



2005/06

Annual Report

 ACCOUNTS COMMISSION

The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- Securing the external audit, including the audit of Best Value and Community Planning.
- Following-up issues of concern identified through the audit.
- Carrying out national performance studies to improve economy, efficiency and effectiveness in local government.
- Issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

The Commission secures the audit of 32 councils and 35 joint boards (including police and fire services). Local authorities spend over £14 billion of public funds a year.

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Introduction



Alastair MacNish
Chairman

I am pleased to introduce the Accounts Commission's Annual Report for 2005/06. The year has been one of continued development, with the ongoing delivery of the audit of Best Value and Community Planning and the pilot and roll-out of the new, risk-based approach to financial audit and assurance.

In particular, we have been pleased with the response to the Best Value audit. The audit process requires each local authority to undertake a thorough self-assessment of its performance under the best value criteria, and we are grateful to councils for the open and transparent way they have gone about this task. Through the year we have found evidence of local government really delivering for its citizens, but also examples where much more needs to be done.

We also published the *Overview of the local authority audits 2005*, which summarised the outputs of the 2004/05 audits. We were pleased to note that councils have responded well to previous Commission recommendations on reserves and have made progress on developing the role of audit committees. However, we also found that more needs to be done on longer-term financial planning, particularly given an increasingly tight budgetary environment.

In 2005 we also saw the introduction of the modernised audit in local government, with pilots in two councils. The modernised audit is designed to ensure we focus on the issues that matter to councils, and feedback from the pilot sites has been positive. The new approach is currently being rolled out across the local government audit portfolio.

We continue to be grateful to our partners and stakeholders for their assistance and support. This year, we have worked closely with ministers and Scottish Executive officials as well as our partners in local government, including COSLA, SOLACE and the Improvement Service. We also wish to thank the Auditor General and the staff of Audit Scotland for their commitment and continued service. We remain committed to working closely with all our partners to deliver our twin aims of providing assurance and of promoting service improvement in Scottish local government.

A handwritten signature in black ink, which appears to read 'Alastair MacNish'. The signature is fluid and cursive, written over a white background.

What we do

The Accounts Commission for Scotland was established to secure the audit of Scottish local government and to consider reports arising from that audit. The Commission's original functions have developed and its responsibilities are now:

- to secure the audit of all accounts of local authorities and associated bodies either by employed staff of Audit Scotland or by firms of accountants
- to secure the audit of the performance by local authorities of their Best Value and Community Planning duties
- to undertake or promote Best Value studies in local government
- to give directions to local authorities on performance information
- to consider reports made by the Controller of Audit, to investigate all matters raised and to conduct hearings where appropriate
- to make recommendations to the Scottish Executive and to local authorities, and to impose sanctions on individual officers and members responsible for illegality
- to advise the Scottish Executive on local authority accounting matters.

Since 2000 the Commission has, together with the Auditor General for Scotland, worked through the agency of Audit Scotland which was set up to provide services to both. The performance of Audit Scotland is reported separately in its annual report, which can be found at www.audit-scotland.gov.uk/ar2006

Financial stewardship

Target:

1. Well-planned, well-delivered programme of reports on individual audited bodies.
2. Overview report highlights the strengths and weaknesses in internal controls and governance; and the material risks in comparison with previous years.
3. Audit quality reviewed to secure best value, to include more time-efficient methods and approaches to work.
4. Successful procurement process.

Performance:

- 64 of 67 audits completed by deadline.
64 of 67 annual reports completed by deadline.
Overview report 2004/05 published 30 March 2006.
- Completed and reported in September 2005.
- Completed.

The delivery of the local authority audit was further developed in 2005/06, with the modernised audit piloted in two councils. The revised approach focuses on the key priorities and risks in councils, and ensures that audit activity is targeted at the issues that matter. Feedback from the pilot sites has been positive, and the modernised approach is now being rolled out across local government.

The Controller of Audit summarised the outcome of the local authority audits for 2004/05 in her overview report published in March 2006.

The Commission made and published findings on the overview report. The Commission said financial stewardship

remained generally sound and noted that council tax collection rates have improved for the sixth consecutive year. Councils had responded well to previous Commission recommendations on reserves and had developed the role of audit committees.

The Commission highlighted challenges facing councils. These included:

- the Scottish Executive's drive for public sector reform and efficiencies
- their ongoing duty to deliver best value and to lead community planning
- a significant increase in council pension fund liabilities

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Financial stewardship continued

- developments in services, including the teachers' agreement, modernisation of the school estate, free personal care for older people, child protection and community safety, improving housing stock, and the national waste strategy.

