the production of a national scrutiny plan and 32 assurance and improvement plans. The group also delivered eight BV audit reports (including councils, police boards and CPPs), five overview/ thematic reports and three statutory reports. All of these complied with the Quality Framework.

Much of the audit work is risk based and is informed by the SRA process. This process is carried out by Local Area Networks comprised of officers from Audit Scotland, the appointed auditor, Education Scotland, the Care Inspectorate and the Scottish Housing Regulator. The

SRA process has an established QA process which involves a centralised review, factual accuracy checking by the audited body and referral to a QA panel where appropriate. The SRA results in a rolling three-year Assurance and Improvement Plan for each council which sets out the risks and the scrutiny response to those risks.

All audit work is scoped in advance and is subject to QA review, both internally by senior managers, the Accounts Commission and/ or the Auditor General and external peer reviewers where appropriate. Audit work is carried out in accordance with set procedures and audit judgements and draft reports are subject to review and challenge using the same process used for agreeing the scope of the work. Audited bodies always have the opportunity to check draft audit reports for factual accuracy. National and thematic reports are subject to review and sign off by the Accounts Commission and/ or the Auditor General for Scotland as appropriate at the scoping stage and prior to publication.

During 2011-12 the Cabinet Secretary for Finance, Employment and Sustainable Growth invited the Accounts Commission to oversee the development of an audit to assess the effectiveness of CPPs. In response, Audit Scotland developed a CPP audit framework and published audit reports on three CPPs and a thematic report on what the three audits found.

There are robust quality assurance measures built into the CPP audit work which follow the well-established arrangements for the BV audit work. These include a Quality and Consistency Review Panel at the scoping stage and report review stage. These Panels involve review and challenge from senior Audit Scotland managers who are external to the audit team and by senior managers/ external consultants who are external to Audit Scotland.

The audit teams carry out a 'lessons learned review' following the audit work to identify potential improvements to the audit process for future work. These are discussed at BVSI meetings. Members of the Accounts Commission meet with representatives of councils and CPPs two to three months after the publication of the audit reports. This provides another opportunity for further feedback to inform future audit work.

Corporate Services: Quality arrangements

All areas of Corporate Services are subject to internal audit as part of a programme of audit approved by the Board. Actions for improvement are recommended by the auditors and these are tracked to ensure implementation.

Benchmarking has been used in Corporate Services for several years: the performance indicators used are based on the sets published in the UK Audit Agencies' joint report 'Value for Money in Public Sector Corporate Services'. In addition, since 2007/08 Audit Scotland has taken part in the Scottish Government benchmarking for Central Government and Non Departmental Public Bodies.

A style guide ensures that all reports that are published follow Audit Scotland's brand style. Established procedures cover all aspects of the desk top publication process. Internal guides set out media processes with media and parliamentary monitoring taking place.

Performance Audit: Quality arrangements

Performance Audit Group (PAG) seeks to ensure the quality of its work through three primary documents: Performance Audit Standards, the Project Management Framework, and the Performance Audit Manual. These support and complement each other, together providing a quality assurance framework for performance audit work in PAG. They are supported by further specific guidance, all of which are under regular review.

The Performance Audit Standards, which comply with INTOSAI standards and guidance for performance auditing, set out the expectations for all PAG projects and provide a summary of good practice for specific project stages (e.g. writing and delivering reports). These Standards include a specific standard on quality assurance.

The Project Management Framework is designed to support consistent standards of project management in PAG. It outlines the key stages of a performance audit and includes a number of actions and outputs that provide quality assurance. One of the requirements is for each project team to carry out internal peer reviews at two key stages of the audit process. These peer reviews provide an opportunity for robust challenge by other staff (who are not involved in the audit), and reviews are undertaken of both the project brief and the draft report of each audit. Each project team also carries out a post-project review for all audits, with the Assistant Director and Director, where they discuss the key project stages with a view to identifying potential good practice and/or lessons.

