

The Accounts Commission for Scotland

Agenda

Meeting on Thursday 13 March 2014
in the offices of Audit Scotland, 18 George Street, Edinburgh

The meeting will begin at 10.00am

1. **Apologies for absence.**
2. **Declarations of interest.**
3. **Decisions on taking business in private:** The Commission will consider whether to take items 12 to 15 in private.
4. **Minutes of meeting of 13 February 2014.**
5. **Minutes of meeting of Performance Audit Committee of 27 February 2014.**
6. **Minutes of meeting of Financial Audit and Assurance Committee of 27 February 2014.**
7. **Update report by the Secretary and Business Manager:** The Commission will consider a report by the Secretary and Business Manager on significant recent activity in relation to local government.
8. **Update report by the Controller of Audit:** The Commission will consider a verbal report by the Controller of Audit providing an update on his recent activity.
9. **Update on progress with the integration of adult health and social care In Scotland:** The Commission will consider a report by the Director of Performance Audit and Best Value.
10. **Review of annual audits:** The Commission will consider a report by the Director of Performance Audit and Best Value.
11. **Local authority charitable trusts:** The Commission will consider a report by the Assistant Auditor General.

The following items are proposed to be considered in private:

12. **Audit Scotland papers:** The Commission will consider a report by the Secretary and Business Manager
13. **Performance audit – draft report: Procurement in local government:** The Commission will consider a report by the Director of Performance Audit and Best Value.
14. **Local Government and Regeneration Committee Inquiry into the Flexibility and Autonomy of Local Government: draft submission:** The Commission will consider a report by the Secretary and Business Manager
15. **Commission business matters:** The Commission will discuss matters of interest.

The following papers are enclosed for this meeting:

Agenda Item	Paper number
Agenda Item 4: Minutes of meeting of the Commission of 13 February 2014	AC.2014.3.1
Agenda Item 5: Minutes of meeting of Performance Audit Committee of 27 February 2014	AC.2014.3.2
Agenda Item 6: Minutes of meeting of Financial Audit and Assurance Committee of 27 February 2014	AC.2014.3.3
Agenda Item 7: Report by Secretary and Business Manager	AC.2014.3.4
Agenda Item 9: Report by Director of Performance Audit and Best Value	AC.2014.3.5
Agenda Item 10: Report by Director of Performance Audit and Best Value	AC.2014.3.6
Agenda Item 11: Report by Assistant Auditor General	AC.2014.3.7
Agenda Item 12: Report by Secretary and Business Manager	AC.2014.3.8
Agenda Item 13: Report by Director of Performance Audit and Best Value	AC.2014.3.9
Agenda Item 14: Report by Secretary and Business Manager	AC.2014.3.10

ACCOUNTS COMMISSION

MEETING 13 MARCH 2014

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, 13 February 2014, at 11.00am

PRESENT: Douglas Sinclair (Chair)
Michael Ash
Alan Campbell
Sandy Cumming
Colin Duncan [Items 1 to 8]
Christine May
Bill McQueen
Linda Pollock
Colin Peebles
Graham Sharp
Pauline Weetman

IN ATTENDANCE: Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value (PABV)
Gordon Smail, Acting Secretary and Business Manager
David McConnell, Assistant Director, Audit Services [Item 7]
Stephen O'Hagan, Senior Audit Manager, Audit Services [Item 7]
Ronnie Nicol, Assistant Director, PABV [Items 8 & 9]
Fiona Mitchell-Knight, Assistant Director, Audit Services [Items 8 & 9]
Gordon Neill, Portfolio Manager, PABV [Items 8 & 9]
Dave Richardson, Senior Audit Manager, Audit Services [Items 8 & 9]
Tom Reid, Project Manager, PABV [Items 8 & 9]
Martin Walker, Assistant Director, PABV [Items 10 & 11]
Fiona Selkirk, Project Manager, PABV [Item 11]
Lynn Russell, Performance Auditor, PABV [Item 11]
Lynn Bradley, Director of Corporate Programmes and Performance [Item 12]

<u>Item No</u>	<u>Subject</u>
1.	Apologies for absence
2.	Declarations of interest
3.	Decisions on taking business in private
4.	Minutes of meeting of 16 January 2014
5.	Update report by the Secretary & Business Manager
6.	Update report by the Controller of Audit
7.	External employment of local authority officers
8.	Targeted Best Value audit work: South Ayrshire Council (report)
9.	Targeted Best Value audit work: South Ayrshire Council (actions)
10.	An overview of local government in Scotland 2014 – draft report
11.	How councils work: options appraisal – draft report
12.	Audit Scotland Corporate Plan 2012-2015: Priorities for 2014
13.	Commission business matters

1. Apologies for absence

There were no apologies.

2. Declarations of interest

The following declarations of interest were made:

- Christine May: item 5 (as an advisor to opencast mining companies) and items 10 and 11 (as Vice-Chair of Fife Cultural Trust)
- Colin Duncan: items 8 and 9 (as a resident of South Ayrshire and as a member of political organisations in that area).

3. Decisions on taking business in private

It was agreed that items 9 to 13 should be taken in private as they contained draft reports and confidential issues.

4. Minutes of meeting of 16 January 2014

The minutes of the meeting of 16 January 2014 were submitted and approved.

5. Update report by the Secretary and Business Manager

The Commission considered a report by the Secretary and Business Manager providing an update on significant recent activity in relation to local government and issues of relevance or interest across the wider public sector.

During discussion the Commission:

- Noted that the Commission is required to develop an individual Code of Conduct based on the model code published by the Scottish Government and that the Secretary and Business Manager would report further on this.

Action: Secretary and Business Manager

- Noted that it would receive a briefing on health and social care integration at its next meeting, including further information on the proposal that the accounts of integration joint boards would be audited by the Commission.

Action: Director of Performance Audit and Best Value

- Noted that the Scottish Parliament's Local Government and Regeneration Committee has announced an enquiry into the future of local government.
- Requested that further background information about obligations in respect of cleaning-up opencast coal mines is provided to the Commission's Financial Audit and Assurance Committee.

Action: Director of Performance Audit and Best Value

- Requested a summary of the main points in the Williams Commission report on local government in Wales.

Action: Secretary and Business Manager

Thereafter the Commission agreed to note the report.

6. Update report by the Controller of Audit

The Controller of Audit provided a verbal update on his recent activity, including meetings and discussions with stakeholders.

7. External employment of local authority officers

The Commission considered a report by the Director of Performance Audit and Best Value on existing arrangements and guidance in place in public bodies for senior officers assuming secondary roles.

During discussion, the Commission considered a range of related matters and concluded that a proper assessment of the benefits and impact was required in such circumstances. The Commission also underlined the need for a consistent approach and that it would be helpful to highlight good practice.

Thereafter the Commission agreed that the Chair in conjunction with the Auditor General would consider the matter further, including the options for issuing guidance to public bodies on the principles involved and good practice.

Action: Director of Performance Audit and Best Value

8. Targeted Best Value audit work: South Ayrshire Council

The Commission considered a report from the Secretary and Business Manager introducing the Controller of Audit's report on targeted Best Value audit work at South Ayrshire Council.

Following consideration, the Commission agreed to note the report and to consider in private how to proceed.

9. Targeted Best Value audit work: South Ayrshire 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.

10. An overview of local government in Scotland 2014 – draft report [in private]

The Commission agreed that this item be held in private to allow it to consider and approve a draft report and proposed publication arrangements as presented in the report by the Director of Performance Audit and Best Value.

The Commission considered a report by the Director of Performance Audit and Best Value introducing the Commission's draft annual overview report *An overview of local government in Scotland 2014* and next steps.

Following discussion, the Commission agreed to approve the draft report subject to the audit team considering points raised in discussion and consulting further with the sponsors of the report, Alan Campbell and Christine May, and the Chair.

Action: Director of Performance Audit and Best Value

11. How councils work: options appraisal [in private]

The Commission agreed that this item be held in private to allow it to consider and approve a draft report and proposed publication arrangements as presented in the report by the Director of Performance Audit and Best Value.