The Commission said councils needed to improve in areas such as developing medium and long-term financial strategies and systematic performance management. They also needed to better identify priorities, inform and support elected members carrying out their scrutiny functions and focus on the needs of service users.

There were no audit qualifications on council accounts, for only the second time since local government reorganisation in 1996.

In 2005/06 Audit Scotland undertook, on behalf of the Accounts Commission and Auditor General, the five-year audit tender process. The tender's aims included reorganising the portfolios of work to cluster council audits and to appoint the same auditor to councils, health boards and other community planning partners in the same geographical area where practicable. Final appointments were approved in April 2006, including the appointment of a new audit provider to local government.

Best Value

Target:

1. Best Value audit programme delivered on time.
2. Stakeholders recognise accuracy and value of outputs.
3. Audits result in well-focused improvement plans likely to deliver progress.
4. Lessons implemented for future audits.

Performance:

Eight Best Value audits reported to the Commission and published.

All councils involved acknowledged accuracy of reports during follow-up meetings.

Improvement plans submitted by councils in all cases.

Contained in overview report. Covered in continuing review of audit process.

Best Value audits were developed in 2003/04 to assess how well councils are meeting their statutory duty to provide best value and to give the public an overview of how well their council is performing. The Best Value audits are designed to give a rounded picture of each council, looking at past performance and future plans and taking into account the particular constraints and opportunities facing each council. The Commission welcomes the continued positive approach adopted by councils and is grateful to them for their co-operation. In 2005/06, the Commission made findings on eight Best Value reports.

During 2005/06, we have taken the opportunity to review the Best Value audit approach and to make improvements where possible. We have also been

flexible in how we approach particular situations as they arise. For example, the Commission asked Audit Scotland to conduct a follow-up study on progress in Inverclyde Council six months after the initial report. We have experienced some slippage in the original programme this year, but we believe that this flexibility has been a positive aspect of the Best Value approach so far.

Following publication of a Best Value audit report, Commission members meet face-to-face with council officers and elected members to:

- explain and discuss the Commission's findings in more detail
- discuss the council's improvement plan and the suggested way forward for the Best Value audit process



Best Value continued

- receive feedback from the council on their experience of the Best Value audit process.

The Commission intends to discuss with councils the broad messages coming through the Best Value audit process. From the work delivered so far, the evidence suggests that a council which is delivering best value for its citizens is one which:

- understands the needs of the area and its citizens
- has a clear vision, shared by elected members and officers, of how it is to meet those needs
- prioritises the use of resources according to these needs
- is organised to deliver effectively.

To date, the audit has focused on the corporate process of planning for and delivering best value. As the audit continues to develop, the emphasis will shift towards outcomes and the experience of service users. We are also currently undertaking a pilot Best Value audit of a police service and we will be consulting on our approach to best value in police authorities.

The following section provides a summary of the Best Value reports published in 2005/06.

Inverclyde Council June 2005

The report said Inverclyde Council must take urgent, remedial action to address weaknesses in leadership and direction. Extensive and fundamental weaknesses in the leadership and direction provided by elected members and senior management were significant factors in preventing Inverclyde Council from improving. The report said the council should get appropriate external assistance to address its core problems.

West Lothian Council June 2005

The report praised West Lothian Council for its ability to transform its ambitious vision for the local area into improving services for the people who live there. The report said the council performed well and was fully committed to continuous improvement.

Dundee City Council October 2005

Dundee City Council's services generally perform well for its community. The council is committed to regeneration, has ambitious plans for the city and has made significant

achievements in community planning and joint working. But there are a number of improvements required, including the way in which service performance is scrutinised and in the openness of decision making.

East Renfrewshire Council October 2005

The report found that East Renfrewshire Council was ambitious and successful and service performance was generally strong and improving. While the report identified some areas for further improvement, it stated that East Renfrewshire demonstrated many of the attributes of a council achieving best value.

Inverclyde Council progress report November 2005

The report considered the steps taken by Inverclyde Council to address the concerns raised in the Commission's initial Best Value audit report in June. The report said that while the council had made progress on its recovery, there was still a long way to go. The Commission asked for a further report charting progress to 31 March 2006.

Glasgow City Council January 2006

The Accounts Commission commended Scotland's largest council for its progress on its improvement

agenda and its commitment to change. However, the report acknowledged the significant challenges still facing the council and also highlighted the areas it needed to focus on, including its performance in some key service areas.