The Performance Audit Manual sets out the basic principles for performance audit work (e.g. what is a value for money audit), and provides practical guidance and support for implementing key stages of the Framework. PAG is currently reviewing the Manual, drawing on user experience, to determine whether and how it can be improved.

In addition to these core tools, PAG also operates two further processes to support the effective application of guidance and to support continuous improvement. PAG uses external experts to review the questionnaires that it sometimes uses to gather information, prior to them being issued. The reviews have led to improvements, including better questions and shorter surveys. Secondly, PAG hold regular "reviews of project reviews", where issues identified in recent post-project reviews are discussed by the group, along with potential improvements and/or solutions.

PAG has arrangements, established in 2010 with the National Audit Office (NAO), WAO and NIAO, to review three to four of PAG's published audit reports (cold reviews) each year. PAG reviews reports from each of the other audit agencies as part of the reciprocal arrangements.

Glossary

AIU - Audit Inspection Unit, part of the FRC's Professional Oversight Board, responsible for monitoring the audits of all listed and other major public interest entities. Following restructuring of the FRC in July 2012, the work of the AIU has been passed to the Audit Quality Review Team.

APB - The Auditing Practices Board which operated under the Financial Reporting Council and was responsible for producing auditing and ethical standards for audit practice in the UK and Northern Ireland. The FRC was restructured in July 2012 and the APB has been replaced by an Audit and Assurance Council.

ASG - Audit Services Group, part of Audit Scotland with responsibility for carrying out audits of public bodies falling within the remit of the Auditor General and the Accounts Commission.

BIU - Business Improvement Unit, part of Audit Services Group, responsible for managing a wide range of ASG projects and initiatives such as MK Insight (our electronic working paper package).

BV - A duty of audited bodies or accountable officers; it is 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. A BV audit is one which examines BV and Community Planning.

BVSIG - Best Value and Scrutiny Improvement Group, part of Audit Scotland with responsibility for BV, scrutiny co-ordination and overview reports across all sectors.

CPP - Community Planning Partnerships, a process by which councils and other public bodies work together, with local communities, businesses and voluntary groups, to plan and deliver better services and improve the lives of people who live in Scotland. It was given a statutory basis by the Local Government in Scotland Act 2003. BVSI conducts audits on the effectiveness of CPPs.

Ethical Standards - ethical standards originally set by the APB and applicable to auditors of financial statements. The standards are a set of basic principles and essential procedures together with related guidance in the form of explanatory and other material covering the integrity, objectivity and independence of auditors.

FRC - Financial Reporting Council, the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. It monitors and enforces accounting and auditing standards and oversees the regulatory activities of the professional accountancy bodies and operates independent disciplinary arrangements for public interest cases involving accountants and actuaries.

IAASB - The International Audit and Assurance Standards Board which is an independent standard-setting body that serves the public interest by setting high-quality international standards for auditing, assurance, and other related standards, and by facilitating the convergence of international and national auditing and assurance standards.

ICAEW - The Institute of Chartered Accountants in England and Wales, a professional accountancy body established in 1880. ICAEW regulates members and firms.

ICAS - The Institute of Chartered Accountants of Scotland, the first professional accountancy body, it was established by Royal Charter in 1854. ICAS regulates members and firms.

INTOSAI - The International Organisation of Supreme Audit Institutions operated as an umbrella organisation for the external government audit community.

ISA - International Standards on Auditing, the professional standards for the performance of financial audit of financial information. ISAs are issued by the International Federation of Accountants (IFAC) through IAASB and are approved in the UK by the FRC.

ISQC1 - International Standard on Quality Control 1, the professional standard for quality control, as with the ISAs, issued by OFAC through IAASB.

NAO - The National Audit Office is responsible for auditing the accounts of all Westminster led government departments and a wide range of other public sector bodies, and has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

NIAO - Northern Ireland Audit Office, responsible for auditing central government and local government in Northern Ireland; it also carries out value for money audits, reporting to the Northern Ireland Assembly.

PAG - Performance Audit Group, part of Audit Scotland with responsibility for carrying out performance audits across the public sector.

