

**443rd meeting of the Accounts Commission for Scotland  
Thursday 8 February 2018, 10.15am  
in the offices of Audit Scotland, 102 West Port, Edinburgh**

**Agenda**

1. **Apologies for absence.**
2. **Declarations of interest.**
3. **Decisions on taking business in private:** The Commission will consider whether to take item 11 in private.
4. **Minutes of meeting of 11 January 2018.**
5. **Audit Scotland Board update:** The Commission will consider a verbal report by the Chair and Secretary to the Commission.
6. **Update report by the Secretary to the Accounts Commission:** The Commission will consider a report by the Secretary to the Commission.
7. **Update report by the Controller of Audit:** The Commission will consider a verbal report by the Controller of Audit.
8. **Annual Assurance and Risks Report:** The Commission will consider a report by the Controller of Audit.
9. **New approach to auditing Best Value: review:** The Commission will consider a report by the Director of Performance Audit and Best Value.
10. **Proposed change of audit appointment:** The Commission will consider a report by the Assistant Director, Appointments and Assurance Team.

**The following items are proposed to be considered in private:**

11. **Commission business matters:** The Commission will discuss matters of interest.

\* It is proposed that item 11 be considered in private because:

- Item 11 may be required if there are any confidential matters that require to be discussed outwith the public domain. The Chair will inform the meeting in public at the start of the meeting if this item is required and what it covers.

The following papers are enclosed for this meeting:

<b>Agenda Item</b>	<b>Paper number</b>
<b>Agenda Item 4:</b> Minutes of meeting of 11 January 2018	AC.2018.2.1
<b>Agenda Item 5:</b> Audit Scotland Board Update	AC.2018.2.2
<b>Agenda Item 6:</b> Report by Secretary to the Commission	AC.2018.2.3
<b>Agenda Item 8:</b> Report by Director of Performance Audit and Best Value	AC.2018.2.4
<b>Agenda Item 9:</b> Report by Director of Performance Audit and Best Value	AC.2018.2.5
<b>Agenda Item 10:</b> Report by Assistant Director of Annual Audit and Assurance Team	AC.2018.2.6

MEETING: 8 FEBRUARY 2018

MINUTES OF PREVIOUS MEETING

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Minutes of the 442<sup>nd</sup> meeting of the Accounts Commission held in the offices of Audit Scotland at 102 West Port, Edinburgh, on Thursday 11 January 2018, at 10.15am

PRESENT: Graham Sharp (Chair)  
Alan Campbell  
Sophie Flemig  
Sheila Gunn  
Tim McKay  
Stephen Moore  
Pauline Weetman  
Geraldine Wooley

IN ATTENDANCE: Paul Reilly, Secretary to the Commission  
Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value (PABV)  
Gemma Diamond, Senior Manager, PABV [Item 9]  
Keith Macpherson, Head - Government & Public Sector Audit, Scotland, EY [Items 11 and 13]  
Martin McLauchlan, Audit Manager, PABV [Item 9]  
Tricia Meldrum, Senior Manager, PABV [Items 11, 13 and 15]  
Stephen Reid, Partner, EY [Items 11 and 13]  
Tom Reid, Senior Audit Manager, ASG [Items 12 and 14]  
Richard Robinson, Audit Manager, PABV [Items 12 and 14]  
Gordon Smail, Associate Director, PABV [Items 12 and 14]  
Mark Taylor, Assistant Director, ASG [Item 10]  
Tarryn Wilson-Jones, Senior Auditor, PABV [Item 9]

Item No    Subject

1. Apologies for absence
2. Declarations of interest
3. Decisions on taking business in private
4. Minutes of meeting of FAA Committee of 30 November 2017
5. Minutes of meeting of 8 December 2017
6. Update report by the Secretary to the Accounts Commission
7. Update report by the Controller of Audit
8. Equalities Sub-Group update
9. Briefing: Scottish Budget
10. New financial powers update
11. Audit of Best Value: follow-up audit report - Falkirk Council
12. Best Value Assurance Report: Clackmannanshire Council
13. Audit of Best Value: follow- up audit report: Falkirk Council
14. Best Value Assurance Report: Clackmannanshire Council
15. Scottish Government Consultation – Empowering Schools: Commission Response
16. Commission business matters

1. Apologies for absence

It was noted that apologies for absence had been received from Ronnie Hinds, Christine May and Sandy Cumming.

2. Declarations of interest

The following declarations of interest were made:

- Geraldine Wooley, in item 6, as a member of Fife Valuation Appeal Committee, in relation to references to non-domestic rates, and in item 8, as a consultant on gender equality issues and because a close family member is an adviser to the Scottish Government and a media commentator on disability matters.

3. Decisions on taking business in private

It was agreed that the following items be taken in private:

- Items 13 and 14 require the Commission to consider actions in relation to a report by the Controller of Audit. The Commission is then obliged by statute to inform the council in question of its decision, which the Commission does before making the decision public.
- Item 15 is a draft response to a Scottish Government consultation on which the Commission may wish to discuss confidential policy matters.

No business was notified by members for item 16 and thus the Chair advised that the item would not require discussion.

4. Minutes of meeting of Financial Audit and Assurance Committee of 30 November 2017

The Commission approved as a correct record the minutes of the meeting of the Financial Audit and Assurance Committee of 30 November.

5. Minutes of meeting of 8 December 2017

The Commission approved as a correct record the minutes of the meeting of 8 December.

6. Update report by the Secretary to the Accounts Commission

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

During discussion, the Commission:

- In relation to paragraph 25, agreed that the impact on councils of the joint delivery agreement between the Scottish Government and COSLA on council hosting of the new social security agency be monitored.

*Action: Director of PABV*

- In relation to paragraph 27, agreed that the Joseph Rowntree Foundation be invited to participate in a committee day lunchtime discussion session on their 'social impact tool'.

*Action: Secretary*

Following discussion, the Commission agreed to note the report.

7. 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.

Following discussion, the Commission noted the update.

8. Equalities Sub-Group update

The Commission considered a report by the Secretary on the progress of the work of its Equalities Sub-Group.

Following discussion, the Commission agreed:

- To continue to ensure that diversity and equalities issues features appropriately in the scoping of national performance audit work, with audit sponsors ensuring that this features in their liaison with audit teams.
- Further in this regard that targeting of messages to specific groups or communities be a part of the responsibilities of sponsors and audit teams in their reporting of draft reports to the Commission.
- To continue to monitor the prominence of diversity and equalities issues in the integrated approach to the annual audit and auditing Best Value.
- To this end, to note advice from the Controller of Audit that he will consider the coverage of protected characteristics (as defined by the Equality Act 2010) in his review activity around Best Value auditing.
- To specifically consider this matter as part of its consideration of the Controller of Audit's Annual Assurance and Risks report, to be considered at the February meeting of the Commission.
- Given the assurance that the Commission can gain on audit coverage of diversity and equalities issues, not to pursue at this time any dedicated national performance work in this regard.
- To refer to Audit Scotland's Diversity and Equality Steering Group further consideration of the following, with a view to it reporting back to the Commission in this regard:
  - socio-economic inequalities
  - progress against the equality outcome relating to 'supporting other public bodies in their scrutiny and diversity'
  - the robustness of equality impact assessment methodology in relation to the work programme.

*Actions: Secretary*

- To monitor national developments in relation to gender representation in local government, in particular whether a forthcoming Local Democracy Bill addresses issues around local government elected members, including make-up and terms and conditions.

*Action: Director of PABV*

- To endorse the approach set out in the report to the forthcoming recruitment round for new members.

- In general, to endorse the importance of the Commission considering progress against its obligations and interest in relation to equalities and diversity on an annual basis.

*Actions: Secretary*

9. Briefing: Scottish Budget

The Commission considered a briefing by the Director of PABV on the Scottish Government's Draft Budget 2018/19, highlighting some of the key implications for local government finances.

During discussion, the Commission agreed that further information be provided on Scottish Government forecasts in relation to the recommendations of the Barclay Review of business rates.

*Action: Director of PABV*

Thereafter, the Commission agreed to note the report.

10. New financial powers update

The Commission considered a draft report by the Director of PABV providing an update on key developments surrounding further financial devolution and constitutional change.

Following discussion, the Commission agreed to note the report.

11. Audit of Best Value: follow up audit report - Falkirk Council

The Commission considered a report by the Secretary to the Commission presenting the Controller of Audit's report of the Best Value follow-up audit of Falkirk Council and seeking direction on how to proceed.

Following questions to the Controller of Audit, the Commission agreed to consider in private how to proceed.

12. Best Value Assurance Report: Clackmannanshire Council

The Commission considered a report by the Secretary to the Commission presenting the Controller of Audit's Best Value Assurance Report on Clackmannanshire Council and seeking direction on how to proceed.

Following questions to the Controller of Audit, the Commission agreed to consider in private how to proceed.

13. Audit of Best Value follow-up audit report: Falkirk Council [in private]

The Commission discussed how to proceed in relation to the statutory report by the Controller of Audit on the Best Value follow-up audit of Falkirk Council.

Following discussion, the Commission agreed to make findings, to be published on 1 February 2018.

*Action: Secretary*

14. Best Value Assurance Report: Clackmannanshire Council [in private]

The Commission discussed how to proceed in relation to the statutory report by the Controller of Audit on the Best Value Assurance Report on Clackmannanshire Council.

Following discussion, the Commission agreed to make findings, to be published on 25 January 2018, including that the Controller of Audit report back by June 2019, or earlier if required.

*Action: Secretary*

15. Scottish Government Consultation – Empowering Schools: Commission Response [in private]

The Commission considered a report by the Secretary to the Commission proposing a response to the Scottish Government’s consultation ‘Empowering schools: the provisions of the Education (Scotland) Bill’.

Following discussion, the Commission agreed to approve the terms of its response to the consultation.

*Action: Secretary*

Thereafter, the Commission noted the report.

16. Commission business matters and closing remarks

The Chair, having advised that there was no business for this item, closed the meeting.

MEETING: 8 FEBRUARY 2018

REPORT BY: SECRETARY TO THE COMMISSION

AUDIT SCOTLAND BOARD UPDATE

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**Purpose**

1. This report provides an update on the business of the Audit Scotland Board.

**Background**

2. Audit Scotland is established in statute to “provide such assistance and support as the Auditor General and the Accounts Commission require in the exercise of their respective functions and, in particular, is to provide them, or ensure that they are provided, with the property, staff and services which they require for the exercise of those functions”.<sup>1</sup>
3. Audit Scotland (i.e. its Board) consists of the Auditor General, the Chair of the Commission, and three other members.<sup>2</sup> These three members, including a Chair, are appointed by the Scottish Commission for Public Audit.<sup>3</sup>
4. As well as being a member of Audit Scotland’s Board, the Commission Chair is also a member of its two committees, the Audit Committee and the Human Resources and Remuneration Committee.
5. In *Public Audit in Scotland*<sup>4</sup>, the Commission, the Auditor General and Audit Scotland set out how they together deliver public audit in Scotland. They state that “by working together and each fulfilling our distinct roles, the Auditor General, the Accounts Commission and Audit Scotland will ensure a strong system of public audit works to support transparency and promote improvement in the performance of public bodies.”
6. To this end, the Commission at its meetings considers for its interest the business of Audit Scotland Board.

**Current Board business**

7. This report provides the Commission with the latest available minute from a meeting of the Audit Scotland Board, in this case the meeting of 29 November 2017. It is attached in the Appendix.
8. The most recent meeting of the Board was on 31 January 2018, but the minute of this meeting is not yet publicly available as it is yet to be ratified by the Board. This will be available after the next Board meeting on 28 February 2018 and considered by the Commission thereafter.

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<sup>1</sup> Public Finance and Accountability (Scotland) Act 2000, Section 10(3).

<sup>2</sup> Public Finance and Accountability (Scotland) Act 2000, Section 10(2).

<sup>3</sup> The Scottish Commission for Public Audit was established under Section 12 of the Public Finance and Accountability (Scotland) Act 2000 and is made up of 5 MSPs. Its main areas of responsibility are to (a) examine Audit Scotland’s proposals for the use of resources and expenditure and report on them to the Parliament; (b) appoint an auditor to audit the accounts of Audit Scotland; (c) lay these accounts and auditor’s report before the Parliament; and (d) appoint three of the five members of Audit Scotland’s Board , including its Chair.

<sup>4</sup> *Public Audit in Scotland*, Accounts Commission, Auditor General and Audit Scotland, May 2015.

9. The Chair will, however, provide a verbal update on any relevant business for members' interest, and invites questions from members to this end.

### **Conclusion**

10. The Commission is invited to consider this update for its interest and seek further information from the Chair as appropriate.

**Paul Reilly**  
**Secretary to the Commission**  
**31 January 2018**

# Minutes



Wednesday 29 November 2017, 12.00pm

Item: 7

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

31 January 2018

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## **Present:**

I Leitch (Chair)  
C Gardner  
H Logan  
R Griggs

## **Apologies:**

**G Sharp**

## **In attendance:**

D McGiffen, Chief Operating Officer  
R Frith, Assistant Auditor General  
M Walker, Assistant Director, Corporate Performance and Risk  
M Taylor, Assistant Director, Audit Services  
R Seidel, Audit Manager, Performance Audit and Best Value  
S Dennis, Corporate Finance Manager  
A Devlin, Corporate Governance Manager  
J Webber, Senior Executive Assistant

### **1. Private meeting**

A private meeting was held by the Chair and Board members, prior to the start of the Board meeting. There were no matters raised in addition to those items on the agenda, which had been previously circulated. Russel Griggs advised that he would update his register of interests to reflect his new appointment.

### **2. Welcome and apologies**

The Chair advised of apologies received from Graham Sharp, whose appointment as a member of the Board was effective from 1 November 2017. The Board noted Graham was content that business proceed in his absence.

### **3. Declarations of interest**

There were no declarations of interest.

### **4. Chair's report**

Ian Leitch provided a verbal update on meetings with Caroline Gardner and Diane McGiffen particularly in preparing for the budget submission to the Scottish Commission for Public Audit.

The members welcomed the update.

## 5. **Accountable Officer's report**

Caroline Gardner invited the Board to note Parliamentary engagement sessions following the publication of the NHS Overview report and consideration by the Public Audit Scrutiny and Post Legislative Committee of the joint report with the Accounts Commission on Self Directed Support.

Caroline provided a summary of the meeting of the UK Supreme Audit Institutions on Friday 27 October 2017, when audit quality and implications for audit following withdrawal from the EU were discussed. Caroline advised she was on the interview panel for the appointment of a new Auditor General for Wales.

Caroline invited the Board to note a number of speaking engagements on new financial powers and advised them of section 22 reports due by the end of the year. Caroline advised that the Scottish Government are responsible for laying section 22 reports in Parliament.

Turning to internal matters, Caroline advised the Board of the organisational arrangements to follow Russell Frith's departure, with the new Appointments and Assurance and Professional Support teams settling well and their work plans taking shape. She advised the Board that an update will be provided in six months time.

Caroline informed the Board that 2016/17 audit accounts were almost finalised before the teams move onto planning for the new audit cycle. The first year of the audit appointments had gone well and provided a good platform.

**Action ASB64: An update report on developments within the Appointments and Assurance and Professional Support teams to be scheduled. (May 2018)**

## 6. **Review of minutes**

### **Board meeting, 25 October 2017**

The Board considered the minutes of the meeting on 25 October 2017, which had been previously circulated and agreed these were an accurate record of the meeting.

Heather Logan queried whether an action for Ronnie Hinds under item 9 of the agenda, 2018/19 Draft Budget could be added to the action tracker.

Diane agreed to discuss Parliamentary funding with Graham ahead of the next Board meeting on 31 January 2018.

**Action ASB65: Diane McGiffen to discuss Parliamentary funding with Graham Sharp. (January 2018)**

## 7. **Review of actions tracker**

The Board noted the updates provided by the action tracker.

## 8. **New financial powers and constitutional change update**

*Mark Taylor, Assistant Director, Audit Services and Rebecca Seidel, Audit Manager, Performance Audit and Best Value, joined the meeting.*

Mark Taylor introduced the New financial powers and constitutional change report, a copy of which had been previously circulated.

Mark invited the Board to note key developments since the previous update in June 2017.

The Board noted the publication of the Budget Process Review Group's report in June which included 59 recommendations to deliver significant changes to the current budget process and the European Union (Withdrawal) Bill which was introduced to the UK Parliament in July.

The Board discussed the potential capability and capacity issues across government to respond to the forthcoming changes, the recruitment required to support the social security agency and the implications for audit. Mark advised that risks identified will be reported on formally by the Auditor General once audit work had been concluded.

Turning to the withdrawal from the EU, the Board acknowledged ongoing uncertainty and the need to be flexible in responding to events.

Mark advised of continued Parliamentary engagement, working with the Finance Committee clerking team to provide briefings and members' session.

Mark provided an update on resourcing within Audit Scotland and the plans to develop reporting on new financial powers that feature in the 2018/19 budget proposal.

The Board welcomed the report and discussion.

*Mark Taylor, Assistant Director and Rebecca Seidel, Audit Manager, Performance Audit and Best Value, left the meeting*

## 9. Q2 Financial performance report 2017/18

*Stuart Dennis, Corporate Finance Manager, joined the meeting*

Stuart Dennis, Corporate Finance Manager, introduced the Q2 financial performance report 2017/18 which had previously been circulated.

Stuart invited the Board to note the financial results for the six months to September 2017.

Following discussion, the Board agreed they were content.

*Stuart Dennis, Corporate Finance Manager, left the meeting*

## 10. Q2 Corporate performance report 2017/18

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Q2 corporate performance report 2017/18 which had previously been circulated.

Martin invited the Board to consider the performance reported and Heather Logan reflected on progress on performance reporting made since 2013/14, commending the work on focussing reporting on the strategic objectives.

The Board discussed the audit days reported for BVAR reports in 2017/18 and Heather requested that this be tracked for the next performance report.

The Board discussed Audit Scotland's participation in the TRAM inquiry and noted the ongoing monitoring of it.

Heather Logan asked for further information on the Canadian Comprehensive Auditing Foundation and its database of performance audit work. Diane advised the team had found it helpful as it complemented existing knowledge on performance audit methodology. The Board agreed they would appreciate further detail as part of the annual review of international work.

Russel Griggs queried the number of charitable trusts Audit Scotland audit and Russell Frith advised that over 100 charities are audited each year.

Following discussion, the Board welcomed the report and the addition of appendix 3 as a helpful insight to the local impact achieved through audit.

**Action ASB66: An update on the BVAR audit days to be reported to the next meeting of the Audit Committee. (March 2018)**

**Action ASB67: The annual report on international work to expand on the engagement with the Canadian Comprehensive Auditing Foundation in developing the performance audit work. (March 2018)**

## **11. Q2 Becoming world class improvement programme report 2017/18**

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Q2 Becoming world class improvement programme report 2017/18 which had previously been circulated.

Martin invited the Board to note good progress on Securing World Class Audit by finalising the Audit Quality framework, establishing the Appointments and Assurance and Professional Support teams and work being undertaken on new financial powers. The Board also noted that role profiles and career development gateways have been completed as part of the Building a Better Organisation and the Digital Audit and Digital Services strategies had been developed as part of Making a Difference.

The Board welcomed the significant progress reported and acknowledged the impact of EU withdrawal in relation to audit work was limited so far.

The Board also noted work on the refreshed Parliamentary engagement strategy.

## **12. Evaluation of Board effectiveness**

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Evaluation of Board effectiveness report 2017/18, which had previously been circulated.

Martin invited the Board to consider and agree the proposed process and timeline for the evaluation of Board effectiveness.

The members agreed to undertake an evaluation of Board effectiveness and that a development workshop should be scheduled early in 2018.

Martin confirmed he would share copies of the self evaluation forms with members to inform that meeting and the Board agreed they would again welcome input from Audit Scotland's Management Team.

**Action ASB68: Martin Walker to issue the self evaluation forms to members and Audit Scotland's Management Team. (November 2017)**

**Action ASB69: A date to be scheduled for a Board development workshop. (February 2018)**

## **13. Corporate governance policies update**

*Alex Devlin, Corporate Governance Manager, joined the meeting*

Alex Devlin, Corporate Governance Manager, introduced the Corporate governance policies update report, which had previously been circulated.

Alex invited the Board to approve updates to the Standing Orders, Financial Regulations and Scheme of Delegation with effect from 1 January 2018.

The Board discussed and approved the policies with effect from 1 January 2018.

*Alex Devlin, Corporate Governance Manager, left the meeting*

## **14. Publication of reports**

The Board approved the publication of all the reports considered.

## **15. Any Other Business**

Heather advised of the recent internal audit report on IT Services and Ronnie Hind's note of the Accounts Commission's concern with regard to service levels querying the best way to overcome these concerns.

Martin Walker advised of discussions between David Robertson, Digital Services Manager and Paul Reilly, Secretary to the Accounts Commission and commission members to better understand the issues.

The Chair noted this was Russell Frith's final Board meeting before retiring as Assistant Auditor General at the end of 2017 and recorded the Board's recognition and appreciation of his greatly valued contribution and knowledge on a range of matters since 2000.

## **16. Review of meeting**

The members agreed the meeting had been conducted effectively and the Chair thanked everyone for their contributions.

## **17. Date of Next Meeting**

It was noted that the next Audit Scotland Board meeting was scheduled for 31 January 2018 in the offices of Audit Scotland, 102 West Port, Edinburgh.

MEETING: 8 FEBRUARY 2018

REPORT BY: SECRETARY TO THE COMMISSION

UPDATE REPORT

## Introduction

1. The purpose of this report is to provide a regular update to the Accounts Commission on significant recent activity relating to local government, as well as issues of relevance or interest across the wider public sector.
2. The regular Controller of Audit report to the Accounts Commission which updates the Commission on his activity complements this report. The Commission's Financial Audit and Assurance Committee (FAAC) also receives a more detailed update on issues relating to local government. This report also complements the weekly briefing provided by Audit Scotland's Communication Team made available on the Commission members' extranet portal, which provides more detailed news coverage of a range of local government related issues.
3. The information featured is also available on the Accounts Commission members' portal. Hyperlinks are provided in the electronic version of this report for ease of reference.

## Commission business

### *Publications*

4. On 25 January, the Accounts Commission published [Best Value Assurance Report on Clackmannanshire Council](#). In its findings, the Commission expressed a serious concern about the council's financial position, highlighting the need for its urgent and decisive action to address savings of £29 million over the next three years. The report attracted wide coverage in both print and broadcast media.
5. On 1 February, the Accounts Commission published Best Value follow-up audit 2017 on Falkirk Council. In its findings, the Commission said that the council has responded encouragingly to previous concerns but needs effective leadership to deliver its five-year improvement programme.
6. The download statistics (with the increase from last month) for the reports published by the Commission over the last 12 months (as at 30 January) are shown below:

Report	Date	Report downloads	Report podcasts
<a href="#">Clackmannanshire Council Best Value Assurance Report</a>	25 Jan 2018	713 (+713)	0
<a href="#">Orkney Islands Council Best Value Assurance Report</a>	14 Dec 2017	366 (+192)	0
<a href="#">Local government in Scotland: Financial overview 2017</a>	28 Nov 2017	1445 (+286)	38
<a href="#">West Lothian Council Best Value Assurance Report</a>	23 Nov 2017	664 (+152)	94

Report	Date	Report downloads	Report podcasts
<a href="#">East Dunbartonshire Council Best Value follow-up audit 2017</a>	16 Nov 2017	363 (+90)	79
<a href="#">East Renfrewshire Council Best Value Assurance Report</a>	07 Nov 2017	855 (+106)	158
<a href="#">Equal pay in Scottish councils</a>	7 Sep 2017	1226 (+244)	197
<a href="#">Best Value Assurance Report: Renfrewshire Council</a>	31 Aug 2017	1257 (+261)	0
<a href="#">Self-directed support: 2017 progress report</a>	24 Aug 2017	3309 (+295)	78
<a href="#">Best Value Assurance Report: Inverclyde Council</a>	1 Jun 2017	1336 (+74)	307
<a href="#">Accounts Commission annual report 2016/17</a>	25 May 2017	994 (+37)	
<a href="#">Accounts Commission strategy and annual action plan 2017-22</a>	25 May 2017	772 (+44)	
<a href="#">Accounts Commission engagement strategy and engagement plan 2017/18</a>	25 May 2017	388 (+23)	
<a href="#">Accounts Commission engagement plan 2016/17</a>	25 May 2017	181 (+0)	
<a href="#">Accounts Commission action plan 2016/17</a>	25 May 2017	179 (+0)	
<a href="#">Local government in Scotland: Performance and challenges 2017</a>	7 Mar 2017	5234 (+111)	45

7. Three members of the Commission – Graham Sharp, Tim McKay and Christine May – met with representatives of West Lothian Council on 15 January to discuss the Best Value Assurance Report on the Council that was published on 23 November. The Council was represented by the leaders of the three main political groups on the Council (Labour, Conservative and SNP) and the Provost and another member of the Labour Group, plus the Council's corporate management team and other senior officers. The Commission members noted the proposed actions to be taken by the Council in response to the report and also feedback from the council on the audit process, which I have relayed to Commission members and the Controller of Audit. At its meeting on 16 January, the Council noted the Commission's findings and agreed a series of actions in response.
8. On 2 February, Deputy Chair Ronnie Hinds chaired an education 'Round Table' event, held in Audit Scotland's office, Edinburgh. The event involved stakeholders with a wide range of involvement in education, from local and national government, teaching profession and trade unions, and policy professionals. The outputs of the event will be shared with stakeholders and used as a basis for the proposed performance audit (jointly with the Auditor General) on educational outcomes, programmed for 2019/20.