The Moray Council February 2006

The report stated that the council was not yet in a position to deliver Best Value to the people it serves. The council was described as inward looking, and as having considerable variation in service performance. A number of its practices, including the way in which it manages performance and monitors the competitiveness of its services have been weak.

Argyll and Bute Council February 2006

Argyll & Bute Council faces particular challenges because of its geographical make-up and the fact that its population is spread over a wide area. However, even taking this into account, the council needs to do more to improve services for local people. The council remains traditional in its approach to managing its business, and needs clearer leadership and drive to follow through on its initiatives, and to embed a culture of continuous improvement in the organisation.

Performance audit

Target:

1. Improved publicity for outputs in current study programme.
2. Impact of previous study programme assessed and lessons learned.
3. Improvements in impact from future study programme.

Performance:

Four reports published. All gained significant media coverage. Development work on assessing the value of public audit under way in conjunction with other audit agencies in the UK.
As above.

The Accounts Commission has the power to conduct studies and issue reports on performance in local government. This year, the Commission decided to focus on fewer, more strategic issues, designed to have a higher impact. The study programme for 2005/06 reflects this shift in focus.

Improving customer service through better customer contact

May 2005

The report looked at how councils dealt with requests for services and information from their customers, including taxpayers and business contacts. While councils have made improvements, the report said they needed to review organisation and leadership to ensure their customer service was as efficient and effective as possible.

Following the Public Pound:

A follow-up report

December 2005

Councils need better information about their funding of external organisations and what is obtained for the money provided. Scottish councils provided £220 million to 14,000 organisations to deliver a wide range of council-related services. The report found that no council fully complied with guidance which sets out best practice principles when councils fund external organisations. There was a high level of performance in nine councils, moderate performance in 18 councils and a low level of performance in five.

Joint reports with the Auditor General for Scotland.

Moving on? An overview of delayed discharges in Scotland

June 2005

The report highlighted the need for action across all parts of the health and community care system to solve the problem of delayed discharges. It also found that although the number of patients delayed in hospital was steadily falling, a growing older population meant that further action was needed to sustain this progress.

Moving on? A handbook on modelling the whole system for delayed discharges in Tayside

June 2005

The second publication, the handbook, came after an innovative project in which Audit Scotland worked with the NHS board and three councils that make up the Tayside Partnership to share an understanding of how its local care system worked; identify key factors that lead to delays in Tayside; and develop a computerised model to help Tayside test strategies to reduce delayed discharges.

Council housing transfers

March 2006

The transfer of council housing ownership is bringing benefits for tenants. The report said management of transfers was improving but better, clearer measures were needed to assess impact and value for money. The handover of more than 100,000 council homes to new landlords since 1998 has brought more investment in properties – doubling it in Glasgow – and promoted tenant control. It is facilitating increased repairs and maintenance and the building of new homes, and is keeping rent increases down. The Scottish Executive should now reinforce its approach with clearer goals and measures for quality of service and tenant involvement. This would help increase the overall impact and the value for money of transfers.

Performance information

Target:

1. Improved performance overall.
2. Improved and fairer publicity for outputs.
3. Reduced burden on councils.
4. Improved accessibility for stakeholders.

Performance:

Improved service performance in homecare, benefits processing, council tax collection, rent arrears and waste recycling. Stakeholders welcome new approach to publication. Under discussion with Scottish Executive sponsored Project Board. New publication method adopted.

The Commission discharges its responsibility for performance information in local government through a national Direction. In 2005/06, the Commission changed the way it reported the performance of Scotland's councils against the statutory performance indicators (SPIs). The new approach allowed us to make the SPI Data Compendium (the Compendium) and council profiles available on our website in December, two months earlier than in previous years. This change reflected the needs of our stakeholders, who use the data for assessing performance and benchmarking progress.

The Compendium provides all the SPI data for Scotland's councils, fire brigades and police forces. The council profiles give individual profile reports on Scotland's councils, with details of their performance against a range

of indicators, and reports comparing councils on a range of key services.

As part of the changed system of reporting, we did not publish the accompanying annual series of pamphlets about separate services. We integrated commentary on key findings from the Compendium into the local authority overview report published in March 2006. Findings from the SPIs are also used in our Best Value audits and national studies.

The Commission is currently consulting stakeholders on the future framework for performance monitoring in local government and the role of SPIs. We would expect the initial results of these discussions to feed into the 2007 Direction.

The Compendium and council profiles can be found at www.audit-scotland.gov.uk/performance/index.htm

Governance

Target:

1. Audit Scotland held to account for delivery.
2. Members have performance assessed.
3. Improvement in cohesion and effectiveness.