PPR - Public Performance Reporting, the duty on local government bodies to report SPI information on an annual basis.

PSG - Professional Standards Group, part of Audited Services Group responsible for overseeing the development of the Audit Guide and the integration of new standards into ASG's audit approach.

QA - Quality appraisal.

QMT - Quality Monitoring Team, part of Audited Services Group responsible for carrying out internal hot and cold reviews of ASG audit work.

SCPA - Scottish Commission for Public Audit, a Parliamentary body which is responsible for scrutinising Audit Scotland's budget, annual report and accounts and for appointing an external auditor.

SOLACE - the Society of Local Authority Chief Executives and Senior Managers, tasked with developing a comparative benchmarking framework for Scottish local government.

SPI - Statutory Performance Indicators for local government, underpinned by the Local Government Act 1992. Some SPIs are prescribed, others are chosen by local authorities as relevant benchmarks to be monitored and disclosed. Publication of SPIs is monitored by auditors.

SRA - Shared Risk Assessment, 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 of senior officers from a range of audit and inspection agencies including Audit Scotland, Education Scotland, The Care Inspectorate, The Scottish Housing Regulator and the appointed auditors, leading to the preparation of an assurance and improvement plan (AIP), part of which may be the conduct of a BV audit.

TSU - Technical Services Unit, part of Audit Strategy Group, responsible for providing authoritative guidance and practical assistance to external auditors appointed by the Accounts Commission and Auditor General to support them in carrying out their responsibilities under the Code of audit practice. TSU's support enhances auditor judgement in technical matters and thereby improves the quality of the audit delivered.

WAO - Wales Audit Office, either directly audits Welsh public bodies, such as the Welsh Assembly and the NHS or, as in the case of local government, appoints auditors to do so.
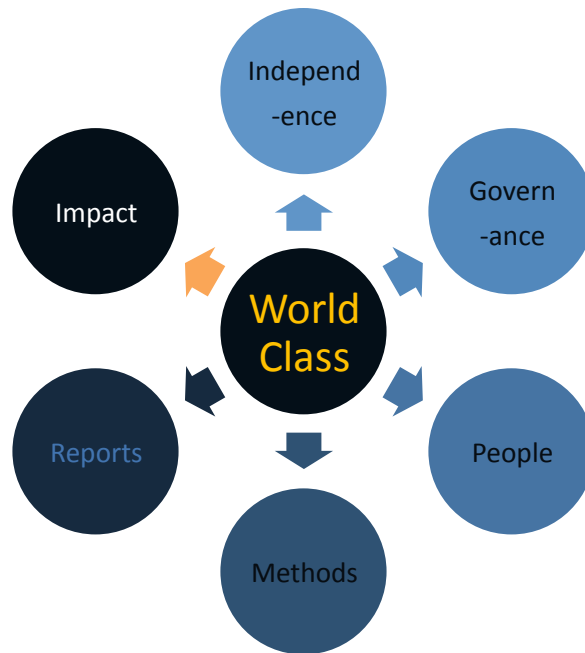
Audit Scotland
Quality Framework

AUDIT SCOTLAND

Contents

Introduction

1. Audit Scotland's vision is "To be a world class audit organisation that improves the use of public money".

2. We have identified six components of a being a world class audit organisation:

3. High quality audit work is fundamental to Audit Scotland achieving its vision and is relevant to all of the components of being a world class audit organisation. The same quality principles apply to all the different types of audit work that we undertake. For some work those principles are supported by internationally recognised professional standards whilst for other work we may have developed those standards ourselves or in conjunction with other audit agencies.

4. The quality principles reflect the values that we have adopted. The values are a significant element in establishing a culture where high quality audit work is valued and seen as fundamental to the success of the organisation and of the individuals and teams within it. In 2012 we revisited our values through the Reconnect events and the resulting core values are:

- Independence and integrity
- Valuing people
- Quality
- Cooperation
- Great communication

5. In developing this framework and the priorities for further work account has been taken of recent national and international initiatives and publications including:

   • A framework for audit quality (IAASB - 2013)

   • The Audit Quality Framework (FRC - 2008)

   • Professional scepticism (FRC - 2012)

   • A professional judgement framework for financial reporting (ICAS - 2012)

   • Reports on findings from quality reviews by national and international audit regulators

6. Audit Scotland's Corporate Plan 2012-15 sets out our priorities as being "Helping to improve by holding to account" through auditing, reporting and recommending actions.