### ***Appointments***

9. The recruitment campaign for up to four new members of the Commission has been launched. The period for applications opened on 26 January and will close on 23 February. As part of the campaign, a new website [ehub](#) has been launched. The ehub includes videos from current members Sophie Flemig and Christine May. There will also be three outreach events called 'The Commission Uncovered', open to prospective applicants and hosted by the Secretary and a current Commission member. The events will take place in Edinburgh, Glasgow and Inverness, on 7

February (6.30pm), 9 February (10.00am) and 20 February (2.00pm) respectively. It is proposed to appoint two new members from early June and another two at the end of the year.

### **Other business**

10. At its last meeting, the Commission agreed the terms of a response to the Scottish Government's consultation on *Empowering Schools: A consultation on the provisions of the Education (Scotland) Bill*. The final response that was submitted is attached for information in the Appendix.

### **Audit Scotland**

11. On 18 January, Audit Scotland held its annual staff conference – 'Challenge and Transformation' - in Dunblane. The topics included the new financial powers, Brexit and transforming public (AGS) services. Graham Sharp and Carline Gardner, Auditor General for Scotland, gave the opening speeches to set the scene for the conference. Conference papers are available on the member's extranet site.
12. On 24 January, the Scottish Commission for Public Audit [recommended approval of Audit Scotland's budget proposal](#). In its report to the Scottish Parliament, it recognises that the devolution of further powers will result in an increased workload and the resources required. It welcomes Audit Scotland's work on equal pay within the organisation and its commitment to ensuring audit quality and to making efficiency savings.

### **Issues affecting local government**

#### **Scottish Government**

13. On 22 December, the Scottish Government published [The Expansion of Early Learning and Childcare: Evaluation Report 2017](#). It looks at the impact of the expansion to 600 hours of funded early learning and childcare and provides a baseline for monitoring and evaluating the expansion policy. It also includes a parent survey. The paper refers to the Commission and AGS' performance audit on early learning and childcare, to be published on 15 February.
14. On 10 January, the Scottish Government announced that [an EU Continuity Bill](#) is likely to be introduced in February in order to prepare Scotland's laws for Brexit. This has been triggered by the Finance and Constitution Committee report which concluded that the UK's European Union (Withdrawal) Bill was currently "incompatible with the devolution settlement". The Bill is intended to make provisions in the event that appropriate amendments are not agreed with the UK Government.
15. On 10 January, the Scottish Government announced that amendments to the Additional Support for Learning Act 2004 have come into force, which extends a range of rights from parents, carers and children over 16 to children aged 12-15. Consequently, children can now ask for their additional support needs to be identified and planned for and receive advice and information about their additional support needs. A full list of rights extended can be accessed [here](#).
16. On 11 January, the Scottish Government announced that the [Modern Apprenticeship target](#) for 2018/19 would be 28,000. It also stated enhancements in the rural supplement to mitigate against the cost of service delivery in rural locations and additional support for training costs in key areas, such as social services.
17. On 15 January, the Scottish Government published its [analysis on Brexit](#). It considers three different outcomes for Scotland's economy as a result of Brexit. It

shows that a failure to remain in the Single Market or to secure a free trade agreement could see the Scottish economy £12.7 billion worse-off each year by 2030 after Brexit.

18. On 17 January, the Scottish Government announced a full membership list for [the South of Scotland Economic Partnership](#), which includes representatives from Scottish Borders and Dumfries and Galloway councils. The Scottish Government also stated that it has provided £10 million funding for the partnership.
19. On 16 January, the Scottish Government launched a consultation on a draft national [strategy to tackle loneliness and isolation](#) (to be closed on 30 April). The document highlights the causes of social isolation and loneliness and how they can be addressed. Views are being sought on how communities can build on the work of the Scottish Government. It is proposed that the Commission does not respond to this consultation.
20. On 18 January, the Scottish Government announced that the British Medical Association formally accepted [a new GP contract](#). The contract is designed to ensure that GPs are able to spend more time with patients and less time on bureaucracy. It will come into effect on 1 April.
21. On 19 January, the Scottish Government published [The State of the Economy report: January 2018](#). The report, which is produced three times a year by the Chief Economic Adviser, states that “the forthcoming year will be a pivotal year for the Scottish economy as the outlook improves relative to 2017”. It also notes that uncertainty over the Brexit process remains a major risk.
22. On 20 January, the Scottish Government announced £1.6 million funding for 17 projects to address homelessness and housing. [The Housing Voluntary Grant Scheme 2018/19](#) supports third sector organisations to deliver housing related projects and services.
23. On 22 January, the Scottish Government announced that the £60 million funding for [the Low Carbon Infrastructure Transition Programme](#) (LCITP) is now open for applicants. The LCITP is co-funded by the European Regional Development Fund and supports low carbon energy generation projects.
24. On 23 January, the Royal College of Paediatrics and Child Health published [the State of Child Health: One Year On](#). The paper assesses progress the Scottish Government has made to improve child health against [12 recommendations](#) included in the original report which was published one year ago. While the report welcomes some progress such as policies undertaken to address child poverty, it notes some of the challenges including improving health services to meet children’s needs.
25. On 23 January, the Scottish Government published [Homelessness in Scotland Statistics](#). The figures show that, there has been no substantive change in the number of homelessness assessments made by local authorities, comparing the latest six month period of April to September 2017 with the same period in 2016 (17,733 assessments in April to September 2017, compared to 17,713 in April to September 2016).
26. On 24 January, the Scottish Government introduced [the Scottish Crown Estate Bill](#) to the Scottish Parliament. The Bill will establish a framework for changes in the management of Scottish Crown Estate assets and will include opportunities for councils and communities to directly manage these assets.
27. On 30 January, the Scottish Government announced that more than 2,000 schools will receive over £120 million of [Pupil Equity Funding](#) in 2018/19. The funding is part

of the £179 million Attainment Scotland Fund for 2018/19, underlining the Scottish Government's commitment to allocate £750 million during the course of this Parliament to address the poverty related attainment gap. The funding allocation by council is available [here](#).

28. On 31 January, the Scottish Government announced that everyone receiving full service Universal Credit (UC) across Scotland is now able to choose if they want to be paid twice monthly and they will also have the option to have the housing element of their Universal Credit award paid directly to their landlords. The council areas where [Universal Credit: Scottish choices](#) is available currently include East Lothian, East Dunbartonshire, Inverclyde, Midlothian, Clackmannanshire, Stirling, East Ayrshire, South Lanarkshire, Angus, Dundee, North Ayrshire, Fife and Highland. Roll-out dates for full service in the remaining 19 council areas is available [here](#).

## **Scottish Parliament**

### General:

29. On 8 January, the Scottish Parliament Information Centre (SPICe) published a briefing on [the Planning \(Scotland\) Bill](#). It describes key aspects of the Scottish planning system as it currently operates, with an emphasis on those parts of the system that feature in the Bill.
30. On 22 January, SPICe published a briefing on [the Gender Representation on Public Boards \(Scotland\) Bill Consideration prior to Stage 3](#). It provides information on its parliamentary consideration and lists the main amendments made at Stage 2. The Bill aims to improve the representation of women in non-executive positions on public boards.
31. On 30 January, SPICe published a briefing on [leaving the EU - Implications for Health and Social Care in Scotland](#). It outlines the potential implication of Brexit on health and social care services in Scotland. It looks at issues such as workforce, reciprocal healthcare, new medicines, research and life sciences, the recognition of professional qualification and public health.
32. On 31 January, the Parliament began the stage 1 debate of the Budget Bill. It was reported on that day that a budget deal had been agreed ahead of the debate with the Green Party [announcing an agreement](#) had been secured for its support of the Bill. Cabinet Secretary for Finance & Constitution, Derek Mackay, [confirmed](#) this, and that further details would be provided during the debate of additional funding for local council services, a greater contribution towards a pay settlement for public sector workers and the bringing forward of low-carbon capital investments.

### Parliamentary Committees:

#### *Local Government and Communities Committee*

33. On 8 January, the Committee published its [report](#) on city region deals. It recognises that the deals are at the early stage but notes a number of concerns on the deals. It calls for more involvement of local communities and businesses in the projects. It also highlights that areas not covered by the city deals must not "miss out or lose out" against bigger cities.
34. At its [meeting](#) on 10 January, the Committee chose Monica Lennon as its Deputy Convener.
35. At its [meeting](#) on 17 January, the Committee took evidence on the Barclay Review of Non-Domestic Rates from Derek Mackay, Cabinet Secretary for Finance and the

Constitution and the Scottish Government officials and agreed to consider a draft report in private at a future meeting.

36. On 22 January, the Committee published its [report on the Scottish Government's draft budget](#). It welcomes the steps taken by the Scottish Government to provide greater transparency in the local government budget figures this year, but encourages it to consider calls from councils for further openness. It also shows concerns about councils increasingly using general fund reserves to address short term funding pressures without planning, echoing the point made previously by the Accounts Commission. There is extensive reference to the Commission's work throughout the report.
37. At its [meeting](#) on 24 January, the Committee agreed to close [the petition](#) asking that housing associations come under the Freedom of Information Act (Scotland) 2002, given that the Scottish Government has agreed to seek to extend the Act to registered social landlords and is currently consulting in this regard. It also considered and agreed a draft Stage 1 report on Housing (Amendment) (Scotland) Bill and a draft report on Homelessness.
38. At its [meeting](#) on 31 January, the Committee will take evidence from the Scottish Public Services Ombudsman on its Annual Report 2016/17. It will also consider a draft report of its inquiry into homelessness.
39. At its last meeting, the Commission agreed that a response be made to the Committee's call for evidence on the Planning (Scotland) Bill. The terms of that response – not available at the time of drafting this report - is available on the members' extranet site.

#### *Public Audit and Post Legislative Scrutiny Committee*

40. At its [meeting](#) on 11 January, the Committee took evidence on the AGS's report on the 2016/17 audit of the Scottish Government's Non-Domestic Rating Account from Caroline Gardner, AGS, Stephen Boyle, Assistant Director and Michael Oliphant, Senior Audit Manager, Audit Scotland. It agreed to write to the Cabinet Secretary for Finance and Constitution and the Finance and Constitution Committee about issues arising from the audit. It also took evidence on the National Audit Office report on the administration of the Scottish Rate of Income Tax 2016-17 from Caroline Gardner, AGS, Mark Taylor, Assistant Director, Audit Scotland and the National Audit Office. It agreed to write to the Comptroller and Auditor General and HMRC about issues arising from the report.
41. At its [meeting](#) on 18 January, the Committee considered its work programme and agreed to undertake post-legislative scrutiny of the biodiversity and biodiversity reporting duties placed on public bodies and to ask the Scottish Government for an update on its severance policy. It also agreed issues to raise with the Cabinet Secretary on its post audit / legislative scrutiny of self-directed support; considered the format of future Major Capital Project updates from the Scottish Government; and, to defer to a later meeting its consideration of the NHS Workforce Planning and NHS in Scotland 2017 performance audits.
42. At its [meeting](#) on 25 January, the Committee took evidence on the AGS' section 22 report on the 2016/17 audit of the Scottish Police Authority report from the Scottish Police Authority, Caroline Gardner, AGS and Stephen Boyle, Assistant Director, and Mark Roberts, Senior Manager, Audit Scotland. It agreed to defer to a later meeting its decision as to what further action to take on the audit.
43. On 29 January, the Committee launched a [call for evidence](#) to support its short scrutiny of the biodiversity and reporting duties placed on public bodies by the

Nature Conservation (Scotland) Act 2004 (2004 Act) and the Wildlife and Natural Environment (Scotland) Act 2011 (2011 Act) (to be closed on 23 March). The 2004 Act requires every public body to further the conservation of biodiversity and the 2011 Act amends the 2004 Act to require every public body to report on actions it has taken every three years. It is proposed that the Commission does not respond to this consultation.

#### *Finance and Constitution Committee*

44. At its [meeting](#) on 10 January, the Committee took evidence on the Scottish Government's Draft Budget 2018/19 from the Office for Budget Responsibility (OBR) and Derek Mackay, Cabinet Secretary for Finance and the Constitution and the Scottish Government officials.
45. At its [meeting](#) on 15 January, the Committee members reported back on the outcomes of [the workshop sessions](#) on the Scottish Government's Draft Budget in Aberdeen, involving local organisations held before the start of the meeting. The Committee also took evidence on the expenditure proposals in the Scottish Government's Draft Budget from Derek Mackay, Cabinet Secretary for Finance and the Constitution and the Scottish Government officials.
46. On 26 January, the Committee published [the report on the Draft Budget 2018/19](#). Recognising a potential for increasing volatility and uncertainty in Scotland's budget, the Committee asked the Scottish Government to monitor tax revenue and HMRC to publish monthly outturn data for Scottish Income Tax.
47. At its [meeting](#) on 31 January, the Committee will take evidence on the European Union (Withdrawal) Bill (UK Parliament Legislation) from the academics, Michael Russell, Minister for UK Negotiations on Scotland's Place in Europe and the Scottish Government officials.

#### *Others*

48. On 22 January, the Rural Economy and Connectivity Committee published its [Stage 1 report on the Islands \(Scotland\) Bill](#). It endorsed the Bill and recommended that the Scottish Government must ensure its National Islands Plan, when brought forward, properly reflects the actual priorities of islanders.

### **Current activity and news in Scottish local government**

#### **COSLA**

49. On 15 January, COSLA [commented](#) on women and leadership roles in education, stating that councils are equal opportunities employers. It stated that over a half of Directors of Education are women and regular equal pay audits and gender pay gap analysis continue to help councils address any barriers to women's progression in careers.
50. On 17 January, in response to a 18 January [Herald article](#) on council overspending on winter roads maintenance (which refers to the Commission's work), COSLA [commented](#) that while individual spend is a matter for local discretion based on local need and circumstance, "cuts to councils certainly don't help the situation" and "demand for our services will always outstrip our ability to pay for them."
51. On 18 January, COSLA [commented](#) on teacher numbers, stating that all councils are aware of the need to continue to deliver on teacher numbers and to achieve the national pupil: teacher ratio with continued funding from the Scottish Government to

support this. It also stated that councils are considering a range of cost saving options to balance budgets for the coming year.

52. On 23 January, COSLA [renewed](#) its call for fair funding for local government to sustain local service delivery and to make a fair offer and value council workforce. It stated that “we are faced with a cash cut to our funding in the order of £150 million – and this will certainly be felt by our communities”.
53. On 26 January, ahead of the start of the Scottish Government Budget process through Parliament next week, COSLA [commented](#) that “the bottom line from council leaders remains clear – we need more money to protect essential services.”
54. On 30 January, COSLA [commented](#) on [its response](#) to the Scottish Government’s consultation on the proposed Education Bill, stating that it is clear that “the proposed legislation would not improve the educational attainment of young people” and also that “the proposals put our headteachers’ role as leaders of learning communities at risk”.

### ***Improvement Service***

55. In January, the Improvement Service published its [elected member briefing note](#) on health inequalities and improving health. It highlights the importance of shifting the focus from meeting the cost of dealing with problems after they have developed to early intervention. It also notes that understanding the needs of your community is key to addressing this issue.
56. In January, [Chief Executive](#) Colin Mair announced his retirement. He will leave his post on 31 March. Interim arrangements will be put in place for the leadership of the body. The board will announce longer term arrangements in due course.

### ***By-elections***

57. There have been no by-elections since my last report.

## **Scrutiny, inspection, regulatory and related bodies**

### ***Care Inspectorate***

58. On 28 January, the Care Inspectorate launched a consultation survey on [a draft quality framework](#) for care homes for older people. During 2018/19, it will be developing similar frameworks for other types of care and settings on an incremental basis. From April, the new Health and Social Care Standards will be used across Scotland, which will change how the body inspects care and support.

### ***Scottish Housing Regulator***

59. On 23 January, the Scottish Housing Regulator published [a discussion paper](#) to call for views on the future of social housing regulation in Scotland. The document sets out the Regulator’s early thinking on its future approach, regulatory priorities and how it will work. The feedback on the paper will be used to develop its detailed proposals for a new Regulatory Framework, which will be consulted later this year.

### ***Scottish Public Sector Ombudsman (SPSO)***

60. The SPSO’s [newsletter – January](#) outlines investigation reports, recent SPSO news and highlights emerging issues. More information on the SPSO’s work, including detailed investigations and decision reports, is available on the [‘Our findings’](#)

webpage. The Commission's Financial Audit and Assurance Committee will consider more detailed intelligence from the SPSO on a six-monthly basis.

### ***Commissioner for Ethical Standards in Public Life in Scotland***

61. Since my last report, the Commissioner has published one decision on complaints relating to councillors. The Commissioner decided that [Councillor Jim Gifford](#), Aberdeenshire Council had not breached the Councillors' Code of Conduct.

### ***Standards Commission for Scotland***

62. There has been one hearing by the Standards Commission since my last report. At a [hearing](#) on 29 November, the Commission censured the Provost of Edinburgh Council, Councillor Frank Ross, for failing to register his shareholding in a company that owned a hotel in Kingussie until 20 April 2017, despite having held the shares since February 2015.
63. On 12 January, the Standards Commission published a quarterly [professional briefing](#). The paper includes information on how to make comments in respect of whether the Codes of Conduct should be strengthened to help deter and/or deal with harassment and bullying behaviour by councillors and board members while they are acting in that context.

## **UK Parliament**

### ***Communities and Local Government Committee***

64. On 8, 22 and 30 January, the Committee took evidence from a range of stakeholders, including academics, charities and councils as part of [its inquiry into the Private Rented Sector](#). The inquiry examines the role of local authorities in the sector, focusing on the provision by councils of private rented accommodation and whether they have sufficient powers to deal with bad practices. It also launched its pre-legislative scrutiny of [the draft Tenant Fees Bill](#), which proposes ban on letting fees imposed on tenants.
65. On 19 January, the Committee launched a call for evidence as part of [its inquiry into land value capture](#). It will examines the effectiveness of current land value capture methods and the need for new ways of capturing any uplift in the value of land associated with the granting of planning permission or nearby infrastructure improvements and other factors.
66. On 23 January, the Committee, together with the Health Committee, launched [a joint inquiry on the long-term funding and provision of adult social care](#) to feed in to the Government's forthcoming Green Paper.

### ***Scottish Affairs Committee***

67. On 16 and 30 January, the Committee held evidence sessions as part of [its inquiry into Immigration and Scotland](#) to examine the current immigration system and how it meets Scotland's migration needs. It heard from academics, business and sectoral representatives.
68. On 17 January, the Committee held a one off evidence session on [proposed closures to Royal Bank of Scotland branches](#) in Scotland. The Chair of the Committee [commented](#) on evidence given by the bank executives as being unsatisfactory and disappointing.
69. On 23 January, the Committee took evidence on mobile and broadband coverage

from technology experts, rural broadband experts and consumer groups. This is as part of [its inquiry into digital connectivity in Scotland](#), which examines the current state of digital connectivity in Scotland and how to overcome barriers to improve coverage.

### Public Accounts Committee

70. On 22 January, the Committee published its report on [Government borrowing and the Whole of Government Accounts](#). It states that the Government's high level of debt leaves little room for manoeuvre in public spending and the unknown costs of Brexit further limit the Government's ability to react to further economic shocks.
71. On 31 January, the Committee published a report on [retaining and developing the teacher workforce](#). It highlights a growing sense of crisis for schools in England struggling to retain and develop teaching workforce.

### **Other UK Audit Bodies**

#### ***National Audit Office (NAO)***

72. On 17 January, the NAO published [Delivering STEM \(science, technology, engineering and mathematics\) skills for the economy](#). It highlights an urgent need for departments, responsible for this matter, to set out a shared view of expected outcomes and a co-ordinated plan for achieving them before government can demonstrate that it is delivering value for money.
73. On 18 January, the NAO published [PFI and PF2](#). It outlines the rationale, costs and benefits of the Private Finance Initiative (PFI), the use of and impact of PFI and ability to make savings from operational contracts. It also includes the introduction of PF2. The report states that there are currently over 700 operational PFI and PF2 projects with a capital value of around £60 billion. Annual charges for these deals amounted to £10.3 billion in 2016/17, which will make future charges, continuing until 2040s, £199 billion.

#### ***Wales Audit Office (WAO)***

74. On 9 January, the WAO published [How local government manages demand – homelessness](#). It found that while local authorities are reacting to the problems caused by homelessness with varying degrees of success, there is limited focus on preventing the fundamental causes of homelessness.
75. On 23 January, the WAO stated that it welcomes the announcement that Adrian Crompton has been chosen as the preferred candidate to become [the new Auditor General for Wales](#), subject to formal nomination by the Assembly's Finance Committee, Assembly Members and final approval by the Queen. He will replace the current Auditor General, Huw Vaughan Thomas, when he retires in July. He currently works as Director of Assembly Business and the National Assembly for Wales.
76. On 26 January, the WAO published [Financial Management and Governance in Local Councils 2016-17](#). It found that while progress has been made during 2016-17, there remains scope for local councils to develop and improve their governance and management of increasing sums of public money.

### **Others**

77. On 3 January, the New Local Government Network published [a Changemaking Vision for Local Government](#). It argues that a major cultural shift will be needed "towards three core values: creativity, collaboration and self-determination". It also

highlights that local government funding has become unsustainable, putting the delivery of statutory duties under serious threat.

78. On 22 January, a report commissioned by [UNISON Scotland](#) stated that the £10.5 billion allocated to local government in the 2018/19 Draft Budget is still a cut in real terms, considering OBR forecasts of inflation. The report concludes that public sector pay increases “could be affordable within the Scottish and local government budgets and would have expansionary effects on the Scottish economy but only with a further increase in Scottish Government funding for local government”.
79. On 25 January, the OBR published its [welfare trends report 2018](#). The annual report focuses on universal credit (UC) and forecasts that the legacy systems would cost £63.2 billion if they were maintained in 2022/23, and UC would reduce that by only £1 billion. It underlines its view that the move to UC is “a huge forecasting challenge and a source of significant risk” to public spending control.
80. On 29 January, Ofsted published its [inspection report on children's services in Rotherham Council](#). It assesses the council's children's services as ‘good’. It notes that “The quality and impact of services for children are transformed”. In 2014, the inspection body identified “widespread and serious failures” of children and vulnerable people in need within the services.
81. On 29 January, the Centre for Cities published [Cities Outlook 2018](#). It reports that while automation and globalisation will boost jobs across the country, it may increase divides as northern and midlands cities will be more exposed to job losses than the south. The impact on Scottish cities is said to be mixed but in Edinburgh and Aberdeen job losses are expected to be offset by an upswing in high-skilled jobs.

## **Conclusion**

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

**Paul Reilly**  
**Secretary to the Commission**  
**31 January 2018**

**Scottish Government consultation - Empowering Schools: A consultation on the provisions of the Education (Scotland) Bill**

**Response from Audit Scotland on behalf of the Accounts Commission and the Auditor General for Scotland, 30 January 2018**

1. Audit Scotland welcomes the opportunity to respond to the consultation paper.
2. The Accounts Commission published *School education* in June 2014, available [here](#), and *School education – Review and Impact* in October 2016, available [here](#). The focus of the audit was on how effectively and efficiently councils are using their resources to maximise pupil achievement in schools. We will be carrying out an audit on educational outcomes on behalf of the Accounts Commission and the Auditor General in 2019/20. We anticipate that this will look at national policy developments relating to school education and the impact on outcomes for young people.
3. We have responded to the questions most relevant to our audit work and we have not responded to those that relate to more operational or policy matters. Our School Education report found that councils that had made most improvements in attainment levels had focused strongly on developing leadership skills within schools. For that reason, we welcome the focus in the consultation on promoting high quality learning, teaching and leadership.
4. We would like to make some more general points before answering the specific questions in the consultation. As the consultation paper recognises, local authorities have a statutory duty to provide and improve the quality of school education. It is therefore vital that councils have relevant information to be able to carry out this role effectively, including scrutinising performance. Further, the Accounts Commission has a responsibility to audit the performance of councils and needs appropriate information and reporting to carry out this role.
5. The proposals set out the role of Regional Improvement Collaboratives. We assume that these will be appropriately resourced to be able to carry out their role effectively, and so have not made any specific comments on this point.
6. We recognise that the scale of the changes will be significant for some headteachers. We suggest that the Scottish Government considers the implications of implementing the changes incrementally to manage that impact and any associated strain on headteachers. We would stress the importance of schools and councils focusing on wider outcomes for pupils, in addition to educational attainment. The Scottish Government should ensure that the Education Bill and the Headteachers Charter also have sufficient focus on wider outcomes. The consultation does not specifically refer to governance and accountability arrangements for early learning and childcare (ELC). We suggest that the Scottish Government considers ensuring that the provisions of the Bill stress that it is important for planning by Regional Improvement Collaboratives, councils and headteachers to consider the whole learner journey, including ELC.

7. We have not specifically commented on the questions relating to parental and community engagement, but we welcome the focus on this. The Commission's Best Value Assurance Reports have consistently highlighted the importance of community empowerment, and the Auditor General has highlighted the importance of involving the public in designing and delivering services.

**Question 1 - The Headteachers' Charter will empower headteachers as the leaders of learning and teaching and as the lead decision maker in how the curriculum is designed and provided in their schools. What further improvements would you suggest to enable headteachers to fulfil this empowered role?**

8. Headteachers and councils need access to high quality research evidence to help them design and provide the curriculum most effectively in their schools. They also need to be able to interpret and apply the research, and have access to support to help them do this. There needs to continue to be a national and local focus on developing and sharing this robust evidence base.
9. The Commission's 2014 report highlighted the importance of strong leadership in schools. There will need to be investment in further developing the quality of leadership in schools to ensure that headteachers have the skills and capacity to take on these additional responsibilities. In our response to the Scottish Government's consultation on Fair Funding to Achieve Excellence and Equity in Education, we said that headteachers will need:
  - support to help them analyse and use data and research evidence on how best to target their resources
  - training and support to deal with the accounting requirements and audit trail around the funding they will be responsible for, and to ensure they apply best practice in recruiting staff and costing this appropriately
  - appropriate training and dedicated support from others in the schools, council and/or regional improvement collaboratives to help them take on their new role while meeting their other commitments
  - opportunities to collaborate with other headteachers, councils and regional improvement collaboratives to explore where educational resources could potentially be shared to ensure economies of scale; such collaborations also provide opportunities to share examples of good practice
  - clearly defined roles and accountabilities, within clear governance arrangements, to enable them to fulfil these new responsibilities effectively. This includes clarity about any current areas of responsibility that will transfer to others.