Performance:

Audit Scotland performance reports considered by the Commission.
Seven performance appraisals completed.

Reviewed at Annual Strategy Seminar.

Audit Scotland provides services to the Accounts Commission and the Auditor General and the Commission receives regular reports on its performance. Commission meetings occur monthly, with additional meetings to consider Best Value reports as required. In addition, the Financial Audit and Assurance Committee and Performance Audit Committee meet three to four times per year to consider specific aspects of the Commission's functions.

Commission members are also closely involved in individual Best Value audits and performance studies. Two Commission members are linked to each Best Value audit and attend follow-up meetings with councils, along with the Secretary and either the Chair or Deputy Chair. Each performance audit study is sponsored by two Commission members.

The Chair of the Accounts Commission is also the Chair of the Audit Scotland Board, and John Baillie, a Commission member, is a Board member. The performance of Audit Scotland is reported separately in its annual report which is available at www.audit-scotland.gov.uk/ar2006/index.htm

The Controller of Audit has the statutory function of reporting to the Accounts Commission on the outcome of the audits, including Best Value and Community Planning.

The Commission

The Chair, Deputy Chair and members of the Commission are appointed by Scottish ministers following an open recruitment process. They are appointed for a period of three years, normally renewable for a further three-year period. The members of the Commission during 2005/06 were as follows:



Alastair MacNish (Chair), Resident: Inverclyde

Appointed: September 2001 Term ends: September 2007
Chair of Audit Scotland Board. Former Chief Executive of South Lanarkshire Council. Previously held a number of posts in Strathclyde Regional Council including Deputy Director of Social Work. Served as Chairman of the Leadership Advisory Panel.



Isabelle Low (Deputy Chair), Resident: Fife

Appointed: October 2001 Term ends: September 2006
Former senior civil servant, Director of the 21st Century Government Group in the Scottish Executive. Former member of the State Hospitals Board for Scotland, member of Scottish Consumer Council.



Alan Alexander, Resident: Edinburgh

Appointed: October 2002 Term ends: September 2008
Emeritus Professor of Local and Public Management Strathclyde Business School. Former Chairman of Scottish Water.



John Baillie, Resident: Renfrewshire

Appointed: September 2003 Term ends: September 2006
Visiting Professor of Accountancy at Glasgow University. Member of the Reporting Panel of the Competition Commission. Member of the Local Government Finance Review Committee. Former partner in Scott-Moncrieff and KPMG. Member of Audit Scotland board.



Owen Clarke, Resident: East Lothian

Appointed: September 2003 Term ends: September 2006
Former Head of Inland Revenue in Scotland/North of England and former Chairman of Scottish Ambulance Service.



Jean Couper, Resident: Glasgow

Appointed: October 2002 Term ends: September 2008

Partner in a management consultancy and previously a senior management consultant with Price Waterhouse. Former Chairman of Scottish Legal Aid Board and member of Police Advisory Board.



Ann Faulds, Resident: Edinburgh

Appointed: September 2003 Term ends: September 2006

Partner in Dundas and Wilson, Solicitors. Former solicitor in Central Regional Council.



Keith Geddes, Resident: Edinburgh

Appointed: October 2002 Term ends: September 2008

Policy director for a consultancy firm, a former Leader of Edinburgh and Lothian Regional Councils and former President of COSLA. Deputy Chair of Scottish National Heritage.



Alyson Leslie, Resident: Fife

Appointed: September 2003 Term ends: September 2006

Research consultant. Former Assistant Director of Standards Directorate, Fife Council and lay associate of the General Medical Council.



Peter McKinlay, Resident: Edinburgh

Appointed: September 2003 Term ends: September 2006

Former senior civil servant, Director of Scottish Prisons Service and Chief Executive of Scottish Homes.



Mahendra Raj, Resident: Aberdeen

Appointed: October 2001 Term ends: September 2007

Professor of Finance at the Aberdeen Business School. Member of the reporting panel of the Competition Commission for UK. Former consultant to the Commonwealth.



Iain Robertson, Resident: Edinburgh

Appointed: September 2003 Term ends: September 2006

Chairman of Scottish Legal Aid Board, Independent Member of the DTI Legal Services Group Board. Former Group Strategy Director of AWG plc and Chief Executive of Highland and Islands Enterprise.

There is a register of Accounts Commission members' interests which is open for inspection in the offices of Audit Scotland and which can be accessed on the website at www.audit-scotland.gov.uk/accounts/acmembers.htm

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