The Commission considered a report by the Director of Performance Audit and Best Value proposing a draft report in the *How Councils Work* series, *Options appraisal: are you getting it right?*

On a more general point, the Commission requested that the positioning of reports in the *How councils work series* on the website is reviewed to improve their accessibility.

Action: Secretary and Business Manager

Following discussion, the Commission approved the draft report and the associated publication arrangements, subject to the audit team considering points raised in discussion and consulting further with the sponsors of the report: the Chair; Bill McQueen; and Mike Ash.

Action: Director of Performance Audit and Best Value

12. Audit Scotland Corporate Plan 2012-15: Priorities for 2014 [in private]

The Commission agreed that this item be held in private to allow it to consider a report by the Director of Corporate Programmes and Performance seeking approval for its interest Audit Scotland's corporate priorities for 2014.

During discussion the Commission highlighted points for consideration, including the need to expand on some of the lesser known acronyms in the document.

Action: Director of Corporate Programmes and Performance

Thereafter the Commission agreed to approve for its interest Audit Scotland's priorities for 2014.

13. Commission business matters [in private]

The Commission agreed that the Chair's update on Commission business matters be held in private to allow it to discuss issues of a confidential nature relating to the operations of the Commission.

The Chair briefed the Commission on matters of interest.

ACCOUNTS COMMISSION

MEETING 13 MARCH 2014

MINUTES OF MEETING OF PERFORMANCE AUDIT COMMITTEE OF 27 FEBRUARY 2014

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, 27 February 2014, at 10.30am.

PRESENT: Douglas Sinclair (Chair)
Mike Ash
Alan Campbell
Sandy Cumming
Christine May
Colin Peebles

OTHER COMMISSION
MEMBERS PRESENT: Colin Duncan [Items 6 to 9]
Linda Pollock [Item 7]

IN ATTENDANCE: Fraser McKinlay, Director of Performance Audit and Best Value (PABV)
Paul Reilly, Secretary and Business Manager
Angela Canning, Assistant Director, PABV [Items 4, 5 and 8]
Angela Cullen, Assistant Director, PABV
Graeme Greenhill, Senior Manager, PABV [Item 7]
Cathy McGregor, Project Manager, PABV [Item 8]
Michael Oliphant, Project Manager, PABV [Item 6]
Sarah Pollock, Project Manager, PABV [Item 7]
Graeme Samson, Senior Auditor, PABV [Item 6]
Gordon Smail, Senior Manager, PABV [Item 6]
Claire Sweeney, Senior Manager, PABV [Item 8]
Kirsty Whyte, Senior Performance Auditor, PABV [Item 7]

<u>Item no.</u>	<u>Subject</u>
1.	Apologies for absence
2.	Declarations of interest
3.	Minutes of meeting of 28 November 2013
4.	Update on Performance Audit programme and <i>How Councils Work</i> series
5.	Performance audit programme: quality assurance arrangements
6.	Performance audit: update – Scotland's public finances: local progress
7.	Performance audit: emerging messages – School education
8.	Performance audit: emerging messages – Self-directed support
9.	Any other business

1. Apologies for absence

There were no apologies for absence.

2. Declarations of interest

The following declarations of interest were made:

- Mike Ash, in item 8, as the Chair of East Lothian Community Health Partnership.
- Christine May, in item 4, as Vice-Chairman of Fife Cultural Trust.

3. Minutes of meeting of 28 November 2013

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

Arising therefrom:

- In relation to the first bullet point of paragraph 4 (first sub-bullet: *How councils work* series), advice from the Secretary and Business Manager was noted that a survey of all council leaders, chairs of audit committees and chief executives had been undertaken. The survey, which sought views on the usefulness of the *How councils work* series and on possible future subjects in this regard, would be reported to the Commission at its annual strategy seminar.
- In relation to the fourth to sixth bullet points of paragraph 4 (impact reports), advice from the Director of Performance Audit and Best Value was noted that he was considering the schedule of impact reports to the Committee, and would provide an update in this regard in due course.

4. Update on Performance audit programme and *How Councils Work* series

The Committee considered a report by the Director of Performance Audit and Best Value providing an update on progress with performance audits, the *How Councils Work* series and impact reports along with information on development work to support its work programme.

During discussion, the Committee noted advice from the Chair that he would be appearing at a meeting of the Scottish Parliament's Local Government and Regeneration Committee, alongside the Auditor General, on 5 March to discuss the performance audit programme.

Thereafter the Committee agreed to note the report.

5. Performance audit programme: quality assurance arrangements

The Committee considered a report by the Director of Performance Audit and Best Value outlining proposals for changing the scoping and emerging messages stages of performance audits.

During discussion, the Committee agreed:

- To note the experiences of members in their role as sponsors for performance audits, particularly in relation to liaising with and participating in project advisory groups.
- That the Director of Performance Audit and Best Value report on both the benefits and constraints of commissioning or involving scrutiny partners in performance audit work.

- That the proposals in the report, in relation to proposed changes be piloted for this and the next meeting of the Committee, and decision be made thereafter by the Committee as to future arrangements.

Actions: Director of Performance Audit and Best Value

6. Performance audit: update – Scotland’s public finances: local progress

The Committee considered a report by the Director of Performance Audit and Best Value seeking approval of the approach to the targeted follow-up performance audit *Scotland’s public finances – local progress* – a joint report for the Accounts Commission and the Auditor General. The report was complemented with a presentation from the audit team.

During discussion, the Committee:

- Agreed a number of specific points to be addressed by the audit team in scoping the audit.
- Agreed that checklists would be a particularly important part of the final report.
- Agreed the importance of reinforcing the message of the need for difficult decisions in relation to providing services because of reducing finances.
- Agreed that, given the potential criticality of the report in relation to council budget cycles, appropriate external stakeholders – such as CIPFA Directors of Finance – be alerted at an early opportunity to the forthcoming publication of the report, and including, as appropriate, emerging messages in advance of publication.
- Noted the likely overlap between this audit and the proposed audit on borrowing and treasury management.
- Agreed the need for consistency in messages between this report and the local government overview report.

Actions: Director of Performance Audit and Best Value

Thereafter the Committee approved the approach to the targeted follow-up performance audit *Scotland’s public finances – local progress*.

7. Performance audit: emerging messages – School education

The Committee considered a report by the Director of Performance Audit and Best Value on the emerging messages from the performance audit of school education. The report was complemented with a presentation from the audit team.

During discussion, the Committee agreed a number of specific points to be addressed by the audit team in drafting the report of the audit.

Thereafter the Committee agreed that a draft audit report be brought to the Commission meeting in April prior to publication in May 2014.

Actions: Director of Performance Audit and Best Value

8. Performance audit: emerging messages – Self-directed support

The Committee considered a report by the Director of Performance Audit and Best Value on the emerging messages from the performance audit of self-directed support. The report was complemented with a presentation from the audit team.

During discussion, the Committee:

- Agreed a number of specific points to be addressed by the audit team in drafting the report of the audit.
- Noted advice from Mike Ash about the benefit of the joint meeting which took place between Commission sponsors and the Auditor General to discuss emerging messages.
- That consideration be given about how messages in the final report will be disseminated to stakeholders such as service providers and the Scottish Government.

Thereafter the Committee agreed that a draft audit report be brought to the Commission meeting in April prior to publication in June 2014.

Actions: Director of Performance Audit and Best Value

9. Any other business

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

ACCOUNTS COMMISSION

MEETING 13 MARCH 2014

**MINUTES OF MEETING FINANCIAL AUDIT AND ASSURANCE COMMITTEE
OF 27 FEBRUARY 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, 27 February 2013, at 2.15pm.

PRESENT: Bill McQueen (Chair)
Colin Duncan
Linda Pollock
Graham Sharp
Pauline Weetman
Douglas Sinclair [Items 4 to 9]

IN ATTENDANCE: Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value
Paul Reilly, Secretary and Business Manager
Gerry O'Neill, Senior Audit Manager (IT), Audit Services Group (ASG) [Item 5]
Owen Smith, Senior Audit Manager, Audit Strategy [Items 7 and 8]
Joanna Stevenson, Audit Manager, Audit Strategy [Items 7 and 8]
Gillian Woolman, Assistant Director, ASG [Items 4 to 6]

1. Apologies for absence
2. Declarations of interest
3. Draft minutes of meeting of 28 November 2013
4. Current audit issues in councils
5. Public services network
6. Audit Services Group review of impact 2012/13: local government
7. Review of firms' impact 2012/13: local government
8. Audit quality survey – 2012/13 audits
9. 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 28 November 2013

The minutes of the meeting of 28 November 2013 were approved.