**Question 3 - The Headteachers' Charter will set out the primacy of the school improvement plan. What are the advantages and disadvantages of this approach?**

10. We have not commented on the advantages or disadvantages of this approach. We recognise the importance of headteachers focusing on school-based improvement, aligned with the National Improvement Framework. It is also important to stress the importance of schools and the education system contributing to councils' and their partners' wider improvement goals and outcomes, not just focusing on educational

attainment. Therefore school improvement plans also need to contribute to local council and partner improvement goals for children and young people. The consultation states that local authorities will retain their statutory responsibility to ensure that there is adequate and efficient provision of school education in their area, and there will need to be a clear link between schools' improvement plans and the broader plans and priorities of councils.

11. Under the proposed arrangements, headteachers will be responsible for significant amounts of public money and school improvement plans need to include a clear focus on making best use of that money to achieve the desired outcomes.

**Question 4b - What are the advantages and disadvantages of headteachers' ability to choose their teams and decide on the promoted post structure within their schools?**

12. There are potential risks around equity and competition for staff, particularly given the difficulties recruiting teaching staff in some subjects and some areas of the country. There are also risks of competition across and within regional improvement collaboratives. We recognise the advantages of headteachers being able to best meet local needs.

**Question 5 - Should headteachers be able to decide how the funding allocated to their schools for the delivery of school education is spent? If so, what is the best way of doing this?**

13. If headteachers are able to decide how the funding allocated to their school is spent, they need to be able to do this in a way that will support the delivery of local improvement priorities and that makes best use of resources. They need to work with their local authority, its partners and the regional improvement collaborative to plan how best to do this. This is likely to require councils and improvement collaboratives to introduce new planning arrangements. Headteachers will need to have access to the information, analysis and support they need in order to make best use of the funding allocated to them, with an appropriate focus on proper stewardship of public funds and securing Best Value.
14. In our response to the Scottish Government's consultation on Fair Funding to Achieve Excellence and Equity in Education, we commented that it will be essential that headteachers are held accountable for the resources allocated to them and the outcomes these resources deliver. There will need to be a clear audit trail on the use of public money as part of public accountability for this funding. Headteachers will be required to secure Best Value in how they use funding, staffing and other resources available to them. They must be clear on how they plan to use these resources and the outcomes they are aiming to achieve, with regular monitoring against indicators of progress. As local authorities will be accountable for overall education spending, there will need to be clear arrangements set out for headteachers to regularly report to, and be held to account by, local authorities for the use of funding and the performance of the school.

**Question 6 - How could local authorities increase transparency and best involve headteachers and school communities in education spending decisions?**

15. The Accounts Commission and the Auditor General have stressed the importance of transparency in decisions, and the Accounts Commission welcomes the aim of increased transparency in local authorities' spending decisions. This needs to happen in a way that does not add significantly to the complexity of the decision-making process, or make decisions less timely. Councils will need policies and procedures that ensure that headteachers and communities are involved at an early stage in identifying and agreeing priorities and best use of funding to achieve the desired outcomes.
16. Under the proposed new arrangements, regional improvement collaboratives will develop regional improvement plans and schools will develop their individual improvement plans. Councils will not develop separate plans but will be accountable for education spending. There will be a complex range of interested parties involved in the new arrangements and it will be important that they are all working towards a shared vision for improvement that reflects local and regional needs. Councils will then need to ensure that their spending decisions support the regional improvement plan. The regional improvement collaboratives and local authorities will need to agree arrangements for how they work together and how they deal with any potential conflicts between regional and local priorities.

**Question 7 - What types of support and professional learning would be valuable to headteachers in preparing to take up the new powers and duties to be set out in the Headteachers' Charter?**

17. The proposals would lead to significant changes in the responsibilities of headteachers, and a different model of accountability. The scale of the changes will vary and will be more significant for some headteachers, for example those in primary schools. Headteachers will need increased skills in, or support with, business management, financial analysis, planning and management, HR processes and procedures, accessing, interpreting and applying research evidence. They will also need a different skill set to take on their expanded areas of accountability. They will need to be able to exercise and demonstrate appropriate controls, report in an open and transparent way on performance and use of resources, and to manage and be well placed for a different type of scrutiny. Given the scale of the changes for headteachers, we suggest that the Scottish Government considers the implications of implementing the changes incrementally to manage their impact.

**Question 14 - Should the Bill require each Regional Improvement Collaborative to maintain and to publish annually its Regional Improvement Plan?**

18. Yes, it is important that the improvement collaboratives have clear plans that they are all agreed on, and important to keep these up to date and in line with councils' annual planning. It is important for transparency that these plans are published. There also needs to be effective arrangements for the Regional Improvement Leads to report regularly to all of the collaborating local authorities on performance at both regional and local level.

19. It is important that there is effective local performance reporting and scrutiny within councils. This needs to be underpinned by effective elected member scrutiny, challenge and oversight of the improvement plans and local educational performance. Our School Education report made recommendations about improving elected member scrutiny of education services. Scrutiny is a key part of a councillor's role and it is important that they are able to fulfil this role effectively in the new arrangements.

**Question 15 - If we require Regional Improvement Collaboratives to report on their achievements (replacing individual local authority reports), should they be required to report annually? Would less frequent reporting (e.g. every two years) be a more practical and effective approach?**

20. Reporting needs to be frequent enough and in a way that allows scrutiny of performance and helps the regional improvement collaboratives identify areas where they need to improve. Reporting also needs to be timely and inform councils' annual planning and budget setting. The Accounts Commission has statutory responsibilities to scrutinise and report on the performance of councils, and it needs regular reporting of performance by councils to allow it to carry out this role.
21. As we say in response to question 14, there also needs to be effective local oversight and scrutiny of education performance by elected members within councils. Under the proposals, councils will no longer be required to produce improvement plans, but councils will still need to ensure there is local scrutiny and oversight.

**Question 16 - In making changes to the existing planning and reporting cycle, should we consider reducing the frequency of national improvement planning and the requirement on Ministers to review the National Improvement Framework?**

22. We support the principle of having a longer-term outcomes based approach to planning for improvement, and we agree with the principle of setting out longer-term ambitions, clear outcomes to be delivered and milestones. We have no specific views on the frequency of national improvement planning, but it would need to be reviewed and scrutinised regularly to ensure it is still fit for purpose. We would anticipate it may need to be reviewed more regularly in the early stages of implementing the new planning arrangements, as they bed in.

**Question 23 - Which principles should be used in the design of the governance arrangements for the proposed Education Workforce Council for Scotland?**

23. We note the proposal that the council governing the EWCS should operate like a board. The Auditor General published a report on the role of boards in 2010, available [here](#). This set out a number of recommendations to support good governance. The Accounts Commission and the Auditor General have both published a number of reports highlighting the importance of openness and transparency to good governance. We recommend that the Scottish Government takes account of these principles in developing the governance arrangements.

MEETING: 8 FEBRUARY 2018

REPORT BY: SECRETARY TO THE COMMISSION

ANNUAL ASSURANCE AND RISKS REPORT

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### Purpose

1. This paper introduces the Annual Assurance and Risks Report by the Controller of Audit.

### Background

2. Local authority external auditors are appointed by the Commission under the Local Government (Scotland) Act 1973. The [Code of Audit Practice](#), approved by the Accounts Commission and the Auditor General for Scotland, requires auditors 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 elected members and the Controller of Audit, and are submitted by 30 September each year. The reports are public and are available on the websites of the audited bodies and [Audit Scotland](#).

### Controller of Audit review of annual audit reports

3. The Controller of Audit reviews the annual audit reports to:
  - Identify high-level issues and themes for inclusion in the Commission's annual local government overview reports.
  - Identify specific issues that he may wish to report to the Commission under his statutory reporting powers. In short, these powers are reporting about any matters arising from the accounts of local authorities, or the auditing of those accounts, and in certain specific situations involving illegality or loss.
4. In practice, significant findings from the audits will be known to auditors in advance of the annual audit reports, and reported to the Commission via the Financial Audit and Assurance Committee. Statute allows the Controller of Audit to report formally to the Commission - or the Commission can direct the Controller to report - at any point throughout the audit year. However, including such issues in the annual audit report is the formal starting point for any statutory reporting.
5. In addition to this, in recent years the Controller of Audit has reported to the Commission in February each year on a summary of his review. At its February 2017 meeting, the Commission noted the outcome of the review of annual audit reports for local government bodies.

### Integrated audit

6. The Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. An important principle underpinning the new framework is an integrated approach to auditing and reporting Best Value, in which Best Value is assessed over a five year audit appointment as part of the annual audit. In addition, a Best Value Assurance Report will be published by the Commission for each council at least once in this five year period.

7. The new framework allows the Controller of Audit to report on his conclusions from his review of this new integrated audit approach through an Annual Assurance and Risks Report (AARR).

### **Strategic audit priorities**

8. In its [strategy and annual action plan](#), the Commission sets out an overall aim of holding councils to account for their pace, depth and continuity of improvement facilitated by effective governance. Within this, the Commission also sets out five strategic audit priorities (SAPs). These are issues that the Commission considers particularly important to report through audit work. The Commission states that it will use its approach to auditing Best Value to assess how councils are progressing in relation to the following SAPs:
  - Having clear priorities and better long-term planning
  - Recognising that incremental savings are not enough, and thus evaluating options for more significant changes in how they deliver services
  - Ensuring their people - members and officers - have the right knowledge, skills and support to design, develop and deliver effective services in the future
  - Involving citizens more in making decisions about local services and empowering local communities to identify and help deliver services they need
  - Reporting their performance in a way that enhances accountability to citizens and communities.
9. The SAPs are considered by all auditors involved in local government work, both locally and nationally. They are considered as an integrated part of the risk assessment, five year Best Value and annual planning processes. Annual audit reports provide an assessment of the council's performance against the SAPs across the five year audit appointments. When these are covered will depend on the risk assessments carried out by local auditors as part of their annual planning processes. Not all SAPs will be reported at every council each year.
10. As part of its new approach to auditing Best Value, the Commission has agreed that the AARR will be used to provide it with assurance over the progress made by councils against its SAPs.

### **Annual Assurance and Risks Report**

11. The AARR allows the Commission to gain assurance about matters arising from the new approach to auditing Best Value. This in turn will help the Commission to:
  - Consider the messages it wishes to convey in its overview reports. The draft local government overview report will be considered by the Commission at its next meeting on 8 March.
  - Consider progress being made against its SAPs, in turn allowing it to consider if it wishes to revise or modify these SAPs. The Commission will consider this at its Strategy Seminar in March and thereafter at its May meeting when it updates its Strategy. The Commission's updated strategy – including SAPs – are used as the basis for audit planning guidance for next year's audit, which is developed in the Autumn.
  - Consider any implications for its wider work programme. The Commission will be considering at its March meeting the outputs from its ongoing consultation with stakeholders on the refreshed work programme.

## **Conclusion**

12. The Commission is asked to:

- a) Consider and note the attached Annual Assurance and Risks Report.
- b) Consider any implications for its:
  - i. overview reporting
  - ii. SAPs and strategy
  - iii. work programme.

**Paul Reilly**  
**Secretary to the Commission**  
**30 January 2018**

# Annual Assurance and Risks Report on Local Government



Report by the Controller of Audit  
February 2018

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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# Introduction

## Purpose

1. This report provides assurance to the Accounts Commission on the delivery of audit outputs across the local government sector. I have used examples from annual audit reports, Best Value (BV) reports and other audit outputs to provide assurance on the progress local authorities are making against the Commission's strategic audit priorities (SAPs). The report also provides comment on the pace, depth and continuity of improvement across councils in Scotland.
2. The report summarises the outcome of the review of the 2016/17 annual audit reports for councils and related local authority bodies. I have provided an analysis of work undertaken during the year as part of the new approach to auditing Best Value (BV) in local government. The report forms part of a suite of assurance reports the Commission receives in relation to the audit work carried out on its behalf by Audit Scotland and external audit firms.
3. This report also provides a useful input to the development of the local government performance overview, due for consideration by the Commission in March. The assurance I provide in this report will help the Commission shape its conclusions on the performance and challenges facing local government in Scotland.

## Background

### Context

4. The local government sector in Scotland operates in a changing and challenging environment. Councils continue to deliver services within reducing resources, and recent legislative and national policy changes have impacted on councils and the services they provide.
5. The Public Bodies (Joint Working) (Scotland) Act 2014 set out a framework for integrating health and social care, and 2016/17 was the first full operational year for the majority of the 31 integration authorities - made up of 30 integrated joint boards (IJBs) and one health and social care service using a lead agency model. IJBs are established as local authority bodies, under section 106 of the Local Government in Scotland Act 1973.
6. The local government elections in May 2017 resulted in many new councillors and changes to the political make up of councils. Councils are now led by a wide variety of minority and coalition administrations, and a large number of councillors elected were new to the role. While these changes have brought additional pressures, changes in administration and elected members can also bring new ways of thinking and fresh opportunities.
7. 2016/17 was the first year of the new audit appointments. The new approach to auditing BV in local government was also rolled-out, with six councils receiving Best Value Assurance Reports (BVARs) in 2017/18. A report on the review of the first year of the new approach is also on the Commission's agenda today.

## Annual audit reports

8. Local authority external auditors are appointed by the Accounts Commission under the Local Government (Scotland) Act 1973. The [Code of Audit Practice](#), approved by the Accounts Commission and the Auditor General for Scotland, requires auditors 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 elected members and to me as Controller of Audit, and are submitted by 30 September each year. The reports are public and are available on the websites of the audited bodies and Audit Scotland. The reports are reviewed by my team to:
- Identify high-level issues and themes for inclusion in the Commission's annual local government overview reports.
  - Identify specific issues that I may wish to report to the Commission under my statutory reporting powers.
9. In practice, I will be aware of significant issues from the audits in advance of the annual audit reports, and they will be reported to the Commission via the Financial Audit and Assurance Committee (FAAC). Statute allows me to report formally to the Commission - or the Commission to direct me to report - at any point throughout the audit year. However, including such issues in the annual audit report is often the formal starting point for any statutory reporting.

## Auditing Best Value

10. The Commission agreed the overall framework for a new approach to auditing BV in June 2016. Under the new approach, BV will be assessed over the five year audit appointment, as part of the annual audit work. A Best Value Assurance Report (BVAR) for each council will be considered by the Commission at least once in this five year period.
11. I produced six BVARs in 2017/18, with the Commission making Findings on each of them. Aspects of the BV arrangements in the remaining twenty-six councils have been reported in annual audit reports, as part of the five-year BV audit approach introduced by local auditors.
12. This report summarises the results of BV work reported during the year, particularly in relation to progress made against the Commission's SAPs. Examples from councils have been used to illustrate performance against each SAP. The examples are not exhaustive, and are used to illustrate the conclusions I have reached.

## Wider audit dimensions

13. The [Code of Audit Practice](#) ('the Code') outlines the responsibilities of auditors. The Accounts Commission, the Auditor General and Audit Scotland have agreed four audit dimensions that frame the wider scope audit into identifiable audit areas, with BV at its heart. These are set out in [Exhibit 1](#) below.

## Exhibit 1

### Audit dimensions



Source: Code of Audit Practice 2016

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14. Annual audit reports include comment on each audit dimension. These generally detail the work conducted by the appointed auditor, and provide judgements, conclusions and recommendations on the effectiveness and appropriateness of the arrangements in place based on the work undertaken. By reporting against each dimension in the annual audit report, I am satisfied that auditors have discharged their wider responsibilities under the Code. In addition, annual audit reports include commentary on the BV audit work carried out in each council.
15. The key messages reported on the audit dimensions are reflected in this report under the section on SAPs at [page 18](#).

### Strategic audit priorities

16. In its [strategy and annual action plan](#), the Commission sets out an overall aim of holding councils to account for their pace, depth and continuity of improvement, facilitated by effective governance. Within this, the Commission also sets out five SAPs. These are issues that the Commission considers particularly important to report through annual and BV audit work. The five SAPs are:
  - Having clear priorities and better long-term planning.
  - Recognising that incremental savings are not enough, and thus evaluating options for more significant changes in how they deliver services.
  - Ensuring their people - members and officers - have the right knowledge, skills and support to design, develop and deliver effective services in the future.
  - Involving citizens more in making decisions about local services and empowering local communities to identify and help deliver services they need.

- Reporting their performance in a way that enhances accountability to citizens and communities.
17. The SAPs are considered by all auditors involved in local government work, both locally and nationally. They are considered as an integrated part of the risk assessment, five year BV and annual planning processes. Annual audit reports provide an assessment of the council's performance against the SAPs across the five year audit appointments.
  18. This report provides the Commission with assurance on the progress made by councils against these priorities. The evidence on these priorities is being gathered and reported by auditors as part of their five year approach to auditing BV and through annual audits. When these are covered will depend on the risk assessments carried out by local auditors as part of their annual planning processes. Not all SAPs will be reported at every council each year.

### **Quality assurance arrangements for audit work**

19. Audit Scotland's Audit Quality Framework describes our approach to achieving world-class audit quality across all audit work. The framework sets out how Audit Scotland provides the Auditor General and the Accounts Commission with robust, objective and independent quality assurance over all audit work referred to in this report.

# Key messages

20. The outputs used to inform this report are detailed in the following section on page 10. They include annual audit reports at local authorities and related bodies, BV reports, national performance reports and other reports and outputs of interest to the Commission. My review of these reports demonstrates that:
- auditors have an effective approach to identifying and following up audit risks in individual councils, integration authorities and pension funds.
  - in BVARs and BV follow-up reports, auditors have reported a mixed picture on the pace, depth and continuity of improvement across Scotland.
  - auditors have provided good coverage of the Commission's five SAPs. There are some areas in which we could provide more assurance in future, such as the quality of public performance reporting, councils' approach to people development and the effectiveness of community engagement.
  - in many ways, councils have made good progress against the Commission's strategic audit priorities, but there remains scope for improvement in a number of areas.
21. Auditors have reported that most councils have clear corporate plans, with a focus on strategic priorities, but the extent to which these align to budgets varies across Scotland. Effective financial planning and effective leadership is of increasing importance with financial challenges continuing to grow, and more work is required to establish effective long term financial planning arrangements across Scotland.
22. Councils are at various stages in their change programmes, and different approaches have been adopted. There is limited evidence of councils collaborating or sharing services at a local level, although nationally there are a number of initiatives which aim to support local authorities in key areas.
23. Councils provided comprehensive induction training for elected members following the local elections in May 2017, although some auditors identified that councillors do not always make the most of the training available to them. Few auditors reported on the arrangements in place to ensure officers have the right skill sets, instead focusing on wider aspects of workforce planning which is an area for development in many councils.
24. Auditors highlighted a range of ways of engaging with the public, ranging from the traditional to new and innovative, and there is evidence that councils plan to make more use of participatory budgeting.
25. Public performance reporting was reported as satisfactory at most councils, but more detail is required on the effectiveness of arrangements in place. The need for scrutiny arrangements to be strengthened was also reported by a number of auditors.
26. 2016/17 was the first full year of audit reporting for most integration authorities. Auditors found a need to improve medium to long term financial planning.

27. Work on pension funds identified that a continued increase in pensioner numbers will make funding pension payments increasingly reliant on returns from invested assets. Our reports on housing benefits concluded that benefit services are well managed and can deliver value for money and high quality services for customers.
28. Looking ahead, a further six BVARs are scheduled to be presented to the Commission in the coming year. Auditors will report on BV arrangements in their 2017/18 annual audit reports, including following up the previous year's findings. Auditors will also monitor arrangements in place to demonstrate how each integration authority is meeting its BV duties.

# Audit outputs

29. During 2016/17 the Controller of Audit and the Accounts Commission have overseen the publication of a variety of reports. This has included annual audit reports in local authorities and related bodies; Best Value Assurance Reports (BVARs) under the revised approach to auditing BV in local government; and statutory reports. Both BV and statutory reports are issued under Section 102 of the Local Government (Scotland) Act 1973. The Commission's Financial Audit and Assurance Committee (FAAC) and Performance Audit Committee (PAC) also both received a number of updates and reports during the year, while our correspondence team continues to respond to a variety of issues.

## Summary of outputs

### Annual audit reports

30. During the 2016/17 audit year, annual audit reports were published on:
- 32 councils
  - 30 integration joint boards
  - 11 pension funds
  - 32 other small boards and partnerships
  - 270 registered charities within 91 sets of charity accounts.
31. The majority of local audit time and resource continues to be focused on the audit of financial statements. This is critical work, allowing the appointed auditors to reach their conclusions on the quality of the councils' accounts. This is a core part of the assurance provided to the Accounts Commission, and the public more widely, about how public money is being spent by councils and other local authorities.
32. There were no qualified audit opinions in 2016/17. Modified opinions were issued for three councils and one joint committee. The modified opinions all related to trading operations which failed to achieve their statutory objective of ensuring income is not less than expenditure over each three-year period.
33. General themes arising from the review of annual audit reports are reflected in the local government overview reports. The [local government in Scotland: financial overview 2016/17](#) was published on 28 November 2017, while the draft performance overview will be considered by the Accounts Commission at its next meeting in March 2018.
34. Where local authorities were not the subject of a BVAR during 2016/17, local auditors undertook focused reviews against specific BV characteristics as detailed at [paragraph 36](#) below.

## Local scrutiny plans

35. Local scrutiny plans (LSPs) were published for all 32 councils in May 2017. These describe the audit and scrutiny work planned by scrutiny bodies that make up the local area networks (LANs) for each council. The LSPs are published on Audit Scotland's website, and demonstrate how all key risk areas identified by the LAN are covered by audit or scrutiny work. The results of this scrutiny work are reported on the websites for each scrutiny body, and are included in annual audit reports and BVARs reflected in this report. A [national scrutiny plan](#) which summarises the planned work for all councils was also published in May 2017.

## Best Value reports

36. In the first year of the new audit appointments, I produced six BVARs, under section 102 of the Local Government (Scotland) Act 1973. This is in line with the planned work programme. The Commission has made findings on the following reports:
- Inverclyde Council (published June 2017)
  - Renfrewshire Council (published August 2017)
  - East Renfrewshire Council (published November 2017)
  - West Lothian Council (published November 2017)
  - Orkney Island Council (published December 2017)
  - Clackmannanshire Council (published January 2018).
37. I also reported three BV follow-up reports to the Commission under the previous approach to auditing BV.
- Angus Council (published October 2016)
  - East Dunbartonshire Council (published November 2017)
  - Falkirk Council (published February 2018).
38. As required by the 2016/17 planning guidance, all council auditors prepared a five year Best Value Audit Plan (BVAP). Based on the risk assessment at each council, the five year plans will ensure all BV characteristics are covered by audit work in every council over a five year period. In councils where a BVAR was not published in the first year of the new appointment, the main focus of BV work during 2016/17 was on financial and service planning, financial governance and resource management. This reflects the fact that the financial challenges for councils currently represent the highest risk area to the sector. The results from this work are reported through each council's annual audit report.

## Statutory reports on specific issues

39. Section 102 of the Local Government (Scotland) Act 1973 provides for the Controller of Audit to make reports to the Accounts Commission about any matters arising from the accounts of local authorities, or the auditing of those accounts, that he thinks should be considered by the local authority or brought to the attention of the public.

40. Other than the BV reports detailed above, no statutory reports were published under section 102 during 2017. The Controller of Audit is currently considering the following issues with a view to issuing statutory reports in 2018:
- City of Edinburgh Council - Edinburgh schools closures
  - Dundee City Council - prevention and detection of fraud
  - Fife Council - Dunfermline flood prevention scheme
41. The Auditor General for Scotland prepares reports under Section 22 of the Public Finance and Accountability (Scotland) Act 2000 if any specific concerns or issues have been raised in the audit of one of the public bodies for which she is responsible. While section 22 reports focus on the health and central government sectors, some issues reported are of interest to the Commission.
42. The non-domestic rate (NDR) account is prepared by the Scottish Government, and reports on a national basis the financial position of contributions and sums paid to local authorities in respect of NDR taxes. The NDR account for 2016/17 showed an in-year deficit of £8 million and a cumulative deficit at the year-end of £297million. It is the fourth year in a row that a deficit balance has occurred, and the third year in a row that a cumulative deficit balance remains on the account. This means that over time the Scottish Government has redistributed more to councils than it has received in NDR contributions from councils.
43. The Auditor General for Scotland took the decision to produce a separate section 22 report on NDR, and published [the 2016/17 audit of the Scottish Government's non-domestic rating account](#) in December 2017. The report notes that the Scottish Government plans to reduce the cumulative deficit in 2017/18 to £60 million by setting the redistributable amount lower than expected NDR income. There is, however, no formal plan to bring the account into balance. The report calls for increased transparency in the reporting of NDR, and recommends that the Scottish Government should develop and maintain a strategic plan of how it intends to manage the NDR account balance in the future.