7. There are six supporting activities set out to enable the achievement of our priorities, including:

   • We systematically improve the quality and impact of our work

   • We develop new and improved products to maximise the impact of audit.

   • We empower and support our people to be engaged, highly skilled and perform well.

8. It is important that our staff and partners in other organisations and firms understand the key policies and principles which underpin our work. Quality is clearly one of the key principles in describing the standards we set for ourselves in the ways in which we work and the outputs and outcomes from that work.

9. This Framework describes the high level principles that are adopted by Audit Scotland in carrying out its work under appointment from the Auditor General and the Accounts Commission. The principles of the framework apply equally to all of our work and all of our staff. The way in which they are implemented in practice will vary between Business Groups and according to the type of work being undertaken. While the focus of this framework and the reporting under it is on the direct work of auditors, the principles are equally relevant to the conduct of support activities.

Why does quality matter?

10. Audit Scotland's role is to provide independent assurance on the stewardship of the significant assets under the control of and amounts of public money spent by the Scottish Government and other public bodies in Scotland.

11. Audit Scotland's standing and reputation is based on its independence, objectivity and reliability. If we do not produce consistent, high quality audit work that our stakeholders can rely on then our reputation may be damaged and our standing reduced.

12. High quality is also one of the attributes of our audit work that will enable us to demonstrate that we are a world class audit organisation.

What is a quality audit?

13. The IAASB's Framework for Audit Quality states that "a quality audit has been achieved when the auditor's opinion on the financial statements can be relied upon as it was based on sufficient appropriate audit evidence obtained by an engagement team that:
    - Exhibited appropriate values, ethics and attitudes
    - Was sufficiently knowledgeable and experienced and had sufficient resources allocated to perform the audit work
    - Applied a rigorous audit process and quality control procedures
    - Provided valuable and timely reports and
    - Interacted appropriately with a variety of different stakeholders"

14. The IAASB Framework is relevant to both private and public sector audits and the five elements of a quality audit clearly apply to all types of audit and assurance work not just the audit of financial statements.

15. Achieving a quality audit is an active rather than a passive activity which goes well beyond the mechanical completion of checklists or audit programmes and includes the auditor's attitudes and mind set when planning the work, seeking audit evidence, drawing conclusions and making judgements.

16. Commitment to quality must be inherent in everything we do. In Audit Scotland, this commitment embraces the:
    - people who work for us and with us
    - way we do our work
    - impact of our work.

17. There are three core principles that underpin our commitment to quality:

- Quality is the responsibility of everyone in Audit Scotland.

- Our approach to quality will drive continuous improvement across Audit Scotland.

- Quality will be assessed in terms of outputs, outcomes and impact, as well as inputs and processes.

18. This framework applies these principles across all of our work.

A framework for quality

19. The starting point for achieving audit quality is the tone from the top. In Audit Scotland commitment to quality starts with the Board which approves this Framework and, through the Audit Committee, receives and discusses the annual Transparency and Quality report. To reinforce the commitment to quality from the top of the organisation quality is a key part of the role of the Assistant Auditor General and an integral part of the competency set for all members of the Leadership Group.