Arising therefrom, the Committee:

- In relation to the second bullet point of paragraph 4 (integration of health and social care: update report), noted advice from the Director of Performance Audit and Best Value was noted that he would be presenting an update report to the Commission at its meeting in March.
- In relation to the fifth bullet point of paragraph 4 (third sub-bullet: North Lanarkshire Council), noted advice from the Director of Performance Audit and Best Value that he awaited a report from the external auditor in this regard.
- In relation to the second bullet point of paragraph 5 (2012/13 local government pension fund accounts: publishing information), agreed that:
 - a letter be sent from the Commission Chair to all council leaders advising of the content of the report, encouraging that it be considered formally by councils, and advising of relevant forthcoming issues in this regard.
 - the letter be shared with the Committee for information.

*Actions: Director of Audit Services and
Director of Performance Audit and Best Value*

4. Current audit issues in councils

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.

During discussion it was agreed:

- In relation to paragraph 7 of the report (integration of health and social care), to note advice from the Assistant Director that a lead agency model was being considered in a minority of areas.
- In relation to paragraph 11 (opencast mine restoration), to note advice from the Director of Performance Audit and Best Value that he and the Director of Audit Services would be meeting the Chief Executive of East Ayrshire Council to discuss issues around opencast mine restoration costs, upon which they would report back to the Commission.
- In relation to paragraph 13 (social housing), to note advice from the Director of Performance Audit and Best Value that progress against Scottish Quality Housing Standard would be considered by local area networks as part of the

shared risk assessment process, and would also feature as appropriate in this report to future meetings of the Committee.

- In relation to paragraph 14 (arm's length external organisations (ALEOs)), to note advice from the Assistant Director that the deadline for auditors providing information on ALEOs had been extended, and that the Director of Performance Audit and Best Value would advise as to the revised deadline.
- In relation to the Appendix:
 - To note advice from the Director of Performance Audit and Best Value that he was maintaining a watching brief on issues surrounding councils' membership of COSLA.
 - In relation to Dumfries and Galloway Council to note advice from the Director of Performance Audit and Best Value that:
 - he would be liaising with the external auditor to discuss further the costs in relation to the Council's waste management and recycling contract.
 - he would liaise with external auditors to if such mid-contract PPP/PFI risk and liability issues were more widespread.
 - In relation to East Dunbartonshire Council, to note advice from the Director of Performance Audit and Best Value that he would anticipate that issues surrounding the Council's temporary office accommodation would be addressed in the forthcoming Best Value audit of the Council, but it was not possible to clarify at this stage the level of prominence of the issue in the audit, because scoping had yet to be done.
 - In relation to East Renfrewshire Council, to note the changes to the Council's corporate management team and to reiterate the Commission's consistent concern about risks associated with statutory finance officer not being part of corporate management teams.
 - In relation to City of Edinburgh Council, to note advice from the Director of Performance Audit and Best Value that:
 - he was expecting that progress by the Council in settling issues associated with statutory repairs would be monitored and reported as appropriate by the external auditor.
 - he would continue to consider the appropriate scope of proposed follow-up Best Value audit work.
 - In relation to Glasgow City Council, to note advice from the Director of Performance Audit and Best Value that an audit of preparations for the Commonwealth Games is part of the performance audit programme.
 - In relation to Stirling Council, to note advice from the Director of Performance Audit and Best Value that the independent review requested by the Council into the two coinciding public events on 28 June 2014 would be undertaken by the external auditor.

Thereafter the Committee agreed to note the report.

5. Public services network

The Committee considered a report by the Director of Audit Services providing an update on the UK Public Services Network and making reference to the Scottish Wide Area Network, including emerging key messages.

During discussion the Committee noted advice from the Senior Audit Manager that external auditors were appropriately aware of the issues set out in the report.

Thereafter the Committee agreed to note the report.

6. Audit Services Group review of impact 2012/13: local government

The Committee considered a report by the Director of Audit Services advising of the impact made by Audit Services Group as a consequence of the 2012/13 local government audit activity.

During discussion the Committee:

- Agreed to recommend to the Commission that it consider a report of impact of the local government audit work of both Audit Services Group and private audit firms.

Action: Secretary and Business Manager

- That future such reports be more explicit as to the success of the input of external auditors into improvements achieved by councils.

Action: Director of Audit Services

Thereafter the Committee agreed to note the report.

7. Review of firms' impact 2012/13: local government

The Committee considered a report by the Assistant Auditor General informing of the types and prevalence of recommendations being identified by private firm local external auditors.

During discussion the Committee:

- Noted advice from the Senior Manager, Audit Strategy that the Commission would have opportunity to discuss, as part of its future regular scheduled consideration of audit procurement strategy, the market balance between Audit Scotland and private firm auditors.
- Noted that differences of approach between Audit Scotland and private firms is part of the Assistant Auditor General's monitoring of the quality of audits, but noting that differences of approach are an implicit feature of a mixed market procurement strategy.
- Further to this, to note that the Assistant Auditor General would be discussing with Deloitte issues around their practice of not including a separate action plan in their annual audit reports.
- Noted advice from the Senior Manager, Audit Strategy that some of the analysis in the report covered audits done by Audit Services Group as well as by the private firms.
- Noted advice from the Commission Chair that the Commission would retain its interest in seeking assurance about the consistency and level of skills available across auditors.

Thereafter the Committee agreed to note the report.

8. Audit quality survey – 2012/13 audits

The Committee considered a report by the Assistant Auditor General summarising the results of the biennial survey of local government audits in 2012/13.

During discussion the Committee:

- Noted advice from the Audit Manager that no response to the survey was received from Aberdeen, Dumfries and Galloway and Shetland Islands councils.
- Agreed that the Assistant Auditor General consider further the difference in results between Audit Services Group and private firms in relation to respondents' views about quality of service.

Action: Assistant Auditor General

- Noted advice from the Audit Manager that results were affected by some questions not being completed by all respondents.
- Agreed that future surveys need to:
 - better reflect the strategic themes of the Commission rather than solely Audit Scotland's impact dimensions.
 - ensure that percentages and absolute numbers are used appropriately, depending upon population size.
 - include more analysis of 'outliers' as appropriate.
 - be clearer and more specific in overall conclusions and recommendations arising from the survey.
 - provide more information on media impact and tracking in relation to published reports.

Action: Assistant Auditor General

- Agreed that the appropriate auditors be asked to liaise with those six audited bodies who, through the survey, asked for more support in how to consider audit reports.

Action: Assistant Auditor General

- Noted advice from the Director of Performance Audit and Best Value about the importance in follow-up work being done in face-to-face contact between auditors and audited bodies.
- Noted advice from the Chair of the Commission that some of the issues prompted by the Committee in its consideration of the report would feature in the first session of the Commission's annual strategy seminar.
- Noted advice from the Director of Performance Audit and Best Value that the outputs of the survey would feature in the annual Audit Scotland transparency and quality report, to be considered by the Commission at its meeting in June.

Thereafter the Committee noted the report, and in particular the positive contribution the survey results provided in regard to the quality of audit work carried out under appointment by the Accounts Commission.

9. Any other business

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

ACCOUNTS COMMISSION

MEETING 13 MARCH 2014

REPORT BY SECRETARY AND BUSINESS MANAGER

UPDATE REPORT

Introduction

1. The purpose of this report is to provide a regular update to the Commission on significant recent activity relating to local government, as well as issues of relevance or interest across the wider public sector.
2. It complements the regular Controller of Audit report to the Commission which updates the Commission on his activity. The Commission's Financial Audit and Assurance Committee also receives a more detailed update on issues relating to local government. Further, detailed news in relation to local government activity is provided in the weekly media digests produced by Audit Scotland's Communications Team and provided to Commission members alongside Commission meeting papers.
3. The information featured is also available on the Accounts Commission member portal. Hyperlinks are also provided in the electronic version of the report for ease of reference.