### Accounts Commission committees

44. The Commission has two committees - the Financial Audit and Assurance Committee (FAAC) and Performance Audit Committee (PAC). The committees complement each other by reviewing on the Commission's behalf current audit or policy issues.
45. The FAAC reviews matters arising from the annual audit process in each council and joint board. It also reviews intelligence from other bodies concerned with local government such as the Ombudsman, Standards Commission and Information Commissioner. During 2017, the FAAC considered:
- four updates on current issues in local authorities;
  - briefings on digital audit; the Aberdeen City Council capital bond issue; and non domestic rates and the business rates incentive scheme;
  - the emerging messages from the performance audit on equal pay in Scottish councils;

- reports covering the scope and emerging messages for both local government overview reports.
  - presentations from local audit teams.
46. The PAC reviews policy issues affecting local government and oversees the performance audit programme. During 2017, the PAC received:
- five updates on the Commission's work programme;
  - eight reports covering the scope or emerging messages for overview reports and performance audits;
  - briefings on digital audit, educational attainment and community justice;
  - seven policy briefings on areas including health, care and communities and justice, education and lifelong learning;
  - a consultation from the Scottish Parliament Budget Process Review Group.

### Correspondence

47. Audit Scotland handles a wide range of correspondence from members of the public, elected representatives and organisations because they have concerns about an issue within a public body that falls under the remit of the Commission or Auditor General. Neither the Commission nor Audit Scotland has a statutory duty to consider issues of concern or respond to correspondence, but we do so under our Code of Audit Practice and the Commission receives regular reports on correspondence received as part of the Secretary's monthly reporting.
48. During 2016/17 Audit Scotland received 66 new issues of concern or whistleblowing disclosures relating to the local government sector. These covered 21 councils and 11 audit themes including BV, fraud, service delivery and governance, accountability and scrutiny. As of 31 December 2017, 52 new issues had been raised during 2017/18.
49. Of the issues received in 2016/17, 32 per cent were already covered by audit work planned at the council, or the issues were sufficiently relevant that auditors felt audit work was warranted as part of the annual audit; a further 32 per cent of issues were redirected as the issue of concern was not within our remit; 28 per cent were used as intelligence to help with the annual audit and risk assessment; and in 8 per cent of cases we were unable to provide further assistance.

### National performance reports

50. Audit Scotland carries out a programme of national performance audits that it undertakes on behalf of the Accounts Commission and Auditor General for Scotland. Several performance audits covering local government were reported over the last year including:
- [Principles for a digital future](#) (May 2017) - the digital briefing aimed to support public bodies embarking on ICT projects.

- [Self-directed support: 2017 progress report](#) (August 2017) - the report identified that new ways of offering people more choice and control over their social care can make a real difference but further work is needed to ensure everyone can benefit.
- [Equal pay in Scottish councils](#) (September 2017) - the report concluded that implementing equal pay remains a challenge for local government in Scotland more than a decade after the process was agreed, with around £750 million spent on settling claims so far and nearly 27,000 claims still outstanding.
- [Local government in Scotland: financial overview 2016/17](#) (November 2017) - the report highlighted that councils are showing increasing signs of financial stress and face even tougher challenges ahead. We also collaborated with SPICE on the delivery of a briefing on fees and charges in local government

### Housing benefit reports

51. During 2016/17, auditors issued eight reports to councils covering housing benefits. The results of this work are summarised in the [housing benefit performance audit - annual update 2016/17](#) which was published in June 2017.

# Pace, depth and continuity of improvement

52. In its [strategy and annual action plan 2017-22](#) the Commission says 'our over-riding aim is holding councils to account for their pace, depth and continuity of improvement facilitated by effective governance. It is for councils to make choices in where they focus their improvement work but they need to be able to show how they have arrived at such choices'.
53. To reflect the Commission's overarching strategic priority, the new approach to BV ensures that all BVARs include judgements on the pace, depth and continuity of improvement. Auditors form these judgements based on the evidence available to demonstrate improvement by the council in the BV characteristics and service performance. Auditors are forming these judgements for the first time and have commented that this can be challenging.
54. In BVARs and BV follow-up reports, auditors have reported a mixed picture on the pace and depth of continuous improvement across Scotland. Relevant extracts from the key messages from 2016/17 BVAR and BV follow up reports are shown below.

## **Inverclyde Council (published June 2017)**

55. Since the 2005 BV report Inverclyde Council has changed significantly, improving the way it manages services and developing a positive culture of improvement. Service performance has improved overall and improvement activity is happening across the council.
56. Inverclyde Council has made significant progress over the last ten years to address weaknesses highlighted in previous BV reports. In 2005, the Accounts Commission's findings highlighted extensive and fundamental weaknesses in leadership and direction, preventing the council from delivering BV. Since then, the council has built a positive working culture in the organisation that supports innovation. Key elements contributing to this include a clear vision and stable leadership.

## **Renfrewshire Council (published August 2017)**

57. Since the 2006 BV report, Renfrewshire Council has maintained a steady pace of change, supported by effective leadership that has allowed it to improve the way it plans, manages and delivers its business. It has made these improvements while dealing with financial constraints and challenging socio-economic issues such as high levels of economic deprivation, low population growth and an increasing elderly population.
58. Since 2006, the council has steadily improved how its services perform. Renfrewshire's overall performance is improving and is comparable to similar councils within its family group. The council has implemented initiatives which have been delivered with partners and are focused on making a difference at a local level.

### **East Renfrewshire Council (published November 2017)**

59. Under the council's Public Services Excellence programme during 2009-15, there was a steady pace of change. Since 2015, the council has developed a more ambitious programme of business transformation, and the scale and rate of change have increased significantly. This presents risks to the capacity of the workforce and continuing service provision. Increasing demand from growing numbers of children and older people is already placing pressure on council services.
60. The council continues to perform well. Children's services and education continue to improve from an already-high level. Other council services' performance is more varied, partly reflecting the council's range of policy priorities. Results from the Citizens' Panel indicate that most residents are satisfied with services.

### **West Lothian Council (published November 2017)**

61. Since the 2005 BV report, the council has continued to demonstrate a number of strengths. Outcomes for local people are improving and the council continues to perform well when compared to others. It has effective processes to manage performance, a clear commitment to continuous improvement and a well-developed self-evaluation process. However, some areas for improvement identified in 2005 still remain.

### **Orkney Islands Council (published December 2017)**

62. Since our 2008 BV report, the council has gradually improved how it plans and manages its activities. The council has improved its planning framework, performance management, its use of self-evaluation and the way it engages with communities. The pace of improvement in the council has increased over the past three years since it has focused its improvement work around a change programme and its medium-term financial planning. It now needs to ensure it maintains the increased pace by focusing on its change programme and continuing to improve essential processes such as workforce, capital and asset planning.

### **Clackmannanshire Council (published January 2018)**

63. In our report on Best Value and Community Planning in 2007 we concluded that the council faced significant challenges with limited resources. The council has made improvements in some areas, but the financial challenges are much more significant meaning that it now needs to take urgent and decisive action. Only then will the council be in a position to demonstrate the pace, depth and continuity of improvement associated with BV.

### **Angus Council Best Value audit report (published October 2016)**

64. Overall, the council has made progress since the Accounts Commission last reported in 2010. It has clearly set out where it wants to be as an organisation and how it plans to get there. It is heading in the right direction, but it needs to increase the pace of change and the momentum of key projects.

**East Dunbartonshire Best Value follow-up audit (published November 2017)**

65. The council is demonstrating progress in improving its BV arrangements. It has responded positively to the key findings in the 2016 report. It has made satisfactory progress against a plan of improvement, in line with expectations given the short time period since December 2016.

**Falkirk Council Best Value follow-up audit (published February 2018)**

66. The council has demonstrated that it has responded positively to the Accounts Commission's December 2016 findings. It has made satisfactory progress against the Commission's findings, given the relatively short time period since December 2016 and the impact of the local government elections in May 2017.

# Strategic audit priorities

67. Audit work covering the SAPs feeds into the auditors' judgements on continuous improvement discussed in the section above. Conclusions from all of our audit work on each of the SAPs are summarised in the following section.

## SAP 1 - Having clear priorities and better long term planning

68. Auditors reported on council priorities and long term planning in most annual audit reports. Information was also obtained through data returns provided by auditors, and in BV reports published by the Commission. Overall, there was a consistent message that most councils have clear priorities and there is evidence of medium term financial planning. More work, however, needs to be done to establish sustainable long term planning arrangements and to demonstrate that outcomes are being delivered. The local authority elections in May 2017 led to changes in the administrations in a number of councils. As a result, many councils are reviewing their priorities during 2017/18. Auditors will consider the extent to which these priorities are reflected in councils' 2018/19 budget setting processes.

### **Most councils have clear corporate plans and strategies with a focus on strategic priorities, but the extent to which these align to budgets varies across Scotland.**

69. There is evidence that most councils have clear corporate plans and strategies with a focus on strategic priorities, but the extent to which these align to budgets varies across Scotland. In a number of cases, local auditors highlighted that this had been developed in conjunction with community planning partners.
70. Annual audit reports identified that some councils are looking to develop or strengthen strategic planning arrangements following local elections in May 2017. For instance, Dundee City Council acknowledged that clearer links could be made between budgets and strategy, while the auditors of Orkney Islands Council reported a need to develop a clearer link between budget and corporate priorities.
71. At Moray Council the local auditor noted that the majority of the council's 10 year capital plan was not directly linked to priorities, but identified that this arose from the priority need to invest in the council's current asset base.
72. Auditors have reported mixed performance in how effectively councils demonstrate the link between strategic priorities and delivering outcomes. The BVAR for Renfrewshire Council noted that the council is working closely with its partners to improve local outcomes with a clear focus on intervening early to identify and address potential problems. East Renfrewshire Council's BVAR was also positive in this area. Recommendations for improvement were, however, made in other BVARs:
- Inverclyde Council - performance has improved in recent years but the council needs to demonstrate more clearly the link between planned activity and outcomes. It also needs to better assess how activities are expected to improve outcomes.

- West Lothian Council - there is scope to improve how the council monitors and reports what it does to improve outcomes for local people. Improvements could be made by better articulating, monitoring and reporting how key performance indicators link to council priorities.
  - Orkney Islands Council - measurable outcomes are not evidenced, and the council does not yet clearly demonstrate how successful it is in improving outcomes for the local community when measuring and monitoring performance.
73. It is likely that this will also be an area for improvement in a number of future audit reports for other councils.
74. Where areas for improvement have been identified, recommendations have been agreed with councils and timelines agreed for remedial action. The new approach to auditing BV includes a more strategic approach over the five-year audit appointment, and we will continue to monitor annual audit plans to ensure that local auditors are addressing all BV characteristics throughout their appointment.

**Councils' financial challenges continue to grow, with signs of increasing financial stress. In this environment, sound financial planning and effective leadership is more important than ever**

75. The [local government in Scotland: financial overview 2016/17](#), published in November 2017, includes the following key messages:
- Councils' financial challenges continue to grow. Funding reductions are compounded by increasing costs and demands on services. In response, councils have needed to achieve ambitious savings plans, including around £524 million of savings for 2016/17.
  - Councils are showing signs of increasing financial stress. They are finding it increasingly difficult to identify and deliver savings and more have drawn on reserves than in previous years to fund change programmes and routine service delivery. Some councils risk running out of general fund reserves within two to three years if they continue to use them at levels planned for 2017/18.
  - Debt increased by £836 million in 2016/17 as councils took advantage of low interest rates to borrow more to invest in larger capital programmes. Councils' debt levels are not currently problematic, but some are becoming concerned about the affordability of costs associated with debt within future budgets.
  - Councils' budget-setting processes for 2016/17 were complicated by late confirmation of funding from the Scottish Government and the funding arrangements for integrating health and social care. Councils' expenditure and use of reserves often differed noticeably from that originally planned, indicating the need for budget-setting to become more robust and reliable.
  - All councils received an unqualified audit opinion on their 2016/17 accounts but auditors found that in several councils financial management could be improved. Councils can use their accounts to more clearly explain their financial performance over the whole year to support better scrutiny.

- The financial outlook for councils continues to be challenging, with the need to deliver savings being increasingly critical to their financial sustainability. As such, robust medium-term financial strategies and effective leadership to deliver them are of increasing importance.

76. These areas will continue to be the focus of future annual audit reports.

**There is evidence of medium term financial planning, with some councils using scenario planning, but a small number of councils are behind the curve and have no plans beyond their annual cycle. More work is required to establish effective long term financial planning arrangements across Scotland**

77. Audit Scotland defines short, medium and long term financial planning as:

- short term - one to two years;
- medium term - three to five years;
- long term - over five years.

78. Most councils have some form of medium or long term financial planning in place that supports the delivery of a financial strategy. Fife Council has developed a budgeting model to forecast expenditure and income levels over the next 10 years. The approach details the best, worst and medium scenarios. Inverclyde Council's eight year financial strategy uses scenario planning in a similar way, while Argyll and Bute Council's approach is set out at [case study 1](#).

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### Case study 1

#### Argyll and Bute Council: long-term financial strategy

Argyll and Bute Council prepared a medium to long-term financial strategy (2018/19 to 2027/28) that was approved by their policy and resources committee on 19 October 2017. It covers the period from 2018/19 to 2020/21 in detail, including scenario planning (worst, mid-range and best case scenarios) and provides high level estimates for 2021 to 2028. The preparation of this strategy is a significant step for the council that is now one of the few to have a long-term financial strategy in place. The quality of the strategy will be considered by the local audit team as part of the 2017/18 audit.

*Source: Current issues in councils - report to Financial Audit and Assurance Committee (30 November 2017)*

79. Falkirk Council has improved its approach to financial planning, using scenario planning in its medium-term financial paper which forecasts budget gaps over a five year period. At East Renfrewshire Council, the auditor noted that the council has taken the positive step of using scenario planning and producing a range of funding scenarios in preparing three-year cyclical budgets. Renfrewshire Council's three year financial outlook report also includes scenario planning, setting out the best and worst case scenarios for the council.
80. East Dunbartonshire Council's strategic planning and performance framework 2017/18 includes financial projections which include best and worst case scenarios with regards the level of grant funding from the Scottish Government. The strategy includes a number of risk

areas that could affect the savings and budget figures in the medium term, up to 2020/21 in some cases.

81. Instances were highlighted, however, where financial strategies were not fully developed and where no evidence could be identified of long term financial planning. The auditors at Dundee City Council reported that no long term financial planning information is presented to members. The council has recognised the need to develop medium term financial forecasting, and has agreed to develop a medium term financial strategy.
82. East Lothian Council does have a three year strategy, but no long term financial plan (5-10 years) to demonstrate the feasibility of significant longer term projects within the council. The auditor for Moray Council reported limited medium and no long term financial planning, while North Lanarkshire Council does have a medium to long term financial plan but it has not been updated since May 2014.
83. Orkney Islands Council has also been slow to respond to the need to prepare medium to long term financial plans due to its strong financial position, while at South Lanarkshire Council the auditor noted that medium to longer term financial planning could be further developed and refined.

**Councils need to demonstrate that resources are being managed to secure the sustainability of services into the future. Many councils are using revenue reserves to deliver services, which is not sustainable in the longer term.**

84. The [local government in Scotland: financial overview 2016/17](#) identified that in 2016/17, 20 councils drew on their usable revenue and capital reserves. Of these, 19 drew on their revenue reserves, an increase from the eight councils that did so in 2015/16. At North Ayrshire Council auditors reported that the planned use of reserves to fund investments is only possible in the short-term, and that a more sustainable approach is required going forward. Similar messages were reported at other councils including West Dunbartonshire, East Ayrshire, Shetland Islands and East Dunbartonshire.
85. At Moray Council the current level of reserves is significantly above the approved reserves strategy, however financial plans identify that existing reserves will be exhausted by 2019. The outlook is more positive at East Lothian Council, where the council has developed a three year financial plan, aligned to its priorities, that seeks to deliver a balanced budget and avoid the use of reserves by 2019/20.
86. At Renfrewshire Council, Inverclyde Council and Orkney Islands Council auditors reported that each council has significant levels of reserves, and that these have increased in recent years. Using reserves has allowed these councils to meet short and medium term budget pressures, and to a degree protect front line services. West Lothian Council's auditors also reported a significant level of reserves, but highlighted low levels of uncommitted reserves.
87. While the level of reserves varies across councils, local auditors presented a consistent message highlighting the importance of sustainable policies for the use of reserves. In general, council's need longer term financial plans to ensure the sustainability and feasibility of

spending plans, and where relevant to show that dependency on reserves to subsidise service delivery is limited to the short term.

88. Asset management is also important to ensure council's have the right facilities to deliver services in the future. The quality and maturity of asset planning and management varies across Scotland. Inverclyde Council has an asset management strategy, school estate management plan and roads asset management plan. These are included in the financial strategy and incorporated into the financial planning process. Perth and Kinross Council also has asset management plans for key areas such as fleet and mechanical equipment, ICT and service assets in schools. These link to the capital plan, and auditors highlighted the connection from asset management plans through to the financial planning process.
89. Orkney Islands Council has asset management plans for all services, and is currently working to ensure a new corporate asset management plan is in place in 2018 when the current plan expires. Their BVAR did note, however, that the council has been slow to develop its approach to corporate asset management planning.
90. At East Renfrewshire Council's the BVAR identified that the council's approach to asset management has been slow to develop. The report highlighted that asset management did not integrate with either strategic planning or financial budgets. A fundamental review of asset management did, however, begin in September 2015 and since then there has been significant progress.

### **Reducing inequalities is a strategic priority for a number of councils.**

91. The statutory BV guidance says that a local authority which secures BV will be able to demonstrate a culture which encourages both equal opportunities and the observance of the equal opportunities requirements. Equalities is an area of interest to the Commission, and is a far reaching topic which covers both how councils deliver services to reduce inequalities for citizens and also how it addresses equalities in its own workforce.
92. Reducing inequalities is an aspiration for Renfrewshire Council. The council and community planning partners continue to face a number of challenges in addressing deep-rooted inequalities. The BVAR noted that this is reflected in the council plan with a focus on reducing poverty, raising attainment, helping people into permanent employment and improving care, health and wellbeing.
93. At Clackmannanshire Council, the new local outcome improvement plan (LOIP) was agreed after a local poverty assessment and a workshop with stakeholders, including third sector organisations and volunteer groups. Plans focus on improving local outcomes for women and children and residents in South Alloa, which evidence indicates is the most disadvantaged within Clackmannanshire's communities.

## Councils continue to make progress in addressing equality and diversity issues

94. Equality and diversity is a key part of BV. Equalities issues will be covered in each council by auditors at some point in the appointment, through the five year BV audit plan. Conclusions will be reported in annual audit reports, and to the Commission as part of the BVAR process.
95. The Orkney Island Council's BVAR identified that the council is making steady progress in developing its equalities arrangements. The report highlights that the council has systematic arrangements in place to ensure equalities issues are part of decision making processes, and that it works closely with community planning partners on equalities. It also notes that equalities is evident in the council's strategic planning, with the corporate value of 'promoting equality and fairness' prominent in its council plan.
96. The Commission published [equal pay in Scottish councils](#) in September 2017. This explained that since 2004, around 70,000 equal pay claims have been lodged against councils. The cost of compensation agreements and settling claims, along with legal fees, amounts to around £750 million. The number of claims made against councils varies widely. At the time of the report there were almost 27,000 live equal pay claims and workers could potentially still make new claims against councils. The report concluded that councils need to be confident they have fair and transparent pay arrangements and take necessary action, such as regular equal pay audits, to deliver pay equality in line with their public sector equality duty. Elected members need to continue to oversee, scrutinise and challenge councils' approaches to delivering equal pay and reducing the gender pay gap. Until all equal pay claims are settled this will continue to be an area of risk for councils.
97. The Accounts Commission and Audit Scotland demonstrate how they are fulfilling their duties under the Equality Act 2010 through the [equality outcomes and mainstreaming: progress report 2015-17](#) and the [equality outcomes 2017-19](#) report. Both reports were published in April 2017. An update on the work of the Commission's Equalities Sub-Group was presented to the Commission in January 2018.

## SAP 2 - Recognising that incremental savings are not enough, and thus evaluating options for more significant changes in how services are delivered

98. Local auditors reported on a number of different approaches being taken by councils to change how they deliver services due to financial pressures.
99. A number of local auditors are planning coverage of this SAP area later in their five year audit appointment. Where progress was reported, it was identified that most councils have some programme of change initiatives and undertake options appraisal to assist them in making decisions.

**Councils are at various stages in their change programmes, and different approaches have been adopted.**

100. Councils are at various stages in their change programmes, and different approaches have been adopted. For example some councils are on their second change programme, and Fife Council is currently on its third. Other councils, including Inverclyde Council, do not have change programmes in the traditional sense ([case study 2](#)).

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**Case study 2**

**Delivering differently in Inverclyde**

Inverclyde Council does not have a separate improvement programme run by a central team. A previous transformation programme with external consultants was not successful and the council has learned from this experience. The council believes that services should be responsible for improvement within their areas, rather than it being identified and led by a central team without detailed knowledge of how the service operates.

The 'delivering differently in Inverclyde' programme is Inverclyde Council's plan for changing and modernising its services to deliver better, more efficient services at a lower cost. It includes:

- considering options for further shared services
- sourcing services externally
- considering the transfer of the library service to a leisure trust
- the potential to transfer local services to communities
- expanding the digitalisation of services

In the absence of a central programme, it is important that such activities are prioritised, managed and monitored. Inverclyde Council has recognised this and is implementing change management groups within each directorate to undertake this activity.

*Source: Best Value Assurance Report - Inverclyde Council*

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101. Angus Council has established Transforming Angus, a major change programme that aims to modernise its business processes and deliver significant savings. The BV report at Angus, issued under previous BV arrangements, noted that the early stages of the programme have led to important changes in the organisational culture of the council.
102. At East Renfrewshire Council the auditors highlighted that it is still unclear how business transformation projects will contribute to service improvements and financial savings, and it is too early to assess whether these will be sufficient. The auditor notes that a fully integrated approach to financial and service planning is essential.
103. At an operational level, councils have targeted efficiencies at non ring-fenced services. Environmental services waste management, culture and community transport are all areas where service reductions have been reported, and councils continue to monitor how further efficiencies can be achieved. For example, Moray Council has reduced its gritting services, and West Dunbartonshire Council is considering reducing library opening times to reflect the most popular visiting times for users. Inverclyde Council is considering the transfer of its library service to a leisure trust. We will monitor the outcome of work to assess the progress

and performance of local authorities in relation to change over the five-year audit appointments.

### **There is limited evidence of councils collaborating or sharing services with each other**

**104.** The Commission has highlighted the benefits to service users, communities and public sector organisations of working well together. At a national level, the Improvement Service and Convention of Scottish Local Authorities (CoSLA) have worked with local authorities to develop a number of shared initiatives. These include:

- [Tellmescotland](#) - Scotland's national public information notices (PINs) portal, allowing public notices from across Scotland to be published in a single location.
- [The Scottish Local Government Digital Office](#) - launched in 2017, this intends to be a centre of excellence in data, technology and digital, and aims to work with councils to help them with transformation and to create top class digital services for citizens. 30 councils have now signed up to become active members of the Office.
- [Myjobscotland](#) - a national jobs portal for Scotland's 32 councils, as well as for other public bodies. It has been designed to carry over 30,000 vacancies and processes 250,000 applications every year.
- [Trading Standards Scotland](#) - co-ordinates and enforces cross boundary and national casework and undertakes the specialist functions of tackling illegal money lending and e-crime. It is a resource intended to add capacity to local authority trading standards teams in these areas of activity.
- [Scotland Excel](#) - is the centre for procurement expertise for the local government sector. It was established in 2008, and is a non-profit shared service funded by Scotland's 32 local authorities. Its mission is to deliver effective and customer-orientated shared services which support collaborative, innovative and sustainable public services, add measurable value for customers, and bring tangible benefits for local communities and service users.

**105.** At a more localised level there has been less evidence of councils collaborating or sharing services. One example, however, is the Ayrshire Roads Alliance (ARA). This was established in April 2014 as a shared roads service between East Ayrshire Council and South Ayrshire Council. The councils consider that the joint committee arrangement provides an established governance framework, and a good forum for discussing the development of the shared service and joint decision making.

**106.** Not all shared service projects have proved successful. The shared service for education and social care between Clackmannanshire Council and Stirling Council officially ended in March 2017. The Clackmannanshire BVAR notes that since the decision to end the shared service, the council has redesigned social care and education services and focused on improving performance.

**107.** Inverclyde Council has explored shared service arrangements with other councils for corporate functions and ICT, although the outcome has not always been successful. It is

currently exploring shared service opportunities with East Dunbartonshire Council and West Dunbartonshire Council ([case study 3](#)). The council also uses the private sector to deliver a number of council functions including street lighting, roads infrastructure projects and recycling (Greenlight Environmental Ltd), and the third sector to provide employability programmes (Inverclyde Community Development Trust).

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### Case study 3

#### Exploring shared services between East Dunbartonshire Council, West Dunbartonshire Council and Inverclyde Council

The Accounts Commission has highlighted the benefits to service users, communities and public sector organisations of working well together. However, the Commission's [local government in Scotland: performances and challenges 2017](#) report identified limited evidence of councils collaborating or sharing services.

On 1 November 2016, the East Dunbartonshire, Inverclyde and West Dunbartonshire Councils' Shared Service Joint Committee (SSJC) became effective, and established a governance framework for the potential sharing of services. A lead officer group was also established.

The SSJC met twice in 2016/17, with a strategic business case for the sharing of roads and transportation services approved in March 2017. Following this, a consultant was appointed and a project programme has been issued. A detailed business plan is being developed for roads and transportation services, and opportunities for the further sharing of services are currently being scoped.

*Source: Best Value Assurance Report - Inverclyde Council; Annual Audit Report - West Dunbartonshire Council*

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## SAP 3 - Ensuring people - members and officers - have the right knowledge, skills and support to design, develop and deliver effective services in the future

**Constructive working relationships exist between councillors and officers. However, councillors must always play an active role in effectively scrutinising policies, plans and services.**

108. The BVARs generally presented a consistent message of constructive working relationships between councillors and senior officers, with corporate management teams (CMTs) providing clear direction and leadership across councils.
109. The Inverclyde BVAR commented that the council is dealing with challenges through effective leadership and shared ownership of a clear vision. It highlighted the good collaborative working in the council, and noted that the CMT were setting a good example by working effectively together and that councillors and officers have constructive working relationships.
110. The Orkney BVAR also commented on the good level of mutual respect and trust between officers and councillors, noting that the council has stable, effective leadership with a strong focus on doing what is right for the communities.