20. The overall quality framework is shown in the diagram below.
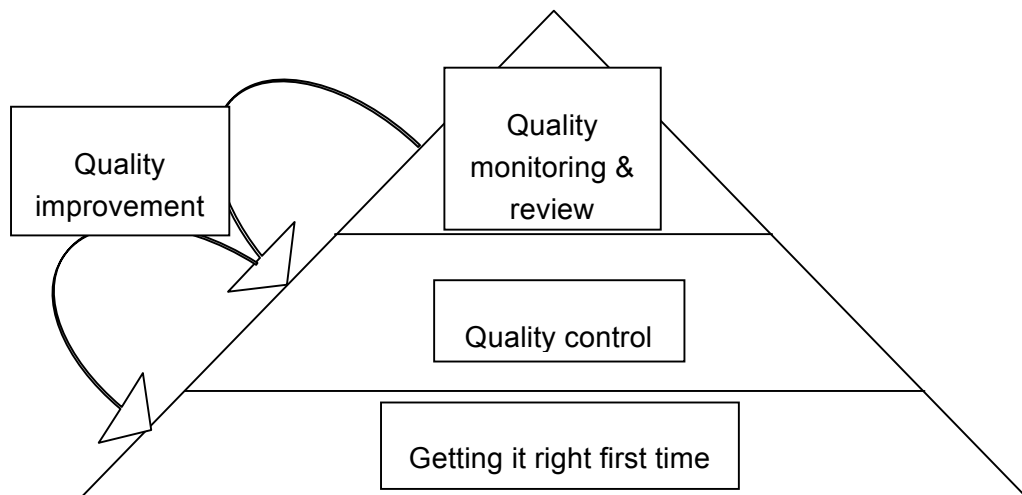
Getting it right first time

21. Getting it right first time is key to Audit Scotland being a high quality, efficient and effective audit organisation and requires that quality is embedded in all our thinking, our processes and our activities. The competency of Delivering Quality Services within the Competency Dictionary includes "The goal is to get your output right first time, every time". This reflects that quality is the responsibility of everyone. Each member of staff in Audit Scotland has a

responsibility to get it right first time, and needs to demonstrate a commitment to quality in everything they do.

22.   All of the elements of a quality audit described in paragraph 11 are highly relevant to all of our audit work.

Exhibiting appropriate values, ethics and attitudes

23.   The element of exhibiting appropriate values, ethics and attitudes requires auditors to be independent, to exhibit objectivity and integrity and to recognise that audits are performed in the wider public interest. It also requires an appropriate tone from the top and the exhibiting of professional competence and professional scepticism.

24.   Audit Scotland has a good record of recognising that audit work is performed in the wider public interest, in being independent and in exhibiting objectivity and integrity. Our structure as a non-profit making public body together with Parliamentary involvement in the appointment of the AGS and Audit Scotland Board members helps reinforce our independence and our commitment to balanced reporting helps to maintain objectivity and integrity.

25.   Professional scepticism is a key part of auditor judgement relating to planning, performing and evaluating the results of an audit. It helps us to demonstrate integrity and objectivity. Exhibiting professional scepticism requires that auditors:

- Have a questioning mind and a willingness to challenge management assertions

- Assess critically the information and explanations they receive

- Seek to understand management motivations for possible misstatements, or providing misleading or incomplete information

- Keep an open mind

- Have the confidence to challenge management and the persistence to follow through to a conclusion

- Be alert for evidence that is inconsistent with that provided, for example by reference to sector wide information

26.   Our values such as co-operation help to create a culture where high quality work is valued and becomes inherent in all that we do. Living those values helps to achieve some of the attributes of high quality auditing including:

- A culture of consultation on difficult issues

- Access to high quality technical support

27.   Consultation with audit colleagues or with technical specialists is a very powerful way of helping to address difficult issues. Audit Scotland encourages staff to discuss issues with colleagues across the organisation that may have experiences or knowledge that can help resolve such issues.

Having knowledge, experience and time

28. Audit teams need to have the knowledge, time and experience to undertake the audit. This involves the team having the collective competencies, recognising that individual members of the team are not expected to have the same level of experience. Audit Scotland ensures that appropriate competencies are available through its workforce plan, careful allocation of staff to audits and by providing training for staff or engaging external specialist assistance.

29. Understanding the business being audited is fundamental to planning the audit effectively and underlies professional scepticism and the ability to make appropriate judgements. In Audit Scotland that knowledge comes from experience of auditing across and between different parts of the public sector.