Commission business

4. On 4 March, the Chair of the Accounts Commission attended the latest meeting of the National Community Planning Group, which took place at the Scottish Parliament. The Group considered papers on joint resourcing; the role of the Third Sector in community engagement and co-production; and prevention.
5. The Accounts Commission published on 27 February its report on [South Ayrshire Council](#) which received considerable local press attention and political reaction. The Commission has also requested that it meet the Council to explain the reasons behind its findings. This meeting will take place during this month.
6. On 24 February, members of the Accounts Commission visited Argyll and Bute Council following the publication of its recent report (29 October 2013). Commission members met with councillors and senior officers.
7. On 13 February, the Chair of the Accounts Commission met with senior councillors and the Chief Executive of East Dunbartonshire Council. This meeting followed the Commission's consideration in December of a statutory report by the Controller of Audit on the Council. The Commission had agreed that it would meet with the Council to explain its action.
8. I have been working with the Chair and officials from the Scottish Government to put in place the process for the recruitment of a new Deputy Chair of the Commission. It is anticipated currently that a new Deputy Chair will be appointed in July 2014.
9. A survey of all council leaders, audit committee chairs and chief executives has been issued, seeking their views on the Commission's *How councils work* series. The outputs from the survey will be considered at the Commission's annual Strategy Seminar.

Issues affecting local government

Scottish Parliament/ Scottish Government:

10. The Scottish Government has launched a consultation (14 February) on the [Scottish Regulators' Strategic Code of Practice](#), powers on which were included in the Regulatory Reform (Scotland) Bill. The closing date for submission is 28 April 2014.
11. The Scottish and UK Government cabinets held separate meetings (24 February) in the Aberdeen area. The full UK cabinet met in Aberdeen (the second time in more than 90 years to have met in Scotland). The Scottish Government cabinet met on the same day nearby in Portlethen. The Scottish Cabinet is due to meet in Irvine (25 March) and will host a [public discussion session](#) focussing on the independence referendum.

Parliamentary Committee News:

Local Government and Regeneration Committee:

12. At its meeting of 5 March, the Committee hosted a session with Douglas Sinclair, Caroline Gardner, and Fraser McKinlay, at which the Accounts Commission and Auditor General for Scotland work programme was considered, along with their joint response to the Committee's consultation on the Community Empowerment (Scotland) Bill.
13. At this meeting, the Committee also further considered the Draft Community Empowerment (Scotland) Bill and the Draft Third National Planning Framework (NPF3) and Review of the Scottish Planning Policy (SPP).
14. The Committee has launched an inquiry into the [future of local government in Scotland](#) (10 February). The inquiry will explore whether local government has the necessary flexibility, autonomy, and constitutional place to meet the ongoing and future needs of communities across Scotland. The Committee invites all those with an interest in this area to share their vision for the future. Issues such as the legal, constitutional and funding mechanisms in place will be explored, during the course of the inquiry which is expected to begin taking oral evidence in April 2014. The Committee will also consider public engagement and turnout at local elections. I have provided a report on today's Commission meeting agenda proposing a response to the Committee in this regard.
15. The Committee published its [First Report, 2014 \(Session 4\): Delivery of Regeneration in Scotland](#) (24 February). The report concludes that years of regeneration policies have delivered few long-lasting outcomes for the most deprived communities in Scotland. The report follows a year-long inquiry examining best practice and limitations in relation to the delivery of regeneration of Scotland. It found that although community was central to much of the focus of regeneration work, in practice it was difficult for those living and working in those communities to have a real say on what was happening to them. The Committee also found there was a key role for the Scottish Government in ensuring central responsibility for oversight and co-ordination of regeneration activity.

Public Audit Committee:

16. At its meeting of 5 March, the Committee considered the following reports: Section 23 reports¹ - NHS Financial Performance 2012/13; and Management of patients on NHS

¹ The Auditor General for Scotland reports to the Public Audit Committee under Section 23 of the Public Finance and Accountability Act on economy, efficiency and effectiveness of public sector bodies (excluding local government).

waiting lists - audit update: The Committee considered the evidence received at its meeting on 19 February 2014 and took evidence from Angela Canning, Assistant Director, Tricia Meldrum, Senior Manager, and Jillian Matthew, Project Manager, Audit Scotland. Other business considered at this meeting included the Scotland Act 2012 (in private): The Committee considered a draft report on a framework for auditing the Scottish Rate of Income Tax. In addition, the Committee considered a draft report on the Auditor General for Scotland's Section 23 report entitled "Scotland's Colleges 2013." (in private).

17. At its meeting of 19 February, the Committee considered Section 23 reports - NHS Financial Performance 2012/13; and Management of patients on NHS waiting lists - audit update. The Committee took evidence on the Auditor General for Scotland's reports from Alex Neil, Cabinet Secretary for Health and Wellbeing, and officials, and NHS Scotland. The Committee also took evidence on the Auditor General for Scotland and Accounts Commission Section 23 report entitled "Reshaping care for older people" from Caroline Gardner, Auditor General for Scotland; Fraser McKinlay, Director and Controller of Audit; Claire Sweeney, Senior Manager; and Rebecca Smallwood, Performance Auditor, Audit Scotland.
18. At this meeting, the Committee considered its approach to the Auditor General for Scotland and Accounts Commission report entitled "Reshaping care for older people," (in private) and took evidence from Caroline Gardner, Auditor General for Scotland. It agreed to seek oral evidence from the Scottish Government Accountable Officer and stakeholders on issues raised during discussion. The Committee also agreed to seek further written evidence from Audit Scotland.

Infrastructure and Capital Investment Committee:

19. On 24 February, the Committee held a [Focus on housing for Parliament Day committee visit to Dumbarton](#). Committee members heard from Dumbarton residents on a range of topics covered by the Housing (Scotland) Bill, including tackling poor conditions in the private rented housing sector, the allocation of social housing and tackling anti-social behaviour and the Scottish Government's proposal to end tenants' right to buy social houses. The MSPs met local tenants' group representatives and housing associations and councillors and staff from West Dunbartonshire Council. There was formal Committee meeting, when representatives of tenants' group networks from across Scotland and citizens' advice agencies gave evidence to the Committee on the Bill. Following the formal meeting, there was an opportunity for members of the public to question the Committee about the Bill.

Finance Committee:

20. The Finance Committee published its [First Report, 2014 \(Session 4\): Report on proposals for a Scottish Fiscal Commission](#) (7 February) on the proposed Scottish Fiscal Commission, emphasising the need to ensure its independence, transparency and non-partisan nature. The Committee recognised the scale of the new body would need to be proportionate to Scotland's existing constitutional arrangements, the lack of other forecasting bodies focusing on Scotland. The report refers to evidence from Audit Scotland and the Auditor General and the report notes: "*Audit Scotland state in their*

The AGS is responsible for scrutinising the expenditure and performance of directorates of the Scottish Government and public spending bodies such as NHS boards, FE colleges, police and fire services (the scrutiny of local councils falls within the responsibility of the Accounts Commission which reports to Scottish Ministers). Audit Scotland carries out auditing work on behalf of the AGS.

written submission that there is a case for involving both the Parliament and the Executive in the appointment of the senior members of the SFC. The OECD principles include provision for the role of the relevant parliamentary committee in the appointment and dismissal process.”

Justice Committee:

21. The Justice Committee has [published its Stage 1 report](#) on the Criminal Justice (Scotland) Bill. The majority of Committee members expressed a view that the Government has not made a convincing case for the removal of the requirement for corroboration and has urged the Government to consider removing the provisions from the Bill. Cabinet Secretary for Justice, Kenny MacAskill, has announced (6 February) [further details of the reference group](#) to be set up to consider what additional safeguards and changes to law and practice may be required. Former High Court Judge, Lord Bonomy, will chair the reference group.
22. The Committee issued a call for evidence (6 February) on the [Courts Reform \(Scotland\) Bill](#), with submissions invited by 18 March 2014. The Committee has highlighted issues of particular interest including the increased threshold for sheriff court cases, the creation of a specialist personal injury court, judicial specialisation and the creation of a “*simple procedure*” for cases with a value of £5000 or less to be dealt with by summary sheriffs. Views are sought from people and groups who actually use the service, along with those of legal practitioners whose day to day work may be significantly affected by the provisions in the Bill.
23. The Justice Committee has also published its [timetable](#) (17 February) for Stage 1 consideration of the Bill, with four meetings scheduled. The first meeting (18 March) will take a general overview of the Bill with subsequent meetings focusing on sheriff specialisation and personal injury, judicial review and delivery, and a session in which Ministers will give evidence on 22 April 2014.