111. Renfrewshire Council's leadership was reported as effective, with the BVAR highlighting good working relationships within the CMT. It also identified, however, limited cross-party working and noted the difficult working relationships between the main political parties. The BVAR emphasised the importance of councillors working together to progress priority objectives, and recommended that councillors need to scrutinise and challenge reports more thoroughly.
112. There were similar messages at East Renfrewshire Council's BVAR, with the report noting effective leadership from the CMT while identifying both scope for greater monitoring and review at a corporate level, and the need for more active engagement and scrutiny by councillors.
113. West Lothian Council's Executive Management Team (EMT) also provides strong leadership to the council, and good working relationships between councillors and officers were again highlighted. The BVAR reported, however, that councillors need to play a more active role in committees and scrutiny panels to ensure policies plans and services are effectively scrutinised.
114. The Clackmannanshire BVAR identified that members and officers work constructively on a day-to-day basis, but auditors found less evidence of the coherent and combined political and officer leadership necessary to implement and maintain change.

**Councils provide comprehensive induction training for elected members, although councillors do not always make the most of training available to them**

115. There is evidence that councils provided robust programmes of training and development for elected members following the elections in May 2017. Auditors have not, however, reported separately on how councils ensure that officers have the right knowledge, skills and support to deliver services in the future. Audit findings focus on workforce planning which is an area for development in many councils.
116. Overall local auditors reported positively on the induction and training processes in place for elected members across Scottish local authorities, with some also referencing specific finance training. This was a particular area of focus in the 2016/17 annual audit reports due to the local authority elections in May 2017.
117. For example, Aberdeen City Council provides induction and ongoing training for elected members and staff. Throughout the summer of 2017 new training courses were developed by officers and delivered to new elected members, including accounting training for those on the audit, risk and scrutiny committee. Robust arrangements for elected member induction were also in place at Aberdeenshire Council and Perth and Kinross Council ([case study 4](#)).
118. In Argyll and Bute Council, new and returning members received induction training following the local elections on how the council works and how it is financed. The local auditors reviewed the training and concluded it was appropriately designed and should help elected members fulfil their scrutiny role. City of Edinburgh Council also had a comprehensive programme of induction and training sessions for new and returning elected members. The programme included 31 sessions that were repeated to help promote attendance.

## Case study 4

### Perth and Kinross Council

Perth and Kinross Council provides induction and ongoing training for elected members and staff. Elected members receive initial induction training, followed by an annual meeting to discuss and subsequently review their personal development and training plan. This took place in June 2017 for new elected members after the local government election. The local auditor supported training on the financial statements, role of audit and the role of the audit committee. The council will be rolling out the improvement service's continuous professional development framework to all elected members in 2018.

*Source: Annual Audit Report 2016/17 - Perth and Kinross Council*

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119. The 2015/16 annual audit report for Fife Council recommended a more robust member development programme. The council responded by implementing a more expansive induction programme. The local auditor confirmed the appropriateness of the revised programme, and noted that attendance figures were encouraging.
120. At Moray Council, induction materials were considered fit for purpose. The council has, however, acknowledged the need to develop arrangements to support elected member performance by making available personal development and training opportunities and by encouraging attendance at these events. Similarly, at Orkney Islands Council, induction training was good but the annual audit report noted that elected members would benefit from structured arrangements for ongoing training. In particular, the auditor highlighted that elected member engagement in personal development needs further improvement.
121. Renfrewshire Council has a comprehensive training and induction process for elected members, but auditors reported that historically councillors have not made the most of training and development opportunities available to them. At Stirling Council the previous auditors also commented on low attendance at training.

### **Audit findings focused on wider aspects of workforce planning as an area for development in many councils**

122. While some annual audit reports touched on the training and development opportunities for staff, there was limited evidence across annual audit reports and BVARs of how councils ensure that their people have the right knowledge, skills and support to deliver services in the future. This does not necessarily mean that councils are failing to address this strategic priority, but rather that local auditors will be considering the issue at a later date.
123. Reducing the size of the workforce has been one of the main ways councils have reduced their spend and this is set to continue. Given the changes to date, and the expected new demands on councils, effective workforce planning is essential to ensure councils have the right people and skills to deliver priorities. However, as the Commission reported in last year's performance overview report, around one third of councils did not have organisational wide workforce plans.

124. As part of the workforce strategy at Dumfries and Galloway Council, however, there is a comprehensive focus on training and development and this is embedded in the performance and appraisal processes. The council took the decision to centralise the coordination of training and related resources to achieve better impact, to improve capacity and to prioritise training and development on delivery of the council's priorities and key services.
125. In terms of workforce planning, Highland Council approved a workforce strategy in August 2017 that sets out a good framework for workforce planning and for addressing the challenges of an ageing workforce at the council. Clackmannanshire Council's workforce strategy acknowledges that it is not sustainable to simply scale down staff numbers, and identifies that a more fundamental approach to reviewing and redesigning services is required.
126. The Inverclyde Council BVAR reported that the council has a good workforce strategy and forecasts potential job reductions over the medium term, but noted that the council recognises that it needs to develop better workforce planning. Argyll and Bute Council's annual audit report also highlighted that the council needs to conclude the development of its strategic workforce plan to ensure the council has the required capacity and skills.
127. Angus Council's BV report highlighted the need to develop more detailed workforce plans, linked to ongoing projects and service reviews and other key strategies, while at Renfrewshire Council the BVAR identified that no detailed medium or long term strategic workforce plan was in place.
128. Renfrewshire Council approved a three year organisational development strategy in 2015 but is in the early stages of implementing it. The council recognises that it needs to develop better workforce planning, and auditors noted that implementation of the medium and long term workforce strategy and organisational development strategy is critical to how future services are delivered.

## **SAP 4 - Involving citizens more in making decisions about local services and empowering local communities to identify and help deliver services they need**

129. Annual audit reports and BVARs identified a wide variety of approaches to community engagement. There is also some evidence of participatory budgeting being considered in a number of local authorities.

### **Councils continue to use traditional approaches to community engagement, but new and innovative ways of engaging with the public are also being adopted**

130. Engagement with communities is often focused around the difficult choices being faced by councils, who need to be transparent about the implications of budget and priority decisions and how these impact on services. There is evidence that councils continue to use traditional approaches to community engagement, for example citizen's panels, but new and innovative ways of engaging with the public are also being adopted.

131. Aberdeen City Council's level of consultation varies year-to-year and is mainly done by members rather than officers, while Dumfries and Galloway Council's service review process requires service user engagement.
132. The BVAR for Renfrewshire Council reported that the council and its partners are good at working with and involving communities, for example, through its work on tackling poverty and the bid for Paisley to become the UK City of Culture. At Clackmannanshire Council, the BVAR highlighted that as well as a citizen panel, the council has a citizen space website which hosts consultations covering a range of local issues. The council provides information on its website about the results of some of the public consultations and what outcomes have been delivered as a result.
133. Inverclyde Council's BVAR identified that methods used ranged from the traditional to the innovative, and encouraged participation from a wide spectrum of the community. Examples at Inverclyde included a mixture of local public meetings, focused workshops on town centres (charrettes), web-based consultations, citizens' panel responses, connecting with parent and pupil councils and advisory groups and community outreach work.
134. Orkney Islands Council has also taken an innovative approach, particularly in its engagement with remote communities through the use of 'island link officers' ([case study 5](#)).

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### Case study 6

#### Island link officer

Under its Empowering Communities project, Orkney Islands Council funds two pilot 'island link officers' on the islands of Pap Westray and Stronsay and has established a 'community office' on each island. The office provides a base for the link officers, who offer some of the services provided by the council's main customer services team.

The project's objective is to provide a closer link to the council within remote communities. This allows communities to have more influence on policies, decisions and services that affect their community and also enables services to be more efficient and responsive to local issues and needs. Community representatives from both islands indicated that the scheme benefits the communities, and helps communication with the council and better joint working.

The council aims to progress the approach by engaging with communities to explore what, and how, operational services can be delivered in a different way within communities. The aim being to:

- increase employment opportunities in island communities
- help develop new skills in the island-based workforce
- increase sustainability and improve access to services by building capacity in the community to manage and deliver local services
- enable locally based community groups to work together to maximise the potential benefits to island residents
- create efficiencies in terms of public resource and/or cost.

In February 2017 Orkney Islands Council allocated additional funding to the scheme, and agreed to roll out the project to two further islands - Hoy and Sanday.

*Source: Best Value Assurance Report - Orkney Islands Council*

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### **There is evidence that councils are planning to make more use of participatory budgeting**

135. The Scottish Government's '[a nation with ambition - the government's programme for Scotland 2017-18](#)' reiterated the Scottish Government's aim to work with local authorities to have at least 1 per cent of council budgets subject to community choices budgeting. The Commission's [local government in Scotland: performance and challenges 2017](#) highlighted some case studies of participatory budgeting, and our review of annual audit reports and BVARs has also identified approaches being implemented by councils.
136. At Perth and Kinross Council a number of events are held in March and April each year to involve the community in deciding how the budget is spent. The council recognises the importance of this being a repeated exercise, and citizens are consulted on budget setting and service delivery through a number of meetings and surveys.
137. City of Edinburgh Council's ruling coalition has committed to devolved decision making, and ensuring that 1 per cent of the council's discretionary budget will be allocated through participatory budget making. Shetland Council also places a strong emphasis on encourage community participation in decision making, and has a similar aspiration that 1 per cent of its budget should be decided through participatory budgeting initiatives in the longer term.
138. The BVAR at East Renfrewshire Council noted early progress with community engagement and participatory budgeting. This included training for the council and its partners on community engagement as part of the corporate training programme; providing communities with capacity-building training and support to encourage partners; and approving a participatory budgeting process to distribute £600,000 of repair funding for residential roads based on the top two preferences chosen by community participants.
139. Community engagement and empowerment is an area where new approaches are likely to evolve, and which will potentially become more challenging as the Community Empowerment Act becomes embedded. This is an area of ongoing development for auditors, working with our scrutiny partners, and we will continue to improve our coverage of community engagement in BVARs and other audit outputs.

## **SAP 5 - Reporting performance in a way that enhances accountability to citizens and communities**

140. There is evidence that councils have processes in place for public performance reporting. More work is needed, however, to assess the impact on outcomes and the effect that council policies and performance is having on the lives of people in the communities that they serve.

**Most council's have satisfactory arrangements in place for public performance reporting. Auditors could provide more detail on the nature and effectiveness of those arrangements**

141. The Commission places a clear emphasis on councils' responsibility for public performance reporting. This is a key element of the performance management framework, and covers how effectively local authorities are reporting performance information to the public. The Commission does not prescribe how councils should report this information, but expects them to provide the public with fair, balanced and engaging performance information.
142. It is important that councils clearly report their performance to local people. Good performance reporting includes clearly stating how performance and spend is linked to the council's priorities; local indicators which demonstrate quality of service; and public satisfaction.
143. Most local auditors provided an overall assessment of the performance management framework at their councils, with additional focus on the quality of performance management information and reporting. While annual audit reports identified that most councils have satisfactory arrangements in place for the publication of performance information, there was limited detail of the nature or effectiveness of arrangements in place.
144. All auditors did, however, report on whether councils had met their duties regarding the two statutory performance indicators:
- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving BV.
  - SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.
145. Whilst auditors did include a judgement on each council's arrangements for publishing performance information relating to the two SPIs, there was limited commentary on the quality of the reporting, and the difference it makes. Auditors have been reminded that they should provide more detail on the quality of performance information published by councils in 2017/18.
146. The local auditors at Comhairle nan Eilan Siar (CNES) noted that the comhairle is committed to having a strong framework in place for monitoring and reporting performance. A continuous improvement sub-committee (of both the policy and resources committee and audit and scrutiny committee) considers the self-assessment and improvement agenda, and the comhairle uses the 'how good is our council?' self evaluation tool together with the public service improvement framework (PSIF).
147. In North Ayrshire Council there is a clear framework in place to ensure that performance is monitored and reported. Performance information is readily available to citizens, and the provision of the interactive 'North Ayrshire Performs' portal allows information to be presented in a way that is visually interesting.
148. Moray Council also has a performance management framework in place that demonstrates how components of performance management fit together, and how the council's ten year

plan is used to inform corporate, service and team level plans. Auditors reported that the framework is currently undergoing review to ensure it is fit for purpose and reflects best practice.

149. At Dundee City Council, the performance management framework is going through significant changes, including the development of service scorecards. Service scorecards are being designed to align service performance reporting with the council's key priorities and outcomes through its council plan and local outcome improvement plan. Performance arrangements at City of Edinburgh Council are more embedded as detailed at [case study 7](#).

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## Case study 7

### City of Edinburgh Council - public performance reporting

At City of Edinburgh Council public performance arrangements are based on council-wide performance reports that are presented to the council on a six-monthly basis. These reports include an update on pledges by the ruling administration; an annual report against the strategic outcomes in the Edinburgh Partnership Community Plan; annual comparator reports on a range of performance indicators included in the local government benchmarking framework (LGBF); and an annual performance overview report.

The final report on the previous administration's pledges was considered in December 2016. The report summarised the progress and achievements towards meeting the priorities set out in the capital coalition agreement in April 2012.

At the time of preparing the annual audit report, the council were preparing the Annual Performance Overview 2017 which would complete the suite of public performance reports for 2016/17.

*Source: Annual Audit Report - City of Edinburgh Council*

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150. Renfrewshire Council has an established performance management report which is well understood by councillors and provides a base for improvement. Progress against service plans are reported on a six-monthly basis, but auditors noted that the level of scrutiny is limited. The council publishes an annual performance report which is refreshed following customer feedback, although more detailed performance information is less accessible.

### Auditors have reported on the need to strengthen scrutiny in councils

151. Scrutiny of council performance is an important part of accountability arrangements. The West Lothian Council BVAR reported that councillors need to play a more active role in committees and scrutiny panels to ensure policies, plans and services are effectively scrutinised. The East Renfrewshire Council BVAR also highlighted that councillors should have a more transparent and active role in the scrutiny and challenge of decisions, and should have greater oversight of the transformation of the council. The report also noted that a large proportion of scrutiny occurs informally outside established committee structures.
152. At Renfrewshire Council, the BVAR highlighted that past performance of the Audit, Scrutiny and Petitions Board was weak and put at risk the overall effectiveness of scrutiny within the

council. The council reviewed and revised the remits of its committees and established the Audit, Risk and Scrutiny Board following the 2017 local elections.

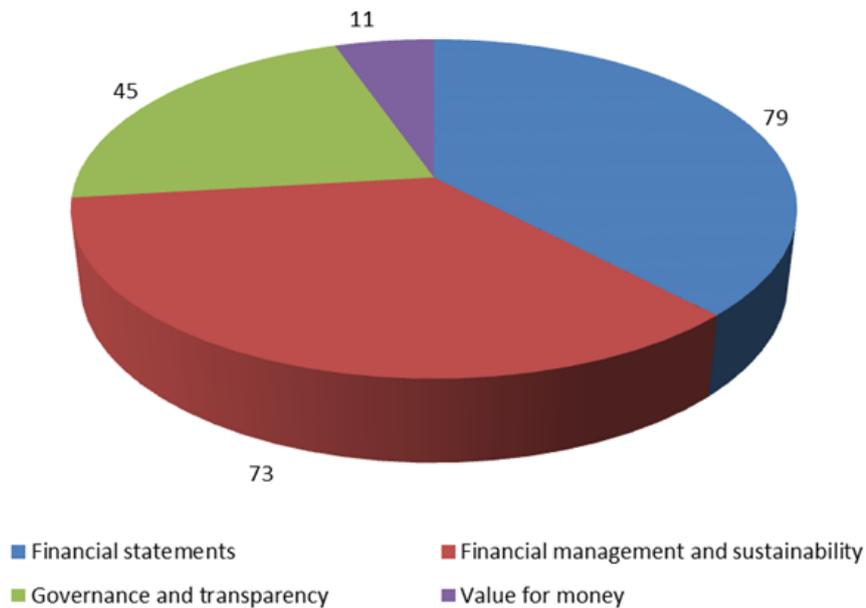
153. The Annual Audit Report for South Lanarkshire Council comments on the limited terms of reference of its Risk and Audit Scrutiny Forum. The forum has not been delegated the responsibility to approve the annual accounts for signing; its role is only to consider audit reports, and other relevant matters, and to report to the Executive Committee. The auditor is of the view that this dilutes the status of the forum and may not promote the most effective level of scrutiny of governance and performance. In response, the council have advised that these arrangements are to be reviewed.
154. The issues noted above regarding scrutiny were not, however, replicated at all councils. Inverclyde Council's BVAR noted that the quality of councillors' scrutiny appears effective, while Orkney Island Council's BVAR concluded that governance arrangements provide an appropriate and effective framework for decision making and scrutiny.

### Other areas of interest arising from our audit work

155. Auditors have focused on ensuring coverage of the five SAPs in their audit work this year, so audit findings on the SAPs make up a large proportion of the issues reported on councils in 2016/17. However, auditors have made conclusions and recommendation in a number of other important areas.
156. During 2016/17, local auditors raised 208 recommendations for improvement in annual audit reports across Scottish local authorities. As detailed in [exhibit 2](#), 38 per cent of recommendations related to the financial statements; 35 per cent to financial management and sustainability; 22 per cent to governance and transparency; and 5 per cent to value for money. Auditors will follow up these recommendations and report an updated position in their 2017/18 AARs.

## Exhibit 2

### Improvement actions in Scottish councils



Source: Scottish local authority annual audit reports 2016/17

157. I have recently written to all council Chief Executives to highlight key messages from each AAR. I have said that, overall, the first year of the audit appointments has gone well and confirmed the benefit of rotating the audit appointments every five years. I took the opportunity to remind all councils of the importance of the final accounts process. I noted that some auditors had reported issues with the quality of accounts prepared, along with some concerns about the scrutiny, approval and signing of the financial statements. I have therefore stressed to all councils the importance of ensuring the production of their accounts is effectively planned and conducted well. Comments from some auditors where improvements are required to the accounts preparation are included below.

- Aberdeen City Council - the auditor reported a relatively high number of audit misstatements and presentational adjustments. The auditor also made recommendations related to improving documentation of accounting judgements.
- Highland Council - the auditor reported a need to improve financial internal control arrangements to reduce the number of adjustments to the financial statements.
- Midlothian Council - the auditor reported that the annual accounts were not signed until early October 2017, and there were a number of adjustments required to the unaudited financial statements. In addition, the accounts were not made public by the statutory deadline.
- North Lanarkshire Council - the auditor identified issues with the group accounts preparation process, which led to adjusted/ unadjusted errors in the audited financial statements.

# Audit work in other local authority bodies

158. During 2016/17 auditors produced reports on integration authorities, pension funds and housing and council tax benefit. The findings from these reports were presented in annual audit reports for relevant bodies, as well as through performance audit reports.

## Integration authorities

159. Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force in April 2016. This brought together NHS and local council care services under one partnership arrangement for each area. There are 30 Integration Joint Boards (IJBs) in Scotland.

### **Reliance on financial reserves is not sustainable, and integration authorities would benefit from improved medium to long term financial planning**

160. In December 2015, the Accounts Commission and Auditor General published the first of three national reports looking at the integration of health and social care. The report recognised that the Public Bodies (Joint Working) (Scotland) Act 2014 introduced a significant programme of reform affecting most health and care services and over £8 billion of public money. The reforms are designed to address barriers to providing the right care for people, closer to home. However, the report recognised the significant challenges involved, including complex governance arrangements, difficulties in budget-setting and consequent delays in strategic planning. A second audit is scheduled for 2018, looking at progress to date and following up on these risks. The audit will examine changes to the system, including evidence of shifting service delivery from acute to community-based and preventative services, and the impact on the lives of local people.

161. All IJBs were operational in 2016/17 and received an unqualified audit opinion on their accounts. Auditors did, however, acknowledge the challenge to IJBs of producing the accounts during what was the first year of reporting for most boards. Auditors also reported that a number of disclosures required by accounting guidance and regulations had not been included in the annual governance statements and management commentaries. Amendments were made to these statements before they were published.

162. Another area for improvement consistently highlighted in IJB annual audit reports was in relation to BV. IJBs should have arrangements in place to ensure that they can demonstrate how they are fulfilling their duty of Best Value. This is an area that IJBs need to develop, and which local auditors will monitor and report on as part of the 2017/18 audit.

163. In relation to finance, IJB chief finance officers have put in place processes to obtain assurances from health boards and councils on the expenditure included in IJB accounts, but

recorded in the financial ledger of the board and council. No significant issues were reported by local auditors in relation to these assurances.

164. IJBs are permitted to hold reserves under section 106 of the Local Government (Scotland) Act 1973. The integration scheme and the reserves policy for each IJB sets out the arrangements between the partners for addressing and financing any overspends or underspends. The reserves policies vary across Scotland. Some integration authorities can retain underspends as reserves, whilst others return them to the boards and councils.
165. A number of integration authorities reported operating surpluses. These arose from underspends of funds transferred from the health board or council which were not required to be returned. As with councils, any reliance on reserves is not sustainable. More work is therefore required to achieve savings going forward, and integration authorities would benefit from improved medium to long term financial planning. The challenge of agreeing integration authority budgets due to the different settlement timetables for NHS boards and councils was also highlighted by local auditors as a continuing problem.
166. Governance arrangements across integration authorities were in place, but auditors acknowledge that arrangements in areas including financial planning, budget monitoring, risk management and performance management were continuing to evolve. A number of auditors also commented on the late establishment of internal audit arrangements, and noted that clarity still had to be provided to ensure that the internal audit service operates effectively.
167. Some auditors reported on the challenges for the public in understanding who is delivering health and care services. In order to ensure transparency, information about the nature of the IJB, its performance and governance should be readily accessible to the public.
168. While most IJB auditors did not report many issues regarding transparency, at East Dunbartonshire IJB, for example, the auditor reported that there is no information available to the public on how to arrange attendance. In South Lanarkshire, the auditor reported that the IJB does not have its own website and therefore committee and board papers are only available on the NHS Lanarkshire website. Auditors said the absence of a dedicated information site for citizens, board members and staff means there is a risk that the nature and performance of the IJB is inaccessible to stakeholders.
169. In an effort to increase transparency, a number of public sector organisations broadcast meetings live on the web or make recordings of meetings available via their websites. As part of the commitment to openness and transparency, integration authorities should consider whether greater public engagement could be achieved through improved promotion of public attendance at meetings or the use of technology to reach a wider audience.

## Pensions

170. In November 2017, the Accounts Commission published a pensions supplement to accompany the [Local Government in Scotland: Financial Overview 2016/17](#), providing an overview of the Local Government Pension Scheme in Scotland. This supplement was compiled from the annual reports and accounts of the 11 pension funds administered by

councils in Scotland and on the reports of their appointed auditors. All 11 pension funds received an unqualified audit opinion on their accounts.

171. Overall, net pension liabilities on council balance sheets were approximately £11.5 billion at the end of 2016/17, an increase of 51 per cent on the previous year. This increase was mainly due to a change in actuarial assumptions used to value future liabilities. It was a good year for Local Government Pension Scheme (LGPS) investments, which increased by almost 22 per cent.

### **The continued increase in pensioner numbers will make funding pension payments increasingly reliant on returns from invested assets**

172. Not all council pension liabilities are the responsibility of the LGPS fund. Where councils have awarded added-year pension benefits as part of severance arrangements, for both teachers and other staff, they have to meet the ongoing cost of pensions themselves. This also helps explain why the increase in council liabilities outstripped investment returns. These liabilities are not matched with any pension fund assets.
173. Public service pension scheme benefits have been reduced on a number of occasions to make the schemes more affordable. However, pension contributions have been a significant cost pressure for councils in recent years. The need for any increase in employer contributions will be determined through the results of the 2017 triennial funding valuation.
174. During 2016/17 the Controller of Audit overseen annual audit reports at 11 pension funds. A consistent message in these reports was that the continued increase in pensioners in the fund's membership will make funding pension payments increasingly reliant on returns from invested assets. .

## **Housing benefits**

175. During 2016/17, the auditors issued eight reports to councils on housing benefits:
- South Ayrshire Council (May 2016)
  - Inverclyde Council (May 2016)
  - East Renfrewshire Council (July 2016)
  - East Ayrshire Council (August 2016)
  - Aberdeenshire Council (October 2016)
  - Dundee City Council (November 2016)
  - South Lanarkshire Council (December 2016)
  - Fife Council (March 2017)
176. The results of this work are summarised in the [housing benefit performance audit - annual update 2016/17](#) which was published in June 2017.

**Benefit services are well managed and can deliver value for money and high quality services for customers**

177. The annual update identifies that benefit services that are well managed can deliver value for money and high quality services for customers. It noted that 80 per cent of risks identified during risk assessments in previous years had been either fully or partially addressed (85 cent in 2015/16).
178. In total eight reports were issued during 2016/17, and in two of these no risks to continuous improvement were identified. At two councils only one risk was identified, with 16 risks identified across the remaining four councils. The report identifies that:
- Management checking was an issue in five of the eight councils. The level of analysis carried out on the outcomes was insufficient to inform a risk-based approach to checking or training programmes.
  - In three councils the report identified business planning and performance reporting risks where targets were not set for all aspects of the benefit service. Holistic performance was not therefore being reported to senior management and elected members.
  - Interventions were an issue in four councils, with intervention outcomes not recorded and analysed in sufficient detail to allow the service to determine the effectiveness of their approach.
179. Universal Credit (UC) continues to be rolled out across Scotland with all councils having some local residents claiming UC. During 2016/17, the full digital UC service for all claimant types began to roll out nationally. The Department for Work and Pensions expect a full roll-out across the UK to be completed by September 2018, with the migration of the remaining working age existing housing benefit claimants to the full UC service to start thereafter and be completed by 2022.
180. The Scotland Act 2016 devolved a number of areas of social security to Scotland. These cover eleven benefits totalling £2.8 billion of spending in Scotland. The Scottish Government is committed to delivering these social security benefits by the end of the current parliamentary session in 2021. Ten of the eleven devolved benefits will be delivered directly by the Scottish Government's new social security agency with discretionary housing payments continuing to be delivered by local authorities.