30. In order to make reasonable judgements auditors will:

    - Identify the issue

    - Apply relevant knowledge

    - Understand the motivations of parties involved

    - Seek appropriate evidence

    - Evaluate alternatives

    - Consult as appropriate

    - Document the conclusion and the rationale for it

31. Audit Scotland seeks to provide value for money for the taxpayer which involves keeping the cost of audit as low as possible. However all staff should ensure that they spend enough time to deliver work of a high quality and should not compromise quality in order to meet budgetary targets. Potential budget overruns should be discussed with managers before they create pressures on audit quality.

Providing valuable and timely reports

32. High quality audit reports provide assurance to stakeholders on the subject matter of the audit and where appropriate add value by making recommendations for improvement, identifying risks to service performance, increasing insight and facilitating foresight.

33. Reports are likely to add greater value if they are clear and unambiguous, make use of trend or comparative data, are informed by the auditor's knowledge of the sector and experience of other similar organisations. Reports should be written for their intended audience with the level of detail and use of technical language tailored for the audience's needs.

34. Reports should be produced as soon as practicable following completion of the work and significant issues should be brought to the attention of management or those charged with governance as soon as possible and without waiting for the production of the formal report.

35. Great communications is one of Audit Scotland's core values and the way in which we communicate about the nature and scope of our work and the findings arising from it can

significantly enhance our stakeholders understanding of our work and their reactions to our findings and recommendations.

36. Audit Scotland categorises audit impact according to four audit dimensions which help to sharpen the focus of our work and set a common framework for recording impact across the organisation. The dimensions are:

Financial sustainability	**Transparency of reporting**
Value for money	**Governance & financial management**

Interacting with stakeholders

37. Audit quality will be enhanced if there is a constructive and open relationship with stakeholders such as management and those charged with governance. For public sector audits stakeholders also include colleagues in other business groups, partner firms and other scrutiny bodies.

38. Interaction with a variety of stakeholders is likely to improve audit quality by enhancing the auditor's knowledge of the business and the issues that it faces and to obtain alternative perspectives on the organisation.

39. Audit planning should identify the relevant stakeholders and the issues on which interaction would be beneficial for the auditor and the stakeholder subject to appropriate consideration of auditor's duties of confidentiality.

40. In the public sector audit does not end with the signing of the audit opinion or the publication of a performance report. Quality and impact will be further enhanced by ensuring that there is systematic follow up of recommendations and reporting back to stakeholders on their implementation and effect.

Quality control

41. This refers to quality management during an audit or project. It may involve peer review (for example review of work in ASG), and in some cases may involve external input (such as performance audit advisory groups).

42. The principal characteristics in successful quality control are:

- An element of review at regular intervals, possibly involving a reviewer from outside the core project team which in some cases may be from outside the organisation (for example Best Value Quality and Consistency Review Panels).

- Regular internal challenge sessions to assess the quality of outputs and project management processes.

- Formal assessment of the extent to which local quality processes are adhered to by delivery teams.

- Proportionality being exercised in quality control activities to both maximise the quality and efficiency of work and to ensure that the staff undertaking the work retain a sense of ownership.

Quality monitoring and review

43. All types of audit work should benefit from some element of quality review once the work has concluded. This ensures that lessons are learned and used to improve our processes and methodologies. In most cases it will be sufficient for the audit/project team to conduct the quality review themselves. In some cases, such as particularly high profile or high risk projects, an element of independent review may be appropriate. This would involve someone from outside the team (although not necessarily from outside Audit Scotland) undertaking a review. This would provide assurance to ourselves and our stakeholders that our work meets the standards we expect of ourselves and others.

44. Periodically reviews involving an independent element from outside Audit Scotland will be appropriate in order to provide further assurance and also so that we can learn from the practices of other audit agencies and firms.

45. The main elements for quality monitoring and review are:

- Teams review at the end of each audit/project how their project management/quality processes were applied.

- Impact reports are prepared for each national report.

- Meaningful feedback is captured from appropriate audited body and other stakeholder organisations.

- Good practices and lessons learned are identified, and applied to subsequent pieces of work.