Public Petitions Committee:

24. The Committee considered a petition by Rab Wilson, on behalf of Accountability Scotland, on the [PE1495 on the use of 'gagging clauses' in agreements with NHS staff in Scotland in agreements with NHS staff in Scotland](#). The Committee papers refer to correspondence with Audit Scotland. The Committee considered the petition for the first time on 26 November 2013 and agreed to write to the Scottish Government, Public Concern at Work, NHS boards, the Scottish Health Council, UNISON, the General Medical Council Scotland, the Royal College of Nursing Scotland, the British Medical Association, Scotland, the UK Government and Audit Scotland. The Committee agreed to write to the Scottish Government and to those organisations still to respond to the Committee's initial request for views.

Bills – Progress Updates:

25. [Public Bodies \(Joint Working\) \(Scotland\) Bill](#) was passed by Parliament at Stage 3 (25 February). This completes the legislative process and the Bill will receive Royal Assent in late March/early April 2014. An update report by the Director of Performance Audit and Best Value on the Bill will be considered later on the agenda for today's meeting of the Commission (13 March).
26. The [Children and Young People \(Scotland\) Bill](#) was passed by Parliament at Stage 3 (19 February). This completes the legislative process and the Bill will receive Royal Assent in late March/early April 2014.

27. The general principles of the [Procurement Reform \(Scotland\) Bill](#) were agreed at Stage 1 (20 February). The Infrastructure and Capital Investment Committee will consider the Bill at Stage 2 on 12 March.

28. The general principles of the [Criminal Justice \(Scotland\) Bill](#) were agreed at Stage 1 (27 February).

COSLA / Improvement Service etc.:

29. Media reports continue to cover the ongoing internal dispute within COSLA, with a breakaway group of Labour-led authorities preparing to leave the organisation and set up their own organisation. Aberdeen, Dumfries and Galloway, Glasgow, Inverclyde, Renfrewshire and South Lanarkshire have already indicated their intention to leave the body amid claims that it has "lost its teeth" in negotiations with the Scottish Government.

Current activity and news in local government:

30. Media reports (Scotsman, 26 January, Herald, 26 February, Edinburgh Evening News, 24 January) indicate that Moray Council claims it will suffer the biggest financial penalty in the country because of a Labour group move at COSLA. The Council's ruling Conservative/Independent administration has says it has been denied £4.3 million of Scottish Government funding for 2015/16 because of a decision taken at COSLA in September. In response, COSLA stated there had been no change to funding allocation. Media reports indicate that Moray councillors may discuss quitting COSLA if it does not change its funding formula.

31. Media reports (Press & Journal, 26 January, Daily Record, 29 January) indicate that Council leaders in Stirling have denied trying to hijack plans to celebrate the 700th anniversary of the Battle of Bannockburn - but have indicated that they warned months ago that tickets for the troubled event were overpriced.

32. Media reports indicate that Aberdeen City Council's finance convener faced calls to quit after a crucial vote meant the local authority may miss out on £7.3million in funding. (Press & Journal, 25 February). Media reports indicate that Aberdeen's council leader, Councillor Barney Crocket, has requested a debate with First Minister, Alex Salmond. (Press & Journal, 11 February).

33. Media reports indicate (Press & Journal, 19 February) reports that Highland Council's public service counters will be cut from 35 to 23, following a fall in demand. A report will be presented to the Council's Finance, Housing and Resources Committee.

34. Media reports (Herald, 10 February) of a claim by the Scottish Public Services Ombudsman that the leader of Glasgow City Council, Councillor Gordon Mathieson, may face an inquiry into claims he may have been wrongly cleared over the George Square redesign.

35. Other media reports indicate that a fourth official at Glasgow City Council has been suspended as part of the ongoing investigation into financial irregularities. (Herald, 6 February).

36. Local media reports (Stornoway Gazette, 14 February, Hebrides News, 16 February) that the number of councillors representing the Comhairle nan Eilean Siar could be reduced from 31 to 26 following the Local Government Boundary Commission for Scotland's national review (see below for more details) of council boundaries and the number of councillors in Scottish local authorities. The Local Government Boundary Commission will make its proposals to Scottish Ministers in 2016, following extensive consultation with councils, but the Comhairle has indicated that it will be submitting its own recommendations.
37. Media reports indicate that Dumfries and Galloway Council has called for the area to receive a share of the UK Government funding ([BBC Online](#), 18 February) for residents affected by recent severe weather.
38. Media reports indicate that Shetland Islands Council has reached a deal to reduce its historic housing debt from £36m to 16m ([BBC Online](#), 12 February, Press and Journal, 13 February).
39. Media reports indicate that a review of the running of the office of the Lord Provost of Edinburgh City Council has been launched after staff expenses doubled in a year (Herald, 6 February).
40. Media reports (Daily Record, [BBC Online](#), 21 February) that council tax in Scotland has been frozen for the seventh year in a row. In a statement to the Scottish parliament, the finance secretary said £10.6bn would be given to local authorities to fund services in 2014-15. Mentions Scottish Government debate on funding local government
41. The Local Government Boundary Commission has begun a review (21 February) of the numbers of councillors in Scotland's local authorities. The [Fifth Reviews of Electoral Arrangements](#) will start with a consultation with councils on councillor numbers. The Fifth Reviews will result in the Commission making recommendations to Scottish Ministers for the number of councillors and electoral ward boundaries in each of Scotland's 32 local authorities. The Fifth Reviews will be conducted in two phases: phase one will comprise a consultation and decision on councillor numbers for each council; phase two will comprise a consultation and decision on ward boundaries. In each phases, the legislation requires a two month consultation period with councils before proposals are made. Recommendations will be made to Ministers in 2016 and the resulting wards will be in place for the local government elections in May 2017.
42. Local media reported (Courier & Advertiser, 14 February) the Scottish Greens launch of a [local democracy report](#) at an event in Nairn (13 February). Key ideas include breaking down current councils into municipalities serving around 20,000 people each, a set of large regions to coordinate issues such as health, economic development, colleges and transport, municipalities to raise at least 50% of their own revenue, a statutory share of national income tax for local government and an enshrined status for councils in a written constitution.
43. Media reported [Unison's call](#) (Herald, 14 February, Holyrood, 20 February) for an end to the council tax freeze and reforms to local government finance as councils across Scotland set their budgets for next year. It stated that the combination of austerity measures and the continued tax freeze has meant local government has borne "the brunt of cuts". It called for councils to have more control over their budgets, and for all parties to agree on local government finance reform.

Scrutiny and Inspection Bodies

Healthcare Improvement Scotland:

44. Director of Health and Social Care Integration for the Scottish Government, Angiolina Foster, has been appointed as Chief Executive of Healthcare Improvement Scotland (4 March) and will take up her new post in April.

Education Scotland and the Care Inspectorate:

45. The Hamilton School, Aberdeen, was closed after an Education Scotland inspection (21 February). The Care Inspectorate then sought the emergency cancellation of the Hamilton School's nursery's registration in the courts, but the nursery provider then announced its intention to close the nursery voluntarily, with immediate effect (22 February). Discussions are ongoing between the Care Inspectorate, Education Scotland, Aberdeen City Council and private nurseries to accommodate children from the Hamilton School and Nursery at schools and nurseries throughout Aberdeen. Parents and carers are being kept informed. The nursery's registration was disposed of in the sheriff court and liquidators have now been appointed to the company that ran the school (26 February).