# Looking ahead

## Assessment of key risks in councils

- 181.** I am satisfied that auditors have an effective approach to identifying and following up audit risks in individual councils, integration authorities and pension funds. The annual audit work carried out by auditors is planned to address the key risks in each council. It is clear that long term financial planning, financial management and sustainability continue to represent significant risks in local government, and will remain a main focus for auditors in 2017/18 and beyond.
- 182.** The need for all councils to change how they deliver services in the future in this environment will also continue to be a focus. Alongside these areas, local audit work will be informed by local risks. The results of this work will be reported in annual audit reports next year. These findings will be summarised in the 2017/18 Annual Assurance and Risk Report.

## Best Value in councils

- 183.** A further six BVARs are planned during the second year of the audit appointments in line with the planned work programme. The reports planned to be published in 2018/19 are:
- Dumfries and Galloway Council
  - East Ayrshire Council
  - East Lothian Council
  - Fife Council
  - Glasgow City Council
  - West Dunbartonshire Council
- 184.** A further six or seven BVARs are planned in each of years three, four and five of the audit appointments. We have not yet confirmed the timing of BVARs for individual councils beyond year two, as this provides flexibility to react to any issues identified by local auditors during the course of the audit appointment. A schedule of planned BV work for each council during the remainder of the audit appointment is contained in the auditors five year Best Value Audit Plan (BVAP).
- 185.** The 2017/18 annual audit reports for those councils where a BVAR has been published will include comment on the councils overall response to the BVAR; a judgement on the progress made against each recommendation included in the BVAR; and any additional recommendations made by the Commission in their Findings. The results of this work will be reported in the 2017/18 Annual Assurance and Risks Report.

## Best Value in IJBs

- 186.** The Code of Audit Practice sets out how BV duties apply to organisations across the public sector, not just councils. This applies to auditors of integration authorities, health and central

government bodies. The 2017/18 Planning Guidance requires auditors to include comment in their annual audit reports on how each IJB demonstrates that it is meeting its BV duties. Auditors will report on the authority's own arrangements for doing this, but will not carry out detailed audit work against the BV characteristics. The results of this work will be reported in the 2017/18 Annual Assurance and Risks Report.

## National performance audits

187. Audit Scotland carries out a programme of national performance audits on behalf of the Commission and Auditor General for Scotland. The Accounts Commission has several performance audits covering local government planned in the coming year including:

- Early learning and childcare (February 2018)
- Local Government Performance Overview (April 2018)
- Are ALEOs improving council services? (Spring 2018)
- Children and young people's mental health (Autumn 2018)

## National scrutiny plan 2018/19

188. The National Scrutiny Plan for local government is one of the key outputs from the shared risk assessment process. It summarises the strategic scrutiny activity planned from April to March each year across Scotland's 32 councils. The 2018/19 plan is scheduled to be published in spring 2018.

## Strategic audit priorities

189. SAPs are issues that the Commission considers are particularly important to report through annual and BV audit work. The Commission reviews its SAPs in the spring of each year to inform annual planning guidance for local government auditors issued in the autumn.

190. Progress by councils against the Commission's SAPs is detailed from page 18 of this report. In some areas, for example in exploring options for service delivery and engaging citizens and communities, limited work was undertaken by local auditors out-with the BVARs. This is consistent with the new audit approach, which requires auditors to address BV over the five year appointment as part of their audit work.

191. In order to support continuous improvement, the Commission plans to review its strategic audit priorities. This report demonstrates that, overall, the SAPs reflect the key risk areas and audit findings being reported by auditors. However, it also suggests that in some areas, as our expectations of councils have changed over time, the emphasis of some SAPs could be usefully updated. For example, the Commission could consider :

- **Reporting performance in a way that enhances accountability to citizens and communities** - whilst most councils have adequate and transparent arrangements in place for public performance reporting, most are not good at demonstrating the impact of its improvement activity on outcomes. The Commission may wish to consider the focus of this priority to take account of these findings.

- **Ensuring their people (members and officers) have the right knowledge, skills and support to design, develop and deliver effective services in the future** - most annual audit reports provided a good level of detail on arrangements for elected member training and development. There was, however, limited information on this for officers, although some local auditors did report on the effectiveness of workforce plans and strategies. One of the key messages identified from this was limited evidence of detailed workforce planning. The Commission could consider revising this priority to reflect the importance of effective workforce planning to support financial and operational strategies.
  - A number of local auditors identified the need for councils to strengthen the level of oversight, scrutiny and challenge provided by elected members. As the scrutiny of council performance is an important part of governance and accountability arrangements, the Commission should consider whether this area is adequately covered within the current SAPs.
  - The importance of effective leadership from officers and members is reported in all BVARs. It is considered in this report, but its prominence could be increased in the SAPs.
192. We will continue to monitor performance to ensure adequate coverage of BV characteristics throughout the five year audit appointments.

**MEETING: 8 FEBRUARY 2018**

**REPORT BY: SECRETARY TO THE COMMISSION**

**AUDITING BEST VALUE - REVIEW**

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### **Purpose**

1. This paper introduces the review of the first year of the new approach to auditing Best Value.

### **Background**

2. At its June 2016 meeting, the Commission agreed the overall framework for a new approach to auditing Best Value, which was the culmination of a review of our approach which began in 2014. The framework was based upon six principles agreed in that review:
  - The essential elements of Best Value remain as relevant and critically important today as when it was first established, although there is some need for the statutory guidance on Best Value to be strengthened or refreshed.
  - There is a real need for the pace, depth and continuity of improvement to increase across local government and driving improvement will be at the core of the audit process for Best Value.
  - There can be no compromise on the importance of good governance in councils, including the need for effective scrutiny arrangements that contain the checks and balances that lie at the heart of our system of government.
  - A proportionate and risk-based audit approach should be taken, but the Commission requires more frequent assurance on Best Value across all 32 councils.
  - Greater synergy, and a better experience for councils, can be achieved through integrating audit processes across the range of audit work applied in local government, alongside continued joined up working with other scrutiny bodies.
  - Audit work should have a strong focus on the quality of service experienced by the public and the outcomes achieved by councils for their communities.
3. A summary of the framework is contained in Appendix 1.
4. In agreeing the framework, the Commission recognised the value in reviewing the first year of the new approach, to be done following the reporting of the annual audit in October and following the reporting of the final report in the first tranche of six Best Value Assurance Reports. This final report, on Clackmannanshire Council, was reported to the Commission on 11 January and published on 25 January.
5. The review was undertaken by the Director of Performance Audit and Best Value and the attached report (Appendix 2) sets out his conclusions.

### **Review paper**

6. Elsewhere on the agenda of today's meeting, the Commission has been asked to consider the Annual Assurance and Risks Report (AARR) by the Controller of Audit. The

report reflects the important principle underpinning the new framework of an integrated approach to auditing and reporting Best Value, in which Best Value is assessed over a five year audit appointment as part of the annual audit. The AARR allows the Controller of Audit to report on his conclusions from his review of this new integrated audit approach through an Annual Assurance and Risks Report (AARR).

7. In considering the AARR, the Commission has been able to reflect on what the outputs from the integrated approach means for its overview work and strategic audit priorities. This review paper provides a complement to these considerations by reporting on the delivery of the new integrated approach, thus covering both how Best Value has been reported through annual audit reports and the six published BVARs. It also reflects upon the shared risk assessment process which also forms an important part of the new approach.
8. The paper sets out a number of improvement actions in taking forward our approach. We are now amidst the second year of our approach, with the next BVAR due to be reported to the Commission in May. So while some of these actions can be applied immediately, many will form the basis of planning for the next tranche of audits. Planning guidance in this regard will be published in the Autumn.
9. In undertaking his review, the Director sought the views of Commission members, which was done by way of two workshop sessions on 23 and 30 November. In addition, Commission members held on 11 January a separate private discussion on matters in relation to members' formal scrutiny of BVARs. Conclusions of this session will be taken forward by the Commission in the context of Commission development, although the conclusions were also shared with the Director for him to reflect upon in his review.
10. The Director has also considered the feedback received by the Commission from its engagement with individual councils following publication of a BVAR.

### **Stakeholder engagement**

11. In agreeing the framework in June 2016, the Commission agreed that it wished to engage directly with councils, to set out and discuss with them our expectations in the new approach. Three successful events involving leaders and chief executives of all Scottish councils took place throughout the country in November and December 2016.
12. The events also allowed the Commission to discuss its strategy with stakeholders, particularly around its expectations around continuous improvement.
13. The Commission is invited to consider a further round of engagement this year to convey the outcome of this review as well as its revised Strategy (which the Commission will consider at its Strategy Seminar and subsequently at its May meeting).

### **Conclusion**

14. The Commission is asked to:
  - a) Consider for endorsement the attached report by the Director of PABV on his review of the first year of the new approach to auditing Best Value.
  - b) Consider how it wishes to convey its conclusions to stakeholders.

**Paul Reilly**  
**Secretary to the Commission**  
**30 January 2018**

**A FRAMEWORK FOR AUDITING BEST VALUE: SUMMARY**

See separate paper

**REVIEW OF THE NEW APPROACH TO AUDITING BEST VALUE**

**APPENDIX 2**

See separate paper

# Auditing Best Value

A summary of the overall framework for our new approach

## The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website:

[www.audit-scotland.gov.uk/about/ac](http://www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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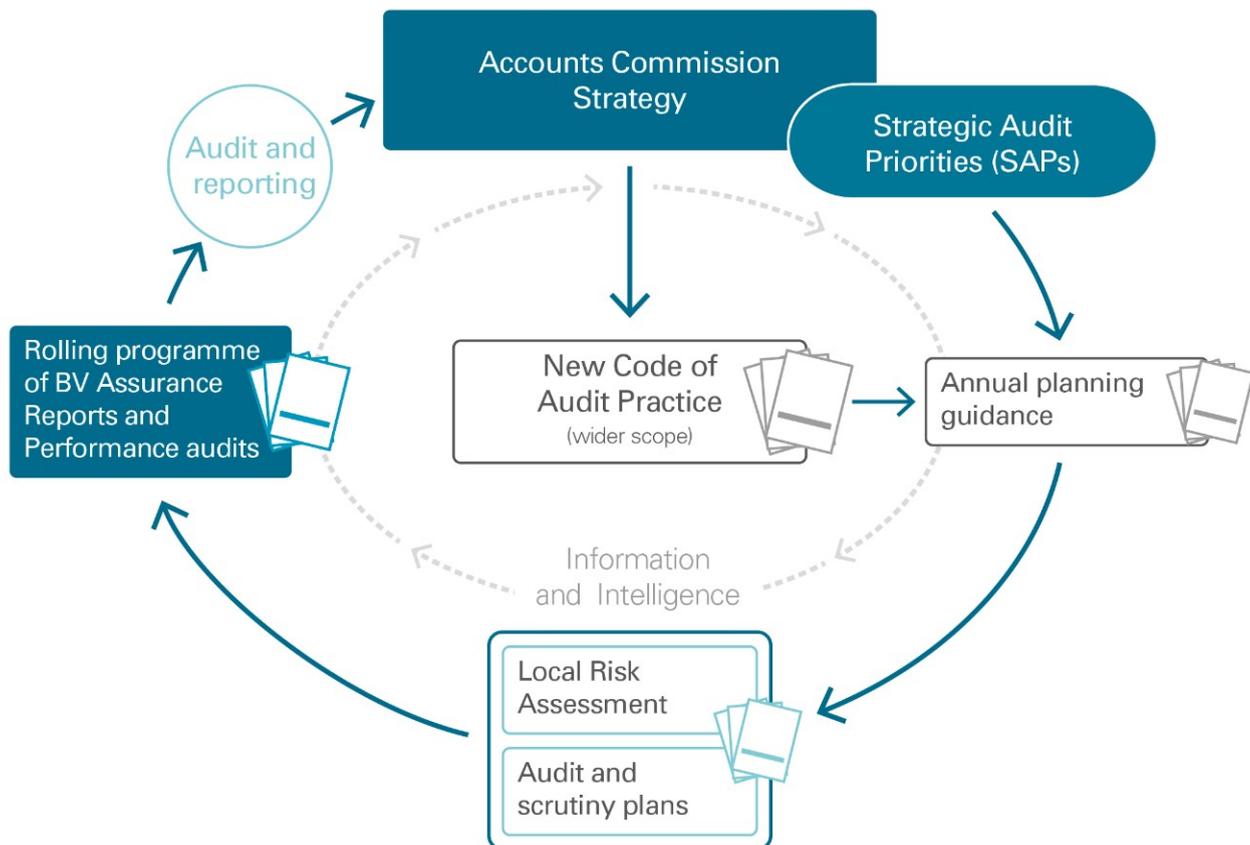
## Introduction

1. This paper provides a summary of the overall framework for our new approach to auditing Best Value. At this time, councils are responding to the challenges associated with ensuring both financial and service sustainability in the future. They are thinking about how they can radically change how they work and deliver services. In similar vein, our new approach represents significant change and includes considerable redesign of how we carry out our work. Not just how we audit Best Value, but how we audit a council altogether.
2. We agreed a set of principles for the new approach in December 2014, and development work has been taking place since then to establish the overall audit framework with the changes commencing at the start of the new five-year local government audit appointments in October 2016. We recognise that the new approach involves significant new ways of working for auditors, and that some of these changes cannot be fully achieved in the short term. So, we have agreed that the new approach will be evolutionary in nature. While the core elements will be in place for October 2016, some of the detailed processes and changes will continue to be developed over time. We believe councils will welcome the new approach. We have engaged with council representatives and other stakeholders during the recent development phase and the response has been very positive. The evolutionary nature of the new approach allows us to continue talking to councils in the early stages, making any adjustments in light of the early experiences of auditors and of council staff.
3. An important development principle has been to avoid additional layers of process, so wherever possible, existing aspects of audit planning and reporting arrangements are being incorporated in the new approach and improved to meet its specific requirements. The following paragraphs provide further details on the main aspects of the overall framework.

## The audit planning framework

4. The audit planning framework for the new approach is summarised in Exhibit 1.

### Exhibit 1 Audit planning framework



Source: Audit Scotland, 2016

5. The Accounts Commission is responsible for appointing auditors to each council for a five-year period, and for setting out the principles and standards to be followed by auditors and what is required of them in the course of their duties. We express this at a high level in the Code of Audit Practice. The Code issued for the appointments commencing in October 2016 includes important changes that underpin the new approach to auditing Best Value through a “wider scope” of audit and requirements for appointed auditors to work in partnership with other performance and Best Value auditors.
6. While the Code covers the full period of the five-year appointment, additional Annual Planning Guidance is issued to auditors each year, and this is an opportunity for us to provide further strategic direction including Strategic Audit Priorities (SAPs). These are based on the Commission's five-year rolling Strategy, which it updates on an annual basis. They will reflect specific issues that the Commission wants considered in the range of audit work carried out across local government.
7. At a local level, auditors will then come together to plan their approach to the council audit for the five-year period and the year ahead. Five-year planning will consider arrangements for

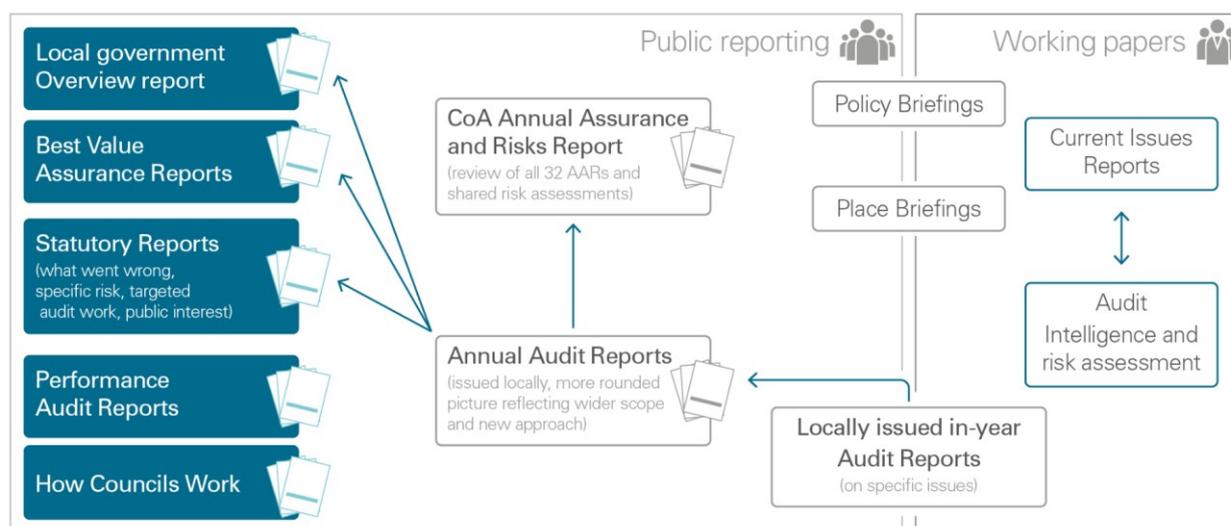
how the characteristics of Best Value will be covered over that period, reflecting the specific circumstances, risks and performance of the individual council. Annual planning will respond to the guidance issued nationally, including SAPs, and include details of both financial statements work and Best Value as expressed through the wider scope. It will incorporate current arrangements for the shared risk assessment, local audit plans and local scrutiny plans which include work by other scrutiny bodies.

8. At a national level, the results of local planning will inform a rolling programme of Best Value Assurance Reports and Performance Audits, and the National Scrutiny Plan.
9. As with current arrangements for audit planning, auditors will fully engage and discuss their plans with councils and take account of views expressed.

## The assurance and reporting framework

10. The assurance and reporting framework for the new approach is summarised in Exhibit 2.

### Exhibit 2 Assurance and reporting framework



Source: Audit Scotland, 2016

11. As with the planning framework, in developing the new approach we have built on current arrangements, adjusting these to meet the requirements of the new approach. A key objective is to allow the Commission to provide more regular assurance to the public about how councils are performing in relation to their Best Value statutory duties. We will do this by requiring the Controller of Audit to submit a Best Value Assurance Report (BVAR) on each council at least once during the five-year audit appointment. These reports will differ from the current Best Value reports in that they are not audit reports produced directly at the end of an intensive period of specific BV audit work. Instead, they will provide a more longitudinal perspective, contain broader coverage across BV characteristics and a more rounded picture on the performance of the council concerned. They will in effect be an aggregation of the conclusions from a range of audit and other scrutiny work over time. Commission members will consider these reports in public, and decide what action we will take. The options available

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to the Commission on considering these reports, are set out in legislation and include options to direct the Controller of Audit to carry out further investigations, to hold a hearing, and to state Commission findings (which can include recommendations).

12. The new Best Value Assurance Reports will sit alongside existing published reports that councils will be familiar with. These include the annual Local Government Overview Report, Performance Audit Reports and the How Councils Work series. The Controller of Audit will continue to issue Statutory Reports where considered necessary, and submit these to the Commission. These cover specific issues in individual councils that raise significant concern and public interest. They will also, under the new approach, be the route for additional reports on Best Value where specific risks have been identified and targeted work is considered proportionate and appropriate.
13. At a local level, appointed auditors will continue to issue an Annual Audit Report (AAR) to each council and the Controller of Audit. However, in future, these reports will be more rounded (reflecting the wider scope from the Code of Audit Practice), will summarise the results of the Best Value assessment work that took place during the past year, and comment appropriately on both the Commission's Strategic Audit Priorities and local audit priorities identified through audit risk assessments and planning. In line with current practice, local auditors will continue to issue reports to councils within the year on specific issues. These will also be summarised in the AAR.
14. Greater use will be made of the AARs under the new approach. They will contribute significantly to BVARs, other Statutory Reports and the Local Government Overview. But, they will also contribute to more regular assurance being provided to the Commission. Currently, the Controller of Audit reports to the Commission each year following his review of the AARs across the 32 councils. He also provides an overview report on the Shared Risk Assessments<sup>1</sup>. Under the new approach, these will be brought together in an Annual Assurance and Risks Report. This will provide Commission members with details of the key issues arising from audit work in councils in terms of common strengths and areas for improvement. It will also include commentary on those councils where auditors have expressed particular concerns that will require audit attention in the forthcoming year, examples of positive practice and progress being made by councils on which we have previously reported. Consideration of this report will inform the rolling programme of Best Value Assurance Reports and identify councils where some targeted risk based audit and reporting may be required.
15. The content of the range of audit reports under the new approach will reflect our principles set out following our 2014 review. These include an emphasis on judgements, conclusions and recommendations for improvement; coverage of the wider scope for public audit as set out in the Code of Audit Practice; commentary on a council's self evaluation and the effectiveness of

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<sup>1</sup> Shared Risk Assessments are carried out in each council by the Local Area Network, which comprises representatives of all the main scrutiny bodies that engage with councils. The process enables local government scrutiny bodies to work together to set out scrutiny risks and the proposed scrutiny responses over the coming year.

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its performance management arrangements; and, commentary on the performance of a council in meeting the needs of its customers and communities.

16. Arrangements for providing assurance to the Commission and its committees on Best Value and the overall performance of councils will continue to include less formal elements, including Current Issues reports, Policy and Place briefings and other outputs based on audit intelligence and programme development work.

## How auditors will assess Best Value

17. Auditors assess the extent to which a council is meeting its statutory duties under the Local Government in Scotland Act 2003. These duties are set out in the primary legislation and expressed in more detail in Statutory Ministerial Guidance - which describes the characteristics of a council that is demonstrating Best Value. It therefore represents what auditors are looking for when carrying out their work, and the benchmark on which their judgements are measured and their conclusions reached.
18. While Best Value remains as relevant and critically important today as when it was introduced, the statutory guidance would benefit from strengthening and refreshing in a number of areas and the Commission has made representations to both the Scottish Government and councils in this regard.
19. In the meantime, it remains the responsibility of a council to demonstrate that it is meeting its statutory duties. Our new approach does not alter this fundamental aspect of auditing Best Value. Where councils evidence robust and effective self-evaluation, across corporate activities, service and outcome delivery, auditors are able to take a proportionate approach to audit activity.
20. Best Value audit reports in recent years have tended to focus on a small number of issues around only certain aspects of Best Value. While this was not unexpected in a risk-based approach, we are concerned that important issues, such as equalities for example, have not featured as much as they should in public reports. The new approach offers an opportunity to provide public assurance across the range of Best Value characteristics in a more comprehensive manner. We will achieve this through assessing Best Value on an ongoing basis over the five years of the audit appointment. As stated above, this will be done through audit planning in individual councils so that the particular context and circumstances in each can be taken into account.

## What will be different from a council's perspective

21. We have taken the opportunity in recent months to discuss the new approach to auditing Best Value with stakeholders, including council chief executives. The response we have received has been positive and supportive, with the general direction and key features being welcomed.

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22. While the new approach represents significant change, such as the integration of the range of audit work for a council, much will remain the same, such as audit judgements and conclusions being rooted in the expectations that arise from the statutory guidance.
  23. We want to improve the effectiveness and efficiency of the audit, while minimising any unnecessary burden on councils and their resources. Many of the changes we are making will be to internal audit procedures that will not really be evident to councils but there are a number of areas - such as around planning and reporting as set out in this summary - where they will notice a difference and we hope these will represent an improved experience.



# Review of the new approach to auditing Best Value in councils

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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# Summary

1. The new, integrated approach to auditing the effectiveness of Best Value (BV) arrangements in councils has provided good coverage of the Accounts Commission's objectives and principles. The new approach has provided assurance on all councils in 2016/17, through the suite of reports consisting of the Best Value Assurance Reports (BVARs), the Annual Audit Reports (AARs) and the Annual Assurance and Risks Report (AARR).
2. Councils, in general, expressed strong support for the new approach. They feel it involves a proportionate investment and matches well with current needs.
3. All 32 auditors prepared five year BV audit plans in 2016/17 and reported findings on BV audit work in their AARs.
4. The Controller of Audit's Annual Assurance and Risks Report includes a summary of the findings reported by auditors in their AARs and Best Value Assurance Report. It covers the Commission's five strategic audit priorities and provides a summary of the pace, depth and continuity of improvement in the councils that received a BVAR in 2017/18. This intelligence will continue to be built up across Scotland in line with the five year BV audit approach.
5. In line with the five year programme, six BVARs have now been presented to the Commission. All BVARs follow a consistent framework, although the scope of the audit work and the nature of the findings reported is different in each council to reflect their local risks and priorities. The BVARs have been welcomed by Commission members. They have noted that all BVARs include areas for improvement for councils to address, which demonstrates that the audits have impact. They also value the positive assurance provided on the councils where things are working well. They feel the BVARs are important to demonstrate to local citizens that the councils are being held to account for how effectively they demonstrate BV in delivering services.
6. Councils have said that, overall, the BVARs are a fair reflection of their activities and areas for improvement. All councils said they appreciated the clarity and readability of the reports. The majority say that overall, the experience of the process and its outcomes was positive, and it delivered reports which were appreciated and considered useful. There are also clear areas for improvement.
7. The BVARs have been the subject of discussion across the public sector and local media have reported on them. Councils are now progressing improvement actions from the reports. Progress will be reported by auditors in their 2017/18 AARs.
8. Auditors found the first year of the BV approach rewarding and challenging. They say the knowledge they have gained about their councils in the early stage of the audit will be invaluable for the rest of their audit work. Whilst the BVARs have been a steep learning curve

for some colleagues, auditors have demonstrated they have the skills required to deliver the audits effectively. Quality assurance arrangements are in place to cover all BV audit work.