- Clear criteria exist in each business group for conducting of a more detailed independent review, conducted by someone from outside the project team. Factors that might indicate that an independent review is appropriate include:

  - a new approach being trialled/piloted

  - a history of issues between Audit Scotland and the audited body

  - a very new or inexperienced Audit Scotland team in place

- the audit/project has in some way been difficult in terms of process, relationships, reporting etc

- the audited body or audit topic is politically sensitive and/or likely to attract a high level of media interest.

- The planning stages of the project/audit include an assessment of the potential risks involved, with a view to whether an independent review would be beneficial.

- At all levels, quality processes have clear mechanisms for collectively and systematically capturing, sharing and applying learning from audits, with follow up of previous actions at future reviews.

Roles and responsibilities

46. Whilst quality is everyone's responsibility each part of the organisation has a particular role to play in achieving the best overall result.

Audit Scotland Board/Audit Committee

47. The Audit Scotland Board has overall responsibility for the strategic direction of the organisation and for approving significant policies. This Framework is considered and approved by the Board/Audit Committee together with an Annual Transparency and Quality Report which forms part of the overall framework of assurances provided annually by management to those charged with governance.

48. The governance role carried out by the Board/Audit Committee in relation to quality is also important in Audit Scotland providing assurance to the Auditor General and the Accounts Commission as commissioners of audits on the quality of work of Audit Scotland staff and firms of appointed auditors.

Management Team

49. Management Team, along with the Board, sets the tone at the top to ensure that all staff buy into the quality framework. Management Team has the executive responsibility for ensuring that all outputs are of a sufficient quality standard. This responsibility is discharged through delegating the design of "getting it right first time" and "quality control" arrangements to business groups while retaining oversight of the quality monitoring and review outcomes. Within the Management Team the Assistant Auditor General has lead responsibility for quality across the organisation.

Business Groups

50. Business Groups are responsible for establishing the quality arrangements for their activities including the processes for getting it right first time, quality control and quality monitoring and review. Key documents are available to staff on the Audit Scotland intranet (ishare).

Corporate Quality Group

51. A corporate quality group has been set up with representatives from each business group. It is a cross business group responsible for co-ordinating and sharing best practice in quality processes and monitoring work. It supports the maintenance of the corporate quality framework, the preparation of the annual Transparency and Quality report, and each individual business groups' quality control and monitoring procedures.

Audit Strategy Group

52. Audit Strategy's role is to take the lead in promoting high quality audit and supporting the implementation of this framework. Its role includes:

    - Making recommendations for the appointment of auditors

    - Maintaining this framework

    - Promoting high quality audit including facilitating consistent audit judgements

    - Providing advice and support to other business groups on quality issues

    - Providing the corporate lead on ethical issues

    - Contributing to learning and development events to help improve the quality of audits

    - Obtaining feedback on the quality of audits from stakeholders, for example through surveys

    - Review of the auditors' own quality control and monitoring arrangements in line with ISQC1.

    - Monitoring of developments in audit quality including review of inspection reports from the Audit Inspection Unit and others

    - Review of audit outputs.

    - Review of auditor requests to conduct non-audit work.

    - Conducting independent reviews of audits where necessary

    - Preparing the annual transparency and quality report

    - Supporting the Corporate Quality Group

Reporting

53. In order to provide assurance to the Audit Scotland Board and Audit Committee an annual Transparency and Quality report will be prepared by Audit Strategy. The report will be

available prior to the sign off of the Annual Report and Accounts and will form part of the evidence available to the Accountable Officer in the preparation and approval of the statement on internal control.

54. The report will describe the governance arrangements in place in Audit Scotland and draw together an overview of the quality arrangements in place across the organisation and the results of any quality monitoring and review processes applied during the year.

55. Once the report has been considered by the Audit Scotland Board/Audit Committee it will be provided to the Auditor General and the Accounts Commission in their roles as commissioners of work from Audit Scotland.