Scottish Public Sector Ombudsman:

46. During January 2014, the Scottish Public Sector Ombudsman (SPSO) laid three investigation reports before the Scottish Parliament relating to the NHS and a report on 81 decisions covering all of the sectors under the SPSO's remit. The detailed reports can be read on the [Our findings](#) section of SPSO's website. During January 2014, SPSO received 464 complaints. In addition to the six reports laid before Parliament, 458 complaints were determined, of which: advice was given on 333 complaints, 57 complaints were handled through the early resolution team, 68 complaints were decided through detailed consideration and a total of 96 recommendations were made in decision letters.
47. As part of their ongoing assessment of compliance with the model complaints handling procedure, SPSO recently wrote to all councils asking for further information about their reporting of complaints. They are in the early stages of considering the information provided. They will liaise directly with councils to advise on any compliance issues, and will also share best practice through the local authority complaints handlers network. They have also undertaken to provide where appropriate a summary of their findings to inform the shared risk assessment process.

Other UK Audit Bodies

Audit Commission and National Audit Office:

48. A National Audit Office (NAO) report on [Progress on public bodies reform](#) has concluded the Government's Public Bodies Reform Programme, designed to reduce the number and cost of public bodies and to make them more accountable to elected representatives, is making good progress. There have also been substantial reductions in the administrative spending of non-departmental public bodies (NDPBs). However, here has insufficient emphasis on managing the benefits of the Reform Programme and the ongoing programme of reviewing the remaining public bodies needs to be strengthened.

49. The NAO report (27 February) on [Personal Independence Payment: early progress](#) examined the Department for Work and Pensions (DWP) Personal Independence Payment. The Payment was introduced in a small number of areas from April 2013, but the report found backlogs developed in the assessment process, leading to delays and uncertainty for claimants. Personal Independence Payment is a non-means-tested benefit to support disabled people with their daily living and mobility costs, which replaces Disability Living Allowance for working age people and aims to match support more closely to claimants' needs. By 25 October 2013, the Department had made only 16 per cent of the number of decisions anticipated.

Westminster

Public Accounts Committee:

50. The Committee has published a report (5 February) on [The Charity Commission](#), which is highly critical of the body for failing to address abuses of charity status. The Committee also published a [report](#) on Gift Aid and other tax reliefs on charitable donations.

Scottish Affairs Committee:

51. The [Scottish Affairs Committee](#) met in Falkirk and Livingston (10 February) and heard evidence on the impact of the Bedroom Tax & other changes to housing benefit in Scotland with representatives from local authorities, housing groups and Citizen's Advice Scotland. The Committee also held a [session](#) (on 10 February) with the Union of Shop, Distributive and Allied Workers on zero-hours contracts in Falkirk. It called for action to tackle the inappropriate use of zero-hours contracts following an evidence session with union officials in Falkirk earlier this week. The Committee's inquiry into the issue continues.

Conclusion

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

Paul Reilly
Secretary and Business Manager
5 March 2014

ACCOUNTS COMMISSION

MEETING 13 MARCH 2014

REPORT BY DIRECTOR OF PERFORMANCE AUDIT AND BEST VALUE

UPDATE ON PROGRESS WITH THE INTEGRATION OF ADULT HEALTH AND SOCIAL CARE IN SCOTLAND

Purpose

1. This report accompanies a presentation to the Accounts Commission which provides an update on progress with the integration of health and social care.

Background

2. The Public Bodies (Joint Working) (Scotland) Bill was passed on 25 February 2014. The Bill seeks to achieve greater integration between health and social care services in order to improve outcomes for individuals and to improve the efficiency of services.
3. Audit Scotland has been monitoring the development of the Bill over the last few months. The presentation will explain the background to the Bill, timescales and some of the remaining challenges. The presentation will also set out some of the detail of the Bill and future issues for the Accounts Commission and Audit Scotland to consider.

Conclusion

4. The Commission is invited to:
 - a. note the update
 - b. advise if there are any other specific pieces of work or further briefings required, particularly in the initial shadow phase of implementation.

Fraser McKinlay
Director of Performance Audit and Best Value
March 2014



Health and social care integration - update



Accounts Commission

March 2014



Coverage

- Timescale
- Overview
- Key challenges
- Risks
- Local progress
- Next steps

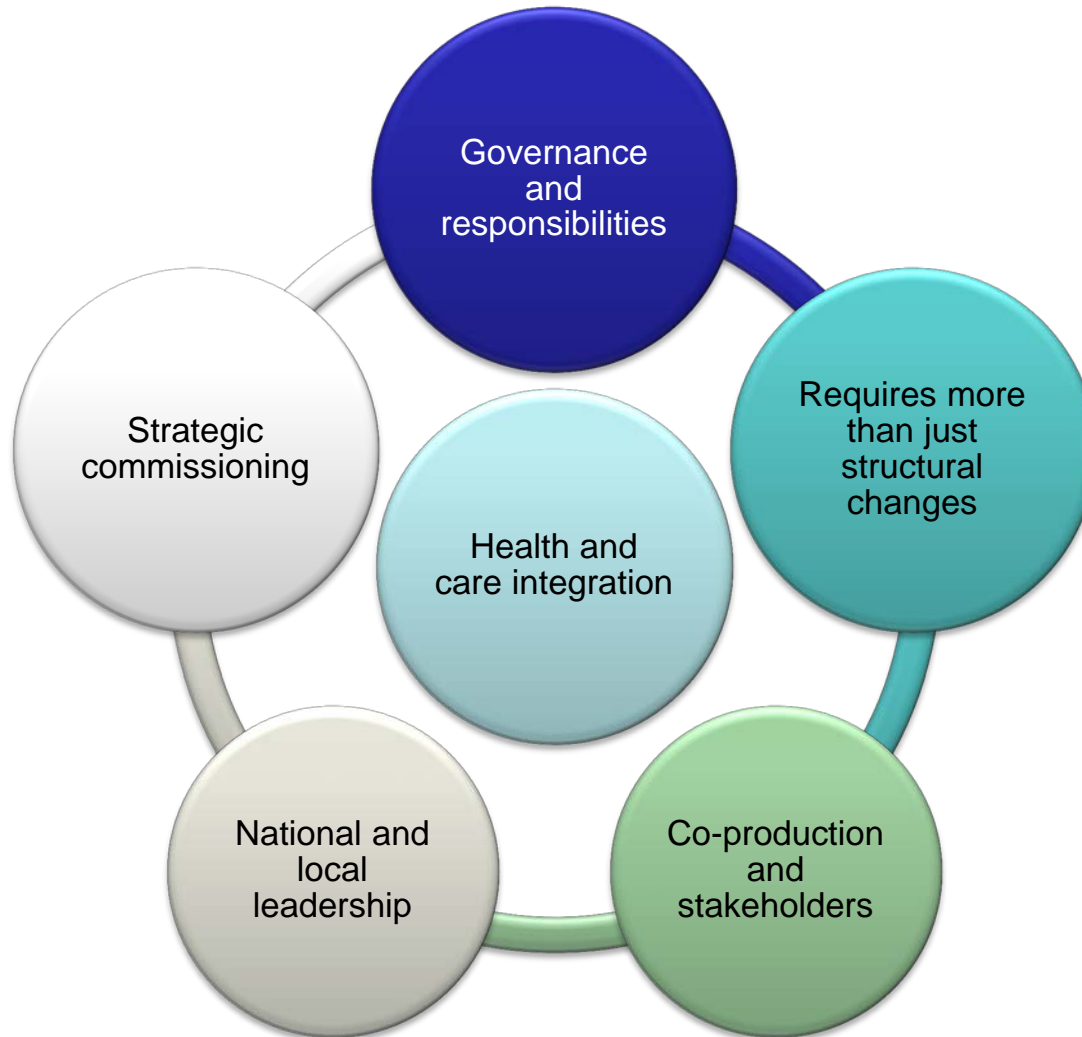


Timeline

The Public Bodies (Joint Working) Bill introduced into Parliament		28 May 2013
Stage 1	Evidence considered by Health and Sport Committee: <ul style="list-style-type: none"> - 81 written (+ 6 late) - 5 oral sessions (1 session including Audit Scotland) - 2 visits - reports from interested secondary committees. 	Sept - Nov 2013
	Health and Sport Committee report published	18 Nov 2013
	Scottish Government response published	22 Nov 2013
	Parliamentary debate and general principles of Bill approved	26 Nov 2013
Stage 2	Detailed consideration of the Bill by parliamentary committee(s)	Jan 2014 (completion by 7/2/14)
Stage 3	Final consideration and approval of the Bill by the Parliament	Royal Assent expected Spring 2014
Shadow Boards	20/31 partnerships shadow boards in place (with further 5 boards to be in place during 2014/15)	By April 2014
Partnership boards in place	Implementation is expected to be one year from enactment of the Bill. Draft regulations and guidance are expected to be issued after Royal Assent and before the Bill is finalised and implemented.	April 2015