9. BVAR audit teams were integrated, with PABV staff and local auditors working together. The integration of audit teams carrying out annual BV audit work will be more of a focus going forward. Councils say they recognise and welcome the benefits of the integrated approach to auditing BV.
10. The integrated audit approach is visible when audit teams present BVARs to Commission meetings. Commission members feel the BVAR teams answered questions well and gave assurance on the judgements reported.
11. In conclusion, this review demonstrates that the new approach to auditing BV is fit for purpose and meets the Commission's objectives for the new approach. As we anticipated, the approach continues to evolve and improve and lessons learned from this review are reflected in improvement actions which are included at Appendix A to this report.
12. We always knew that the first year of delivering the new approach would be challenging, given that it was the first year of the new audit appointments and we had to manage the impact of the council elections in May 2017. Our priority was to ensure that the reports were delivered on time, and that they met the expectations of the Commission, councils and other stakeholders. BVARs were very comprehensive, covering a wide range of topics in each council.
13. The scope of the first BVARs was ambitious and wider than we had anticipated, meaning that the time taken to produce the first six BVARs has exceeded our planning assumptions. We remain on track to complete the full five year BVAR programme by the end of 2021, although it will be challenging. Whilst future BVARs should take less time due to learning the lessons from year one of the process, we also believe we can tighten the scope of the work and produce more concise reports.
14. In future years, we will rebalance the pattern of audit resources applied between the BVARs and the local annual BV audit work in each council. This will ensure follow up findings from early BVARs are reported in AARs and should reduce the input required to publish BVARs later in the five year programme.
15. It is important that the proportionate and risk based audit approach for each BVAR is clearly explained to councils at the start of each audit. Reporting on service performance based on a range of evidence is a key part of the BV assessment. How this information is used by auditors needs to be more clearly explained to councils and in BVARs. Auditor judgements on the effectiveness of a council's self evaluation and its self awareness could also be clearer in future BVARs.

# Introduction

## Objectives of the new approach

16. Local authority bodies have a statutory duty, established under the Local Government in Scotland Act 2003, to make arrangements to secure best value through the continuous improvement in the performance of their functions. In June 2016, the Accounts Commission agreed the framework for a new approach to auditing Best Value (BV) duties in councils. The new approach has been used by auditors since October 2016 for the 2016/17 annual audit year.
17. The Commission agreed principles to underpin the development and implementation of the new arrangements for BV. These are that:
  - the essential elements of Best Value remain as relevant and critically important today as when it was first established, although there is some need for the statutory guidance on BV to be reviewed
  - there is a need for the pace, depth and continuity of improvement to increase across local government and driving improvement will be at the core of the audit process for Best Value
  - there can be no compromise on the importance of good governance in councils, including the need for effective scrutiny arrangements that contain the checks and balances which lie at the heart of our system of government.
18. The Commission has stated its objectives for the new approach, to provide:
  - a proportionate and risk-based audit approach, but with more frequent assurance on BV across all 32 councils **(see consideration of this at page 11 and page 19)**
  - a common framework and consistent layout for reports **(see page 17)**
  - audit work reflecting the statutory BV characteristics but with an emphasis on
    - the quality of service and outcomes (less on processes) **(see page 20)**
    - demonstration of pace and depth of continuous improvement **(see page 18)**
    - quality of a councils self-evaluation (including a councils ability to compare its performance to benchmarks) **(see page 21)**
  - to provide greater synergy and an improved experience for councils. Achieved through integrated audit processes across the range of audit work applied in local government, alongside continued joined up working with other scrutiny bodies. **(see page 29)**
19. It was agreed that the new approach would be reviewed after its first year to:
  - ensure it is fit for purpose, and

- 
- to identify learning points for making improvements to the approach and for sharing good practice with auditors.

The results of this review are reported here.

## How the review was carried out

20. The review considered a wide range of documentation including audit planning and monitoring information, the Best Value Assurance Reports (BVARs), Annual Audit Reports (AARs), the Annual Assurance and Risk Report (AARR) and Accounts Commission agenda papers. Feedback from a number of stakeholders was also obtained and has been summarised and reflected throughout this report.
21. Auditor feedback was gathered from:
  - Meetings with Audit Scotland colleagues, including two workshops with around 60 people and meetings with managers
  - Feedback requested and provided via Yammer (Audit Scotland's internal social media network), the corporate intranet and emails from all Audit Scotland staff and appointed auditors
  - Post audit review meetings for the teams who produced the first five BVARs.
22. Council feedback was provided from:
  - Accounts Commission meetings with council officers and elected members
  - A report compiled by an external consultancy, Rocket Science, summarising telephone feedback discussions held with Chief Executives and senior councillors from the six BVAR councils (Annexe 1).
23. Feedback from Accounts Commission members was discussed at two separate meetings in November 2017.
24. Feedback on the BVARs was provided by Work on Words, a company which has worked with Audit Scotland for a number of years to improve the clarity and readability of performance audit and BV reports.

# Launching the new audit approach

## Accounts Commission engagement events

**Councils found the engagement about the new approach very helpful and a useful discussion that had helped to clarify expectations.**

26. The Commission held three engagement events with councils covering its strategy and the new approach to auditing BV. The events included presentations on the Commission's strategy and expectations and the new approach to auditing BV. All councils were represented across the three meetings, with most representatives being chief executives, senior officers or council leaders. All events saw a good level of discussion between council representatives and Commission members. Rocket Science have reported that all the BVAR councils had found the November 2016 engagement about the new approach very helpful and a useful discussion that had helped to clarify expectations.

## The development of the new approach

**Governance arrangements have been effective in providing support and challenge throughout the implementation of the new approach to auditing BV.**

27. An Accounts Commission Best Value Working Group has been active through the development and implementation of the new approach. It met on several occasions to discuss proposals for the new approach with the Director of PABV and the BV development team. Items discussed included the BV timetable, the BVAR template, the scope of the Annual Assurance and Risks Report (AARR) and the scope of this review.
28. An Audit Scotland Steering Group has also been in place to oversee the development, implementation and resourcing of the new audit approach. It met several times over the last year and scrutinised the work of the BV development team in developing the new audit approach. It was agreed that as auditors were now working to the new approach, future progress would be reported via business groups, the Management Team and the Commission as appropriate.
29. A BV development team is in place to support the new BV audit approach across Scotland. The current team was put in place in October 2016, to oversee the implementation phase of the new approach. The team reports directly to the Controller of Audit and consists of staff who have experience in Best Value work from both Audit Services Group (ASG) and Performance Audit and Best Value (PABV):
- Fiona Mitchell-Knight, Assistant Director ASG

- Mark Ferris, Senior Audit Manager ASG
- Kathrine Sibbald, Audit Manager PABV
- Peter Worsdale, Audit Manager PABV

The BV development team works closely with the Secretary to the Accounts Commission.

30. The Director has presented a number of reports, compiled by the BV development team, to the Commission during the year to give updates on the progress made with the new audit approach. The Commission also endorsed the BVAR timetable, and the approach to reporting BV findings, prior to the first BVAR being discussed in May 2017.
31. Integrated audit teams delivered the BV audit work, made up of auditors from local audit teams (ASG or the firms) and PABV auditors of different grades with different levels and areas of expertise. The work of each team is overseen by the appointed auditors (ASG Assistant Directors and firm partners) and audit managers. PABV Senior Managers have been designated as link managers to each of the appointed auditors to coordinate BV activities and PABV resources for all councils, working with the local audit teams.

### The statutory BV guidance

32. Fraser McKinlay, Director of PABV and Fiona Mitchell-Knight, Assistant Director, have been participating in the Scottish Government Steering Group tasked with updating the statutory BV guidance. The Scottish Government is currently preparing the draft revised guidance for public consultation. We do not yet have a clear timetable as to when the draft guidance will be issued for consultation.
33. The audit approach and guidance described in this section is designed to be consistent with both the current and the revised guidance (based on our knowledge of how it is likely to change). When revised guidance is issued, the BV development group will review the audit approach and support materials to ensure they are consistent with the new guidance.

# Delivery of the programme

**The new integrated approach to auditing the effectiveness of Best Value arrangements is meeting the Accounts Commission's aims by providing some assurance on all councils each year.**

**In general, councils have expressed strong support for the new approach. It is felt to involve a proportionate investment and is matched well with current needs.**

34. All 32 council auditors prepared five year BV audit plans in 2016/17 and reported findings on their BV audit work in their annual audit reports (AARs). BVARs have been published on six councils, described below.
35. The Controller of Audit's Annual Assurance and Risks Report (AARR), presented to the Accounts Commission in February 2018, includes a summary of the findings reported by auditors in their AARs and BVARs. It includes findings reported on the Commission's five strategic audit priorities and also a summary of the pace, depth and continuity of improvement in the BVAR councils. This intelligence will continue be built up across Scotland in line with the five year BV audits approach.
36. The Rocket Science report says that in general, councils have expressed strong support for the new approach. It is felt to involve a proportionate investment and is matched well with current needs. They say that overall, the experience of the process and its outcomes was positive, and it delivered reports which were appreciated and considered useful. There was a consensus that the process was clearly described, and described effectively at each stage of the audit. Feedback has also highlighted clear areas for improvement, which are covered throughout this report and summarised as improvement actions at Appendix A.

## Best Value Assurance Reports (BVARs)

**In line with the year one programme, six BVARs have been presented to the Accounts Commission.**

**We remain on track to deliver a BVAR on each council by the end of 2021, although it will be challenging to achieve.**

37. A five year approach to auditing BV in each council was introduced from October 2016. As part of this, the Controller of Audit will provide a BVAR to the Commission for each council at least once in a five year period. The scheduling of the BVARs considers the risk profiles of councils, the length of time since the last BV report and provides a spread of councils by size and demographics in each year. The programme is reviewed each year to reflect new audit intelligence from auditors and from the annual shared risk assessments. The second year BVAR programme is discussed below.

38. To ensure a proportionate audit which reflects the local context and risks of each council, the coverage of each BVAR is unique. The audit approach for each BVAR was scoped to reflect local priorities and risks. Scoping letters were sent to each Chief Executive, describing at a high level the areas of work to be carried out. The scope was discussed with each Chief Executive and senior officers prior to the letter being issued.

## Scheduling of the BVARs

39. The first BVAR, on Inverclyde Council, was discussed at the Accounts Commission meeting in May 2017. The last of the six first year BVARs, Clackmannanshire, was discussed at the January 2018 meeting. The Commission's preference is that only one BVAR be discussed at any meeting. This was achieved in 2017 as follows:

	Commission Meeting date:
Inverclyde Council	11 May 2017
Renfrewshire Council	10 August 2017
East Renfrewshire Council	12 October 2017 (revised from 14 September 2017 at the request of the auditors and to reflect council feedback)
West Lothian Council	9 November 2017
East Dunbartonshire Council Follow up CoA report	9 November 2017
Orkney Council	7 December 2017
Clackmannanshire Council	11 January 2018
Falkirk Council Follow Up CoA report	11 January 2018

40. The order of the BVARs and scheduling of the dates was discussed between the BV Development Group and auditors, prior to it being agreed with the Secretary to the Accounts Commission. The programme was then endorsed by the Commission.
41. The scheduling reflected the late start for the year one BVARs, due to the new audit appointment. It was also influenced by the timing of local government elections in May 2017. The original timetable also avoided the auditors peak month for signing off local government accounts at the end of September.
42. Auditors have commented on the pressures of the BVAR programme where work has to be carried out by the audit teams at the same time as the local auditor peak workload period (May to the end of September).

43. We continue to develop our approach to resourcing and scheduling the BVAR programme. We need to balance the needs of the Accounts Commission, the workload of audit teams, as well as local circumstances and the preferences of councils. We also recognise that the BV audit is part of a wider programme of work delivered on behalf of the Accounts Commission. We are therefore developing a more integrated approach to resource planning, ensuring that BVAR plans are aligned with annual audit sign off deadlines, performance audit work, statutory reports, How Council's Work projects, the AARR and overview reporting. The resource planning for the BV audits is discussed further from paragraph 96.
44. The proposed year two BVAR timetable currently shows:

<b>Commission meeting date</b>	<b>BVAR to be considered</b>
May 2018	Fife Council
June 2018	West Dunbartonshire & East Ayrshire Councils (tbc)
August 2018	Glasgow City Council
Oct 2018	East Lothian Council
Nov 2018	Dumfries & Galloway Council

45. The timetable reflects discussions held between auditors and council Chief Executives. We have been unable to schedule any of the BVARs before May 2018. We recognise that asking the Commission to consider two BVARs in one meeting is not ideal. It remains our aim to only have one BVAR reported to any Commission meeting, and in future better programming will allow BVAR audit work to start sooner and report earlier in the year.
46. The five year BVAR programme achieves the objective for a BVAR to be published on each council by the end of 2021. In years three and four, seven BVARs are to be published, with the remaining six published in 2021.
47. The year three BVAR programme, for 2019, is currently in draft and will be confirmed when the next Local Scrutiny Plans and Annual Audit Plans are published in March 2018. We are currently in discussion with audit teams, after which the programme will be presented to the Commission for endorsement.

### **Improvement Action 1 & 7**

## BV findings in the Annual Audit Reports

**The new approach provides assurance on aspects of the BV arrangements for all councils each year. All AARs include an explanation of the new BV approach and audit conclusions.**

48. The annual audit planning guidance lays out the requirement for all auditors to report the conclusions of BV audit work in their AARs. The BV development group provided auditors with some suggested text to introduce the new BV approach to readers. This was used by auditors and all AARs include appropriate comment.
49. All annual audit reports include comment on some of the BV characteristics. The results of this 2016/17 audit work are summarised in the first Annual Assurance and Risks Report (AARR) presented to the Commission in February 2018. This demonstrates how the integrated approach has been successful in providing more regular assurance on BV audit work through the suite of reports made up of the BVARs, AARs and the AARR.
50. Commission members said they were pleased to see an example of how follow up of BV recommendations will be reported by local auditors in future, under the new approach. They feel this was demonstrated effectively in the East Dunbartonshire Council AAR.

**Guidance Note for auditors**

## The Annual Assurance and Risks Report (AARR)

### Pace, depth and continuity of improvement across Scotland

51. In its strategy and annual action plan 2017-22, the Commission says 'our over-riding aim is holding councils to account for their pace, depth and continuity of improvement, facilitated by effective governance. It is for councils to make choices in where they focus their improvement work but they need to be able to show how they have arrived at such choices'.
52. The AARR includes a summary of the audit judgements reported in BVARs and BV follow up reports on pace and depth of continuous improvement. Auditors have reported a mixed picture on the pace and depth of continuous improvement across Scotland.

### Coverage of the Commission's Strategic Audit Priorities (SAPs)

**The AARR includes commentary on council performance in the SAP areas.**

53. The planning guidance directs auditors to consider the SAPs as part of their risk assessments, five year BV and annual planning processes. It says that AARRs are to provide an assessment of the council's performance in the SAPs across the five year audit appointments.
54. Auditors have reported findings on the SAPs in the 2016/17 annual audit reports and the BVARs. The findings have been summarised in the AARR which provides the Commission with assurance on the progress made by councils against these priorities. The evidence on

these priorities is being gathered and reported by auditors as part of their five year approach to auditing BV and through annual audits. When these are covered will depend on the risk assessments carried out by auditors as part of their annual planning processes. Not all SAPs will be reported on in every council every year.

55. The AARR includes findings on all SAPs, however, there are some areas where auditors could provide more detail and clearer judgements. For example, whilst auditors included a judgement on each council's arrangements for publishing performance information, there was limited commentary on the quality of the reporting. Auditors have been reminded that they should provide more detail on the quality of performance information published by councils in 2017/18.

#### **Guidance Note for auditors**

56. Commission members have heard from auditors that they find the landscape for auditing councils complicated, due to the need to consider the statutory BV characteristics, the audit dimensions from the Code of Audit Practice and the Commission's SAPs. The Commission has said it will consider how the SAPs fit with other priorities for local and national audit work in local government.
57. Commission members have also said that their next review of the SAPs should consider whether they remain the right priorities, now that they have evidence from the BVARs and the AARR on the key areas of risk and concern in councils. Future SAPs will clearly be a key factor in shaping the plans and audit approach of auditors.

# Quality of the BVAR process

**Commission members have welcomed the BVARs being presented for discussion, providing more regular assurance on all councils.**

**Councils have said that, overall, the BVARs are a fair reflection of their activities and areas for improvement. All councils said they appreciated the clarity and readability of the reports.**

**Auditors found the first year of the BV approach challenging but feel the knowledge they gained will be invaluable for the rest of their audit work. They feel the BVARs are good reports which fairly reflect the story for each council.**

## Feedback on the BVARs

58. Commission members have welcomed the BVARs. The reports give a rounded picture of how effective a council is at demonstrating BV in how it delivers services. They welcome the auditors making bolder judgements on a councils pace, depth and continuity of improvement.
59. Commission members have said that the BVARs set out clearly the scope for improvement in each council. All reports have identified areas for improvement for councils to address, which demonstrates that the audits have value. The Commission also values the positive assurance provided on areas where things are working well. They feel the BVARs are important in demonstrating to local citizens that councils are being held to account for how effectively they demonstrate BV in delivering services.
60. Feedback from auditors is that they are delighted to have delivered the first six BVARs on time. Auditors found the first year of the BV approach challenging but say the knowledge they have gained about their councils in the early stage of the audit appointment will be invaluable for the rest of their audit work. They feel the BVARs are good reports which fairly reflect the story for each council. They also feel that the constructive relationships built with most senior officers in councils are stronger as a consequence of the work.
61. Councils have said that the BVARs are a fair reflection of their activities and areas for improvement. All councils said they appreciated the clarity and readability of the reports. The feedback received from councils on how the audits were conducted includes a wide range of comments. The feedback on five of the BVARs includes some very positive comments, as well as some useful suggestions for improvements, which are reflected throughout this report. For example:
  - One Chief Executive commented on the “measured and proportionate nature” of the audit, stating that it was “challenging but professional”, meeting the advised timescales.

He stated that this experience compared very well to that of previous audits elsewhere in which he was involved.

- Council officers stated that the relationship between the council and the audit team had been 'professional, mutual and helpful'.
- The relationship between team and council was an 'open' one, with the team being open to suggestions from the council about areas of audit focus; monthly meetings with the corporate management team; and an openness to dialogue around the draft report.
- The audit felt proportionate, but it felt like a steep learning experience on both sides, with time devoted by the council in familiarising the team with the council and its context.
- The timing of the audit, in particular its proximity to the local government elections, was unhelpful to the Council in terms of pre-election tensions between political groups and workload issues for the council
- One council said the audit team, sometimes displayed some 'naïveté' in discussions around strategy and politics, whilst another said the reports took into account and displayed a good understanding of the local context.

62. The feedback on one of the BVARs, provided to both the Accounts Commission and Rocket Science, was much less positive than the other five. This council has been critical about how the audit was carried out and its lack of positive impact. We take this feedback very seriously and are already learning the lessons of what happened. It is acknowledged by the audit team that aspects of the audit process had not gone well. There were a number of unforeseen staff absences that affected how the audit was carried out, and the timetable for producing the BVAR, which initially coincided with the May elections and later with the financial statements audit period, compounded the impact of this. That said, the auditors and the council agree that the published BVAR fairly reflects the council's position and the council has accepted the recommendations in the report.

## The Best Value Assurance Report

**All BVARs follow a consistent framework, but the scope of the audit work and the nature of the conclusions are different in each council to reflect local risks and priorities.**

63. The Accounts Commission asked for a consistent framework for reporting BV audits. To ensure this is the case, a consistent structure and layout for reporting was developed in conjunction with the Commission's BV Working Group. Whilst reports are structured around a common framework, the scope of the audit work and the nature of the conclusions are different in each council to reflect local risks and priorities. Some teams said they had to think hard about what to include and where in each section of the report to reflect the scope of their work, but they recognise the benefits of a standard approach for consistent reporting across the councils.

64. Commission members have said they like the format of the BVARs, and generally find them easy to read. They welcome the consistency of the reporting structure; it makes it easier to find their way around the reports and to compare arrangements across councils. But the reports are longer than had been anticipated and some were easier to read than others.
65. Commission members feel the BVAR format successfully sets out clear improvement actions for councils in the audit recommendations section of the reports. They hope this will help to promote implementation of the actions and allow auditors to report clearly on progress made by councils in the future. They feel the reporting approach also allows them space in their Findings to report their own conclusions and to emphasise any areas of particular concern or good practice they may have identified.
66. The common report structure will continue to be used for year two BVARs, with auditor discretion on how the audit conclusions are reflected within that.

**Auditor judgements recorded in BVARs reflect the audit evidence gathered. Councils have commented that the BVARs are a fair reflection of their activities and areas for improvement.**

67. Auditors are responsible for forming and reporting audit judgements on their BV audit work based on the audit evidence gathered and recorded. Auditors conduct their audit work on BV to comply with the International Standards of Auditing, the Code of Audit Practice and annual planning guidance. The Local Government Audit Manual - Auditing Best Value provides guidance for auditors in making audit judgments on their BV audit work.
68. In forming their audit judgements, auditors consider a range of written documentation, including council reports and reports from other scrutiny bodies. They also hold discussions with council officers and elected members. The scope of the audit work determines who the auditors feel it is appropriate to speak to. For example, the Orkney team spoke to community groups to support their evidence on how the council operates. This will not necessarily be a priority for all audit teams.
69. Under the new approach all BVARs include overall judgements on the pace, depth and continuity of improvement. Auditors form these judgements based on the evidence available to demonstrate improvement by the council in the BV characteristics and service performance. Auditors are forming these judgements for the first time and have commented that this is challenging. They say it is easier to do in councils where the last BV report was very critical. The judgements are not so straightforward in the majority of councils which have performed well for some time or where the improvement story is more nuanced. Future BVARs are to include an explanation on how the overall judgement is reached.

**Improvement Action 2**

70. When emerging BVAR findings are being documented for discussion with officers, they should include the proposed judgements on pace and depth of continuous improvement. These can then be discussed with councils at the earliest stage of the clearance process. This avoids

surprises for councils, and assists in acceptance of audit findings. To help with this, the Controller of Audit and the lead of the BV development team discuss the emerging findings from each audit with the audit teams at key stages of the audit. This provides a constructive challenge process for teams to ensure the judgements reported are supported by their evidence. It also assists in the calibration of audit judgements between councils. Auditors say they find these discussions helpful in improving their BVARs.

#### Guidance note for auditors

71. Auditors have commented that more examples of 'good practice' and benchmarks to set councils against would help them assess the pace and delivery of continuous improvement for their BVARs. Auditors should consider the AARR, previous BVARs and Local Government Overviews to help in making judgements and reporting recommendations.

## Audit coverage

**The scope of the first BVARs was ambitious and wider than we had anticipated, meaning that the time taken to produce the first six BVARs has exceeded our planning assumptions. We can tighten the scope of future BVARs and produce more concise reports.**

**The proportionate and risk based audit approach needs to be more clearly explained to councils at the start of each BVAR.**

72. Feedback from councils included comments that an 'inconsistent' approach was used by auditors and that the approach to evaluating and reporting audit conclusions varied. These comments suggest that not all councils are aware of the proportionate and risk based audit approach we adopt. The scope of each audit was determined locally, reflecting the specific context, risks and priorities in each council. Auditors considered the results of their annual audit planning and discussions with their Local Area Network (LAN) in determining their audit approach. We can communicate our approach more effectively in future and BVARs can more clearly explain how auditors determined the scope of the audit.

#### Improvement Action 3

73. The scope of the first BVARs was ambitious and wider than we had anticipated, meaning that the time taken to produce the first six BVARs has exceeded our planning assumptions. We remain on track to complete the full five year BVAR programme by the end of 2021, although it will be challenging. Whilst future BVARs should take less time due to learning the lessons from year one of the process, we also believe we can tighten the scope of the work and produce more concise reports. Auditors feel that the scope of future BVARs can and should be sharpened without affecting the overall judgements on each council.

#### Improvement Action 4

74. Some Accounts Commission members commented that they are particularly interested in seeing audit judgements reported on:
- the ability /capacity of councils to manage the level of change required

- the effectiveness of community engagement and community empowerment and the difference that it makes to citizens
- judgements on partnership working with clear comment on when it doesn't work well/ progress as planned. They would welcome examples of where partnership working has led to better outcomes for service users
- how the new local outcome improvement plans (LOIPS) impact on the council's activities and outcomes
- equalities
- a council's level of self awareness / self evaluation / public performance reporting.

These are all areas covered by the statutory guidance on BV and the audit approach being used in compiling BVARs. We will take all of these on board, recognising the need to balance the Commission's areas of interest alongside the risk areas identified in each council based on the local issues. For example, auditor judgements on the effectiveness of a council's self evaluation and its self awareness could be clearer in future BVARs.

### Guidance Note for auditors

## Reporting on service performance

**Reporting on service performance, using a range of evidence, is a key part of the BV assessment. How this information is used by auditors needs to be more clearly explained to councils and in BVARs.**

75. The Commission's strategy says 'It is for councils to make choices in where they focus their improvement work but they need to be able to show how they have arrived at such choices.' The Commission therefore recognises that in times of financial pressures, under its assessment of BV, it is not expecting to see continuous improvement in all services, all of the time. Instead, auditors look for councils to demonstrate
- improvements in their priority services (through the direction of activities and resources to these areas) and
  - a clear understanding of the impact on other services of the decisions made to pursue their priorities.
76. Councils have said they would welcome more explicit comment in BVARs that the Commission does not expect continuous improvement in all service areas, but it does expect to see improved outcomes in the council's strategic priority areas.