Priorities for implementing the framework

56. Audit Scotland staff already demonstrate many of the attributes of high quality audits and the organisation has in place arrangements to support staff to maintain those standards. However, we are committed to continuous improvement and a number of areas have been identified for particular attention in order to further enhance the quality of our audit work. These are:

- Professional scepticism - work to reinforce the importance of scepticism and demonstrating that we have been sceptical in conducting our audits

- Judgements - work to help auditors understand which judgements are the most important and how to demonstrate that the right judgements are being made

- Audit processes - Audit Services Group will be reviewing their audit approach, the findings from the lean review of performance audits are being implemented and the initial Community Planning Partnership audits are being reviewed

- Expectations of auditors - Audit Scotland will be conducting a review of expectations of audit to ensure that our products are fit for purpose over the next few years. A further piece of work will look at the expectations of public sector auditors in relation to fraud

- Making reports valuable - work to ensure that our reports are relevant, timely, clear and contain unambiguous opinions and conclusions

57. This framework will be reviewed no later than April 2015.

ACCOUNTS COMMISSION

MEETING 20 JUNE 2013

REPORT BY SECRETARY AND BUSINESS MANAGER

ACCOUNTS COMMISSION BUSINESS PLANNING CYCLE

Purpose

1. The purpose of this report is to propose a business planning cycle for the Commission.

Background

2. At its recent Strategy Seminar, the Commission considered a range of ways to improve how it deals with its business. The Commission agreed amongst other things that it would be desirable to encourage a better awareness amongst stakeholders of, and thus have a more transparent approach to, its business cycle.

3. The attached business planning cycle sets out a range of business that the Commission will consider over the calendar year. It includes business arising from:

    •   The annual audit process

    •   Best Value and shared risk assessment process

    •   The Performance Audit programme

    •   Audit Scotland's corporate planning cycle

    •   The Commission's own planning and reporting cycle, including its obligations on equalities.

4. This cycle will be in effect from after today's meeting.

Conclusion

5. The Commission is invited to consider and approve the attached business planning cycle.

Paul Reilly
Secretary and Business Manager
12 June 2013

APPENDIX: ACCOUNTS COMMISSION BUSINESS PLANNING CYCLE

Meeting	Business
January	
February	• Local Government overview (CoA) • Annual audit summary (CoA/AAG) • Performance Audit Programme review (CoA)
February committees	• *Annual ASG impact report (ASG) - FAAC*
March	• Annual audit impact report (AAG/ASG)
March / April	*Annual Strategy seminar*
April	• National Scrutiny Plan for endorsement(CoA)
May	• Draft Commission annual report (SBM) • Draft Commission strategy update (SBM) • Draft Commission equality outcomes report (AS) • Draft Commission equality mainstreaming report (AS) • Review and preview of Best Value and shared risk assessment work (CoA) • Analysis: public performance reporting information (CoA)
May committees	• *Annual audit plans overview (AAG) - FAAC*
June	• Annual Audit Scotland transparency and quality report (AAG) • Commission work programme (SBM)
July	*No meeting currently*
August	• Audit Scotland fee strategy (as part of Audit Scotland business and financial plan (AAG) • Annual Audit Strategy audit quality report (AAG) • Housing and council tax benefits administration audit activity: annual report (AAG)
September	
September committees	• *Local Government overview – project brief (CoA) – FAAC*
October	• Meeting dates for subsequent year (SBM)
November	• Briefing: approach to shared risk assessment (CoA) • Six monthly update: equality outcomes and mainstreaming (AS) • SOLACE benchmarking project: annual review (CoA)
November committees	• *Accounting and auditing update (AAG) – FAAC* • *Local Government overview – emerging messages (CoA) - FAAC*
December	• Annual Direction: performance information (CoA)

Regular committee business:
• FAAC: current issues in local government
• PAC: performance audit programme and scrutiny work update

Longer term business:
• Audit appointments – every five years

Sources Key:
SBM: Secretary & Business Manager
CoA: Controller of Audit
ASG: Director of Audit Services
AAG: Assistant Auditor General
AS: Other Audit Scotland