- Bill sets out to establish a framework to support the integration of, as a minimum, adult health and social care, based on the principles of a person-centred approach to service planning
- Evidence received was broadly supportive of Bill and policy intentions

Challenges



Financial aspects/issues

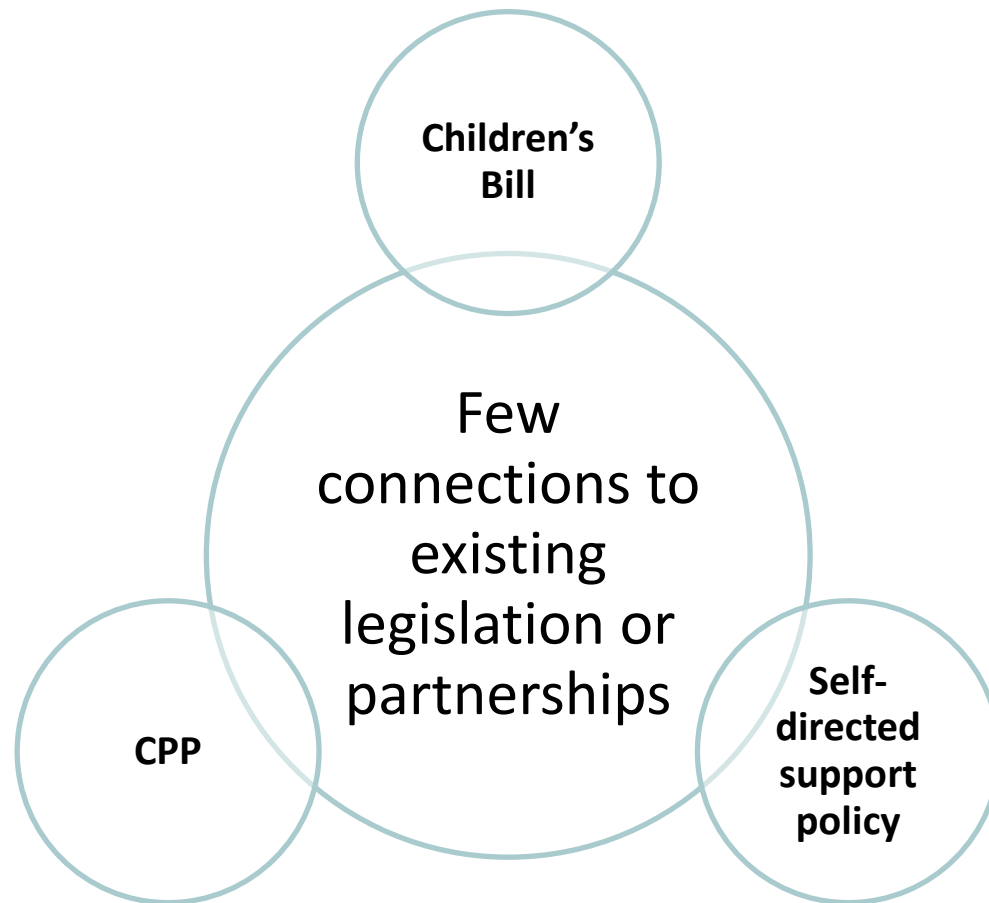
- Draft guidance
- Still key areas not fully addressed
 - Body corporate (local or central government bodies)
 - Timetabling/scheduling
 - Technical issues

Update from SG

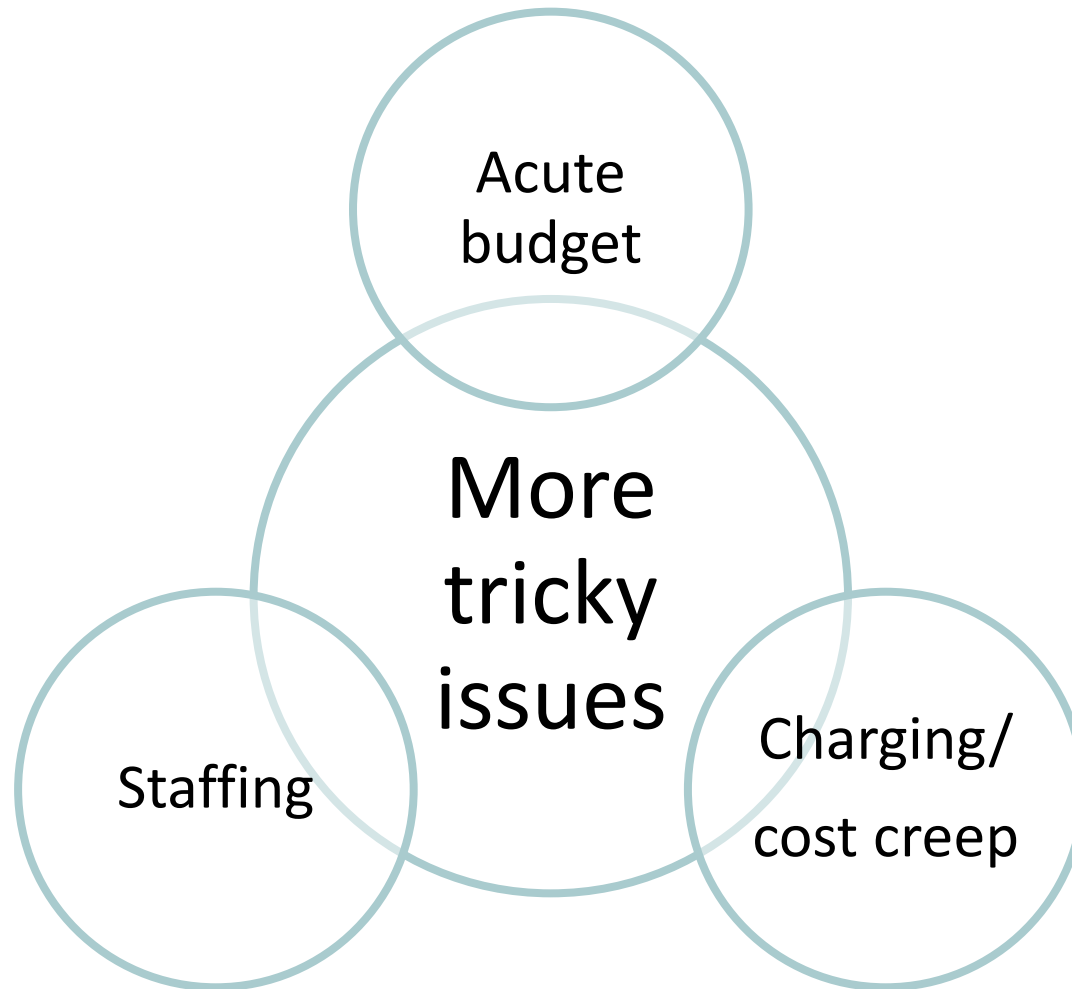
Chief officer	Joint integration board	Strategic planning	Performance reporting	Ministerial power
<p>accountable to the joint board, responsible for strategic plan, integrated budget, delegated planning and delivery</p>	<p>accountable to the HB and LA with parity of voting members from HB and LA.</p>	<p>board must produce plans, identifying total resource available and how it will be used to meet needs of population. Parent bodies can intervene if strategic plans not suitable</p>	<p>LA and HB must provide info to integrated authority to allow production of performance report monitoring mechanism for national outcomes.</p>	<p>..and impact on local democracy – Ministers must consult HB and LA before changes to boards.</p>