### Improvement Action 5

77. The BVARs include an assessment of each council's service performance. This includes consideration of the council's own self assessment and performance reporting information. Auditors use other sources of information to test the council's self evaluation and to add a more rounded picture across services where council information may be more partial. In

making these assessments, auditors use reports from other scrutiny bodies and nationally produced data, particularly the Local Government Benchmarking Framework (LGBF).

78. Commission members and councils can see there has been a shift from reporting less on process and more on outcomes but they feel the BVARs could go further to comment more on the outcomes that are being achieved by councils.
79. Some councils have commented on the audit approach used to report on their service performance, using LGBF indicators and comparing them to others. Some feel the approach has lacked sophistication, with the use of indicators being inconsistent across councils and not sufficiently reflecting on the council's priority services. They have expressed surprise that some BVARs included analysis over time and between family groups when others did not. They feel that auditors should make less reference to LGBF indicators and should rely more on the council's own assessment of its performance.
80. Some auditors have found that the service performance information reported by councils is comprehensive on its priority services, but does not provide an assessment of the impact on other services. Without this, auditors have questioned how elected members can be satisfied that they understand the full impact of decisions they are making, when directing improvement activity and resources. An analysis of a range of benchmarks is therefore appropriate in the BVARs, not just those of service priority areas. We also feel that in reaching conclusions on service performance, it is necessary for auditors to consider trends over time and comparisons between council family groups.
81. Having considered this feedback, the BV development team and auditors are of the view that teams should continue to report on:
  - the council's own assessment of its performance and in particular the impact this has on outcomes (including an review of performance over time to assess its pace of improvement)
  - the councils position compared to the national picture based on key published indicators. We support the continued use of a core set of indicators for all BVARs. This year we again propose to follow the indicators published in the 2018 Local Government Overview, as the basis for the national comparisons.
  - the LGBF data, as an appropriate source of nationally published comparable information. Auditors should use 'benchmarking' and report comparisons between a council's position compared to national and family group averages where it contributes to the judgements being made. Comparing a council's performance over time will also be a useful source of evidence for measuring improvement in its priority service areas.
82. We recognise, however, that we need to more clearly articulate our approach to councils. This should include why we are reporting these indicators, reflecting on the national picture that they are painting, and then interpreting this data locally in a way that supports the conclusions and judgements being reported on each council. A small team is preparing the service

performance assessment data for all six BVAR councils in 2018. This will help ensure consistency and further develop skills in the interpretation of the data for future BVARs.

### Using focus groups to gather audit evidence

83. Some auditors have said that focus groups made up of a selection of officers and elected members have been a useful source of audit evidence, providing useful information to reinforce audit judgements. However, other auditors have found them less useful, due to their timing (around the elections) and the make up of the groups. We have provided some guidance notes for auditors to increase the impact of focus groups for future audits. These are shown in Appendix B of this report.

### Sharing examples of good practice

84. Councils have commented that they would like to be provided with examples of good practice in any areas of suggested improvement included in BVARs. To date, audit teams have not always been able to provide this when asked. As the body of BV evidence is built up on more councils, auditors will be in a better position to do this.

#### **Guidance Note for auditors**

### Discussion of emerging findings and draft BVARs with councils

85. Auditors discuss their findings with councils as their conclusions and judgements start to take shape. They discuss 'emerging messages' to confirm that the key facts on which they make judgments are considered accurate and complete by council officers. This gives councils an opportunity to discuss where they feel auditors may be missing part of the evidence 'jigsaw' or to explain the context of some issues. Auditors will then consider and evaluate this further evidence before preparing the draft report. The draft report is then shared with the council to check for factual accuracy. Comments received at this draft report stage will be considered by auditors and where they feel it is appropriate, changes will be made to the final report before being signed off by the Controller of Audit. It is usual practice for the emerging messages to evolve and the draft report findings to change over this period as the report is finalised.
86. A number of councils have commented on the helpful openness of the dialogue around the key messages in reports, which contributed to their views that overall the BVARs are a fair reflection of their activities. Rocket Science have reported that all councils appreciated the opportunity to have detailed discussions (sometimes 'intense' discussions) in response to emerging messages and the draft report, although some noted there was little connection between the emerging messages and the final report. The process of refinement of the report was felt to be a very open and constructive part of the process.

## Quality assurance arrangements for audit work

**Quality assurance arrangements are in place to cover all audit work on BV.**

### Auditor quality arrangements

87. The Controller of Audit is accountable for the quality of his BVARs reported to the Commission. Appointed auditors are responsible for ensuring the quality of audit work on BV carried out by the audit teams and reported in AARs and BVARs. The auditor prepares the draft BVAR, which is used as the basis of the Controller of Audit reports to the Commission.
88. The Controller of Audit and the lead of the BV development team discuss the emerging audit findings with the teams at key stages of the audit. This helps to ensure the BV framework is being applied in a consistent manner, to share lessons learned and to assist in the calibration of audit judgements. The key stages of discussion include the scoping letter, the emerging messages and draft BVAR, all before they are issued to the council. The results of these reviews are documented and filed by audit teams as part of their audit evidence.
89. After each BVAR has been published a post audit review meeting is held. This is attended by the audit team, the Controller of Audit and a member of the BV development team. The discussions are documented and lessons learned shared with other BVAR teams. The results from the post audit reviews completed to date are reflected throughout this report as feedback from auditors.

### Independent assurance

90. Audit Scotland's Audit Quality Framework covers all audit work on BV. The framework, which has been approved by the Accounts Commission, describes Audit Scotland's approach to achieving world-class audit quality across all audit work, including BV. The framework sets out how Audit Scotland provides the Auditor General and the Accounts Commission with robust, objective and independent quality assurance over all audit work referred to in this report. Reports are presented to the Accounts Commission on the quality reviews carried out on audit work. ICAS has chosen to carry out an independent review of the East Renfrewshire BVAR audit as part of their 2018 review programme. Improvement areas identified through this process will be considered by the local auditors and the BV development team, to improve the approach in future.
91. The quality assurance process will also cover the work done by appointed firms, providing an assessment of the quality of all aspects of the audit work carried out, including BV work.

### Clarity and readability of BVARs

92. We are committed to presenting audit reports that are clearly written and easily understood by a wide range of audiences. To help with this, Audit Scotland works with Work on Words, a company specialising in effective communications and report writing. Audit teams received

feedback on their draft reports before they were published. Auditors valued this feedback and made many of the changes suggested to improve their BVARs.

93. Work on Words have provided detailed feedback as part of this review, which has been shared with auditors. They acknowledge that it can be challenging to write reports that are accessible and relevant to the public when needing to use the language built into the BV statutory guidance. That said, they also highlight some common areas for improvement, such as:
- Reducing the use of jargon and technical terms
  - Being clear who the audience is for BVARs, beyond the Accounts Commission
  - Considering developing standard definitions for commonly used terms such as strategic direction, pace and depth of change, financial sustainability
  - Continue to use good practice 'plain language' techniques such as average sentence length and avoiding passive sentences.

**Improvement Action 6**

**Guidance Note for auditors**

94. Work on Words are continuing to provide support to BV auditors in 2018:
- They are running a training course for the 'Editors' of the year two BVARs. This is being focussed on learning lessons and sharing good practice from the first six BVARs. Fifteen auditors have been invited to attend.
  - They will provide comment to auditors on draft BVARs produced during 2018.

# Resources used to deliver the BV programme

The new approach to auditing BV always recognised that the year one BVARs would require more resource input than in subsequent years. Our approach to resourcing year one BVARs recognised the importance of delivering the first six reports on schedule.

In future, we will rebalance the pattern of audit resources applied between the BVARs and the local annual BV audit work in each council. This will ensure follow up findings from early BVARs are reported in AARs and should reduce the input required to publish BVARs later in the five year programme.

95. The five year approach to auditing BV across councils requires audit work to be carried out each year, reported in the AAR, and includes publication of one BVAR during this period. The pattern of resource requirement should change over the five year BV plan as more intelligence is built up and risk areas identified in councils across Scotland. The audit intelligence built up on each council prior to the BVAR being published should contribute to the BVAR judgements. As a result, it is anticipated that BVARs produced later in the five year audit appointment will take fewer resources than those in year one and year two of the programme.
96. In year one of the new audit appointments and the new BV audit approach, we always recognised that we would need to align resource plans for BV work with the existing work programme and annual audit requirements. We anticipated that the majority of audit resources would be needed to produce the BVARs and recognised that there would be a steep learning curve in producing the year one BVARs under the new audit approach, particularly as it was also the first year of the audit appointments. This was one of the reasons we asked local audit teams to focus on financial sustainability and use of resources in year one.
97. Nonetheless, the time required to deliver all six BVARs exceeded our planning assumptions. The range of additional input required varies from 18% to 103% of the budgeted input days. However, the additional input to the BVARs was offset by fewer audit days being spent on BV work in the other, non-BVAR, councils. Therefore, there were no knock on effects on the resource available for other areas of the Accounts Commission's work programme.
98. Auditors have said that resourcing of all BV audit work has been a challenge. Resource planning of the integrated team needs to be progressed earlier each year to enable the audit work to be scheduled and carried out more effectively alongside other audit work.

## Improvement Actions 1 & 7

99. Time recording data suggests we need to be more consistent in how teams record their time spent on BV audit work. There is currently a project ongoing in Audit Scotland looking at how staff spend their time and the coding of audit inputs is being considered as part of this work.

**Improvement Action 8**

100. We have allocated a similar amount of resource overall to deliver the 2017/18 local BV annual audit work and the year two BVARs. However, the pattern of resource use needs to change. Our priority is to shift the balance of resources towards local BV work, while still delivering six or seven high quality BVARs each year. This will ensure audit teams are able to follow up findings from early BVARs and should reduce the input required to publish BVARs later in the five year programme. The skill mix of auditors preparing BVARs will also need to be kept under review to ensure it can be sustained.

**Pre and post report publication**

101. In commenting on the pressures in each BVAR audit, colleagues have said that the time taken to draft the Controller's report, prepare for the Commission meeting and then publish and promote the final report can be protracted and take up significant resources. It also increases the risk that findings are out of date and lose credibility with councils. One council leader commented that the period between completion of the onsite audit phase and the publication of the report is too long. Auditors recognise a balance needs to be struck between the quality of finish of the BVARs, with the time input to this process from the communications team and the auditors. We will review the reporting process to identify any areas where efficiencies can be made.

**Improvement Action 9**

102. As part of the new approach to auditing BV, we have developed a more detailed and considered approach to publication and promotion. Each BVAR has a communications plan which is a useful tool to enable auditors, the communications team and the Secretary to the Accounts Commission to prepare for publication of each BVAR. It is important to agree how each BVAR will be publicised to increase the readership and impact of each BVAR. However, a number of auditors have commented on the relatively significant amount of time that is used to feed into this part of the process. A meeting is planned between members of the BV development team, the Commission Secretary and the communications team to review the approach used for the first six BVARs and to identify any areas for improvement.

**Improvement Action 10**

# The integrated audit approach

**All BVAR audit teams were integrated, with PABV staff and local auditors working together. More needs to be done to integrate teams carrying out annual BV audit work.**

**Whilst the BVARs have been a steep learning curve for some staff, the review demonstrates that auditors have the skills required to deliver the audits.**

104. A key feature of the new audit approach is the integration of the BV work with the annual audit. Local auditors and PABV auditors work together on scoping, planning, evidence recording, making audit judgements and reporting on all BV audit work.
105. Auditors say that developing and delivering the new approach in councils as part of their year one audits was challenging. Colleagues felt that they had gained a better understanding of the councils than they would normally have done in year one without carrying out the BV work. They also felt the audit would benefit in future years from this knowledge and the relationships built with officers. BVAR teams were pleased that they had been involved with producing a BVAR. They enjoyed it and felt they had learnt a lot, despite it being challenging.
106. Auditors have said that incorporating BV fully into the external audit remit and within the AARs has been welcomed by the councils. Having a framework/guidance to provide challenge on the BV areas has been helpful and feedback from the councils is that they have appreciated the view on non-financial BV areas, and particularly the case study approach taken in reporting on BV.
107. Audit Scotland colleagues working on audits where the local auditors are firms have said that a different approach needs to be taken to ensure they are actively involved in audit planning discussions and integrated working for BVARs. How they record audit findings for BV work will also be different in each audit and needs to be agreed locally at an early stage. The West Lothian Council BV audit team are an example of how it can work. The lessons learned from this audit have been shared amongst audit teams.

## Attending the Commission Meetings to discuss the BVARs

**The integrated audit approach is visible when BVAR teams present the reports to Commission meetings. The BVAR teams answered questions well and gave assurance on the judgements reported.**

108. Audit teams met prior to the Commission meeting at which their BVAR was being discussed to prepare. The communications team attended these meetings together with key audit team members. The audit team decided who would answer questions on each area of the BVAR depending on their areas of expertise in carrying out and reporting the audit work.

109. The Controller of Audit presented a summary of each report to the meeting and team members assisted him on answering questions on the report and audit work carried out. The team members who accompanied the Controller varied between teams but all included PABV and local audit staff. This highlights the integrated nature of the work
110. Commission members have said that the integrated audit approach is visible with BVAR teams when they attended the Commission meetings. The teams answered questions well and seemed knowledgeable in Commission meetings. This gave them assurance on the judgements reported.
111. Some Chief Executives have commented on their frustration at not being able to address the Commission at the meeting at which the BVAR on their council is being discussed.

### Skills of the auditors

112. The number of auditors required to carry out the audit of BV in all councils each year has increased from those who worked on the focussed audit work under the previous BV audit approach (BV2). As a result, many team members had not been involved with BV audit work before. It was a steep learning curve in applying their audit skills to the new type of work.
113. Tools were developed to support auditors in this work to help them apply their audit skill to the specific aspects of BV. Audit teams were also encouraged to share their experiences to learn from each other.
114. BVAR teams were all integrated teams, made up of auditors from local audit teams (ASG or the firms) and PABV auditors of different grades with different levels and areas of expertise. The work of each team is overseen by the appointed auditors (ASG Assistant Directors and firm partners) and audit managers. Local auditors carried out most of the BV audit work reported in the AARs and more integration of this work needs to be a focus in 2017/18.
115. PABV Senior Managers have been designated as link managers to each of the appointed auditors to coordinate BV activities and PABV resources for all councils, working with the local audit teams. Auditors reported this as a positive step in integrating their audit teams.
116. The BVAR auditors have said how much they enjoyed working in mixed teams. However they felt the roles of BVAR team members were initially unclear. Agreeing the roles of all team members at the start of the BV work is important to reflect the strengths of the team members based on their experience and taking account of their availability. The BVAR project plan needs to be shared and understood by all team members. This point is echoed in the feedback from council chief executives.

#### Guidance Note for auditors

117. There is a range of support activities in place to assist auditors in carrying out their BV work, recognising there is no substitute for on the job experience and sharing experiences between colleagues. To facilitate this the BV development group organised:

- two meetings in October 2017, where staff shared their BV audit experiences. These were attended by approximately sixty Audit Scotland staff
- a PABV managers meeting on 7 December.

Auditors should now continue to speak to colleagues from other BVAR teams to learn about their experiences and share good practice. For example, the Orkney audit team will have useful approaches to share with other island audit teams.

118. Skill gaps and training needs for auditors are monitored and addressed through the staff performance development programmes in place in Audit Scotland, and in each firm involved in the BV audits. Development discussions held between Audit Scotland auditors should be used to identify and address any training needs on BV and any other audit work.
119. Some council officers commented that some audit staff showed political naivety and did not sufficiently reflect the challenges of working with a coalition administration in their findings. Others felt the context of their council had been well reflected in their BVAR. The fact that the majority of BVARs have been well received and the councils have accepted their findings, indicate that auditors overall have the skills and experience required to deliver the audits. It also indicates that the skill mix of audit teams has in most instances been effective. Auditors will continue to develop their skill base as they are involved in more BV audit work over time. Post project reviews of BVARs will continue to identify areas where auditors feel more support is required, which will be addressed by the BV development group.
120. The Guidance notes for auditors compiled from this review will be shared with all appointed auditors, PABV link managers and BV audit teams. They will also be built into the Local Government Audit Manual - Auditing Best Value, discussed below.

### Improvement Action 11

## Support for auditors

121. The BV development team provides ongoing support to the BV teams through discussions in team meetings, targeted discussions with managers, and having an 'open door' approach to queries. A Local Government Extranet for sharing information and intelligence amongst auditors is in place and is accessible to all Audit Scotland staff and to the firms with local government appointments.
122. The Local Government Audit Manual - Auditing Best Value provides guidance for auditors carrying out work as part of the annual audits and for BVARs. The manual includes a menu of audit tests that can be used by auditors in carrying out their work. The tests are structured to include coverage against the BV characteristics prescribed in the Statutory BV guidance. The tests are also mapped to the Commission's Strategic Audit Priorities. The BV framework is built into the annual audit planning guidance.

123. Audit teams have said that they used the Local Government Auditing BV Manual and found it helpful. They are pleased that it has been updated to reflect lessons learned from year one. Auditors said the assessment toolkits worked really well as a basis to form audit questions and gave structure to the areas looked at.
124. The teams working on the first BVARs developed tools for use by future teams, including the BV scoping letter, a detailed project timeline and some exhibits used in the BVARs.
125. All audit work carried out for local audits is recorded on the electronic working paper system, known as MKI. There was therefore a need to ensure that all members of integrated BVAR teams had access to, and were trained to use, MKI. Teams need to agree at the start of each BV project how they will structure their MKI files. They need to decide how they will record 'matters arising' to provide summary points for reporting key judgements, areas of improvement and good practice examples. We will continue to support colleagues and teams as they familiarise themselves with how MKI works.

#### Guidance Note for auditors

### Five year BV audit plans (BVAP)

**All auditors have prepared five year BV audit plans and the results of the 2016/17 work are reported in the AARs.**

126. In 2016/17 all auditors prepared a five year BV audit plan (BVAP) showing their scheduling of coverage of the BV characteristics. The 2016/17 audit planning guidance, said that 'if no specific risks are identified auditors should complete, in the first instance, the guide areas covering Financial and Service planning, Financial Governance and Resource Management.' There is no similar central steer on what aspects of BV audit work should be covered as part of the 2017/18 audits. It is now the case that the BVAP, which reflects local audit risk priorities, determines the work carried out each year.
127. Auditors are required to report findings and judgements on BV audit work in their 2017/18 AARs. Follow up on all BV audit findings reported in 2016/17 (in the annual audit report and BVAR) should also be reported. The follow up should reflect on the council response to the findings and progress with improvement actions.
128. Additional follow up work may be required by auditors where the Commission decides to use its powers to instruct further audit work or to hold a hearing in response to a BVAR.

### Link to the shared risk assessment (SRA) process

129. The risks identified in local scrutiny plans influence the BVAR scope and timing for each council. The five year BVAR programme for the year 1 and year 2 BVARs was reviewed to reflect intelligence from the shared risk assessment process concluded in May 2017. The

timing of the BVARs for the other councils will be reconsidered when the current SRA process is concluded in March 2018.

130. Local area networks consider the scope of BV audit work for their five year BVAP as part of their shared risk assessment discussions. If the BV audit covers areas where scrutiny partners could provide useful information or contribute to audit work this should be considered by the LAN and reflected in local scrutiny plans. There is a review of the SRA process underway which will more clearly align the new audit of BV approach, into the process.

## Impact of the BVARs

**The BVARs have been the subject of discussion across the public sector and local media have reported on them. All councils have accepted the findings of the BVARs and are progressing improvement actions in response to them. Follow up of the improvement actions will be reported by auditors in 2017/18.**

131. Councils have said the BVARs are a fair reflection of their activities and areas for improvement. Feedback is more mixed on whether the input to the BVARs from staff and auditors added value to the council. Rocket Science have reported the following feedback from councils:

- In general, there was strong support for the new approach. It was felt to involve a proportionate investment and matched well with current needs.
- The Final Best Value Assurance Reports were felt to be fair and balanced, with useful content and recommendations that were helpful to take forward improvement.
- There were significant variations in the experience of Local Authorities, ranging from 'extremely demanding' to 'less demanding than we were expecting', with related variations in perceived value.

This feedback has been considered in the assessment of the audit approach reported earlier in this report, paragraphs 62-63 are particularly relevant.

132. Statutory provisions ensure BVARs are subject to public discussion by each council. This raises the profile of any agreed improvement actions and as a result they are more likely to be implemented. Councils must consider the Commission's findings reported in the BVAR at a meeting within three months of receiving them or within such longer period as the Commission may specify in writing. This duty must be discharged by the full Council and not by a committee, sub-committee or officer. The meeting must be publicised and decisions made at the meeting minuted and published. After the Council has met, the Commission must be notified of any decisions made relating to the BVAR.
133. Auditors have commented on the fact that all audit reports on councils, other than the BVARs, are presented to the elected members of each council by the audit team. This is an effective

way to draw the conclusions and recommendations of audit work to the attention of councillors, helping to secure the implementation of the improvement recommendations. This has not been the approach taken with BV reports in the past as they are published as Accounts Commission reports. However, this should not necessarily be a barrier to the local audit team presenting the BVAR, if it is felt that this would achieve more impact. Presentation of each BVAR to full council by the engagement lead on behalf of the Commission could be part of the standard timeline. We propose to discuss this option with the Secretary, recognising the important differences in the roles of the Commission, the Controller of Audit and the appointed auditor.

### Improvement Action 12

134. Accounts Commission members welcome the fact that the profile of BV has risen due to the new approach and the BVAR programme in particular. They are keen for the BVARs to be accessible to local communities and that they are read by citizens. The number of BVAR report downloads is monitored and reported to the Commission. Per the Secretary to the Commissions Paper to the Accounts Commission 11 January 2018, downloads to 15 December 2017 were:

	Publication date	Downloads	Podcasts
Inverclyde BVAR	1 June 2017	1336	307
Renfrewshire BVAR	31 August 2017	1257	0
East Renfrewshire BVAR	7 November 2017	855	158
East Dunbartonshire BV follow up	16 November 2017	363	79
West Lothian BVAR	23 November 2017	664	94
Orkney BVAR	14 December 2017	366	0
Clackmannanshire BVAR	25 January 2018	713	0

135. Members of the BV development group have discussed the new approach to auditing BV in a number of public sector forums e.g. the Public Service Improvement Framework (PSIF) learning group, the Scottish Performance Management Forum and with staff from the Improvement Service. These discussions have identified that the new approach to auditing BV has increased the amount of self assessment and improvement activity in some councils in anticipation of the auditors visits. The new approach is therefore having a positive impact in the local government sector.

# Looking forward

**The overall conclusion from this review is the new approach to auditing BV is fit for purpose and it meets the Commission objectives. A number of areas for improvement have been identified which will be actioned in 2018.**

- 136. The audit approach has not stood still since its launch. Lessons learned from the work as it progressed have been shared amongst auditors and built into the support materials in real time.
- 137. A number of areas for improvement have been identified from this review, which require further consideration and action. These are summarised in Appendix A of this report. The good practice and learning points identified from this review have also been pulled together in Guidance Notes for Auditors at Appendix B.

## Accounts Commission engagement events

- 138. The Commission is planning to hold some events to discuss its priorities with councils in spring 2018. The audit of BV and this review will be part of these discussions.

## Year two BVAR programme

- 139. The national five year BVAR programme is updated each year and shared with auditors. The update reflects changes to risk assessments identified from the SRA process or annual audits. As part of the 2017/18 audits, BVARs are to be reported for East Ayrshire, Fife, West Dunbartonshire, Glasgow City, East Lothian and Dumfries and Galloway Councils. The BVARs will be reported by the Controller of Audit to the Accounts Commission during 2018/19.

## 2017/18 planning guidance

- 140. The 2017/18 planning guidance section on auditing BV was updated by the BV development team. It requires auditors of councils to report findings and judgements on BV audit work in the 2017/18 annual audit report, including following up previous BV audit findings reported in 2016/17 (in both the AAR and BVAR). The follow up is to reflect on the council's response to the findings and progress with improvement actions.
- 141. Auditor BVAPs will be updated to cover the remaining four years of the audit appointment. They will reflect the actual work completed in 2016/17 and the latest intelligence on the council. Scheduling of work will reflect on the local risk assessment, from the Shared Risk Assessment and annual planning processes. The BVAPs will include audit work to be carried out as part of the annual audit, the timing of the BVAR and follow up of BV findings reported in prior years.

## Audit of BV in Integrated Joint Boards

142. The Code of Audit Practice sets out how BV duties apply to organisations across the public sector, not just councils. The 2017/18 planning guidance includes for the first time a reference to auditing BV in IJBs. The requirements reflect the statutory duty on IJBs, in the context of the small budget available to audit each IJB. Auditors have been directed to include in their 2017/18 annual audit reports comment on how the IJB demonstrates that it is meeting its BV duties. Auditors are to report on the IJBs own arrangements for doing this but not expected to carry out detailed audit work against the BV characteristics.
143. The 2017/18 AARs for councils and IJBs will then be used by the Controller of Audit to report on BV in both councils and IJBs in the Annual Assurance and Risk Report (AARR) in early 2019.
144. The national performance audit programme also includes work on IJBS in 2018. In December 2015, the Accounts Commission and Auditor General published the first of three national reports looking at the integration of health and social care. A second audit is scheduled in 2018 to look at progress and to follow up on the risks reported in 2015. This will also examine changes to the system, including evidence for shifts in service delivery from acute to community-based and preventative services, and for impact on the lives of local people.

## Support for auditors

145. The Local Government Extranet Auditing Best Value Manual was updated in September 2017 to reflect the lessons learned to date from year one.
146. Work on Words are working with auditors on the 2018 BVARs.