Financial aspects/issues – January 2014 update

	Amendments to the Bill to require that:
Stewardship and accounting for joint board monies and VFM	<ul style="list-style-type: none"> • the Chief Officer be responsible for the financial affairs of the integration joint board • the joint boards to keep accounts • the joint boards to have their accounts audited and to provide for the audit to be carried out by the Accounts Commission for Scotland.
Clarification of pension liabilities in the Lead Agency model	<ul style="list-style-type: none"> • Where local authority staff elect to remain members of the Local Government Pension Scheme after transfer to NHS/integration joint board, the transferred assets/liabilities of the original employer should exclude any deficit/surplus on the local authority pension fund that relates to the transferred staff at the date of transfer.
Notional hospital budgets	<ul style="list-style-type: none"> • All resources to be included within the scope of the strategic plan • but Health Boards need not physically disaggregate the budgets for hospitals or include these in payments to integration authorities
Annual financial statement	<ul style="list-style-type: none"> • The integration authority must publish an annual financial statement • Needs to set out the total amount that the integration authority intends to allocate under the provisions of the strategic plan



Other issues



Next steps

- Keeping in touch with key players
 - Scottish Government leads
 - Health and Sport Committee
 - Finance working group
 - Strategic commissioning group
- Keeping in touch with national developments
- Commenting on any concerns about financial/governance arrangements in shadow year
- Workshop for staff in Audit Scotland and the firms (early March)

ACCOUNTS COMMISSION

MEETING 13 MARCH 2014

REPORT BY THE DIRECTOR OF PERFORMANCE AUDIT AND BEST VALUE

REVIEW OF THE LOCAL GOVERNMENT ANNUAL AUDIT REPORTS 2012/13

Purpose

1. This paper:

- summarises the outcome of the review of the 2012/13 annual audit reports for councils and related local authority bodies
- advises the Commission, and seeks its view, of the processes for keeping it informed about matters arising from the annual audit in local government.

Background

2. Under the Code of Audit Practice approved by the Accounts Commission and the Auditor General, auditors are required at the conclusion of the annual audit to issue a report summarising the significant matters arising from the year's audit. In local government, these reports are addressed to the members of the audited body and the Controller of Audit and are submitted by 31 October each year. The reports are public reports and are available on Audit Scotland's website.
3. The reports are reviewed by my staff to:
 - Identify high-level issues and themes for inclusion in the Commission's annual local government overview report
 - Identify specific issues that the Controller may wish to report to the Commission under his statutory reporting powers¹. In short, these provide for reports: on the accounts of local authorities or matters arising from the accounts or the audit of the accounts; and, in certain specific situations, involving illegality or loss.
4. In practice, significant issues arising from the audits will be known to my staff in advance of the annual audit reports. However, when such matters are included in the annual audit report, that can be the starting point for statutory reporting. Examples in recent years include:
 - The qualification of Shetland Islands Council's accounts
 - The Highland Council's involvement in the Caithness Heat and Power project
 - The retirement and re-employment of the Chief Fire Officer at Strathclyde Fire and Rescue.

Matters arising from the review of the 2012/13 annual audit reports

5. There were no specific matters arising from the review of the 2012/13 annual audit reports that require a statutory report from the Controller to the Commission.
6. General themes arising from the review were reflected in the draft local government overview report which the Commission considered in February 2014.
7. In summary, common themes in annual audit reports are:
 - Audit opinions – none of the accounts of the 32 councils and other local authority bodies, including pension fund accounts, was qualified.

¹ Sections 102(1) and 102(3) of the Local Government (Scotland) Act 1973

- Financial position – significant funding gaps and the continued need to make substantial savings. There are pressures on uncommitted reserves, which in some cases are being applied to balance budgets. Uncertainties continue about the impact of equal pay claims and the financial consequences of welfare reform.
- Governance and financial management – the need to ensure governance arrangements are effective, with a particular focus on scrutiny and financial management and controls. A more specific issue concerns under-resourcing of internal audit generally and in relation to pension funds specifically.
- Performance – the impact of reducing levels of staff and the need to monitor the longer term implications on service performance.

Links to other reports that the Commission receives

8. In addition to the annual local government overview report, the Commission receives a range of other reports throughout the year which reflect emerging issues, themes and risks arising from annual audit activity. These include:
- Reports on the shared risk assessment (SRA) process, including an annual report on the Best Value audit activity flowing from the SRA activity (which is considered around May each year).
 - Reports on current issues in local government. These include reports prepared for the Commission's Financial Audit and Assurance Committee (FAAC), including:
 - Current issues reports. These reports are a standing item on the FAAC's agenda and cover themes in local government and specific issues in individual local authorities, including those audited by the firms.
 - Topic specific reports. Recent examples include reports on matters arising from the pension fund account audits and an update on the UK Public Services Network (PSN).
 - Impact reports, which inform FAAC about the impact of local audit work.
 - Reports on the quality and impact of audit activity, including:
 - Reports on the impact of audit work. There are two reports considered by the FAAC, covering audits undertaken by Audit Scotland (report by Audit Services group) and the audit firms (report by Audit Strategy group) (which is considered around February each year).
 - An annual transparency and quality report considered by the Commission around June each year.
9. The intended combined purpose of these reports set out above is to provide the Commission with assurance that matters arising from the audits are effectively brought to its attention. I would welcome the Commission's view that this purpose is being achieved to its satisfaction.

Conclusion

10. The Committee is asked to:
- note the outcome of the review of annual audit reports for local government bodies.
 - note the information provided from annual audit activity to help it deliver its statutory responsibility, and consider if this information is useful.

Fraser McKinlay
Director of Performance Audit and Best Value
5 March 2014

ACCOUNTS COMMISSION

MEETING 13 MARCH 2014

REPORT BY ASSISTANT AUDITOR GENERAL

AUDIT OF LOCAL AUTHORITY CHARITIES

Purpose

1. The purpose of this report is to provide the Commission with a further update on the audit of local authority charities. It clarifies the status of charities where a local authority officer is one of the trustees and provides updated information on the number of charities that require to be audited.

Background

2. At the June 2013 meeting, the Commission approved the appointment of the existing council auditors to the approximately 1,200 registered charities that fall within section 106 of the Local Government (Scotland) Act 1973.
3. An update was provided at the October 2013 meeting, and the Commission approved the deferral of some audit appointments as a transitional measure where set conditions were met.

Local authority officers as trustees

4. Registered charities that fall within section 106 of the 1973 Act are those where a local authority, or some members of the authority, are the sole trustees. We have become aware that a local authority officer, usually the Director Finance, is a trustee of some charities and have sought legal advice as to whether this would remove the charity from the provisions of section 106.
5. The legal advice states that an officer trustee is not the same as the local authority being trustee, even where the appointment is ex-officio. However, the officer may be acting as the authority for the purposes of section 106 in certain circumstances. The strongest evidence would be where the wording of the trust deed states that the officer is acting as, or on behalf of, or representing the authority, or where there is reference to the delegation of a local authority function to the trustees. A case can also be made where there is a legislative requirement for the authority to nominate an officer as trustee, as is the case with section 16 of the Local Government (Scotland) Act 1994.
6. If a council challenges the application of section 106 to a particular charity, we will use this approach in determining whether it applies.

Charity numbers

7. Charities legislation provides for the reorganisation of charities which includes amalgamation or winding up. Local authorities have been taking advantage of these provisions to reduce the 1,200 charities to more manageable numbers. Information on current numbers remains incomplete but the Audit Services Group has reported that for 17 of the councils that they audit there are around 300 charities. Three councils, Argyle & Bute, Fife and Perth & Kinross account for 175 of that total. Work with councils continues to further reduce the number of separate audits through applications to OSCR for amalgamations or through the use of connected charities provisions to allow one set of accounts covering multiple individual charities.
8. Where a charity is wound up during the year, charities legislation requires the submission of the accounts to the Office of the Scottish Charity Regulator (OSCR) within 9 months. However, we have agreed with OSCR that an audit is not required for a charity either wound

up during 2013/14 or where an application to be wound up has been submitted by 31 March 2014.

Recommendation

9. The Commission is asked to note this report.

Russell Frith
Assistant Auditor General
4 March 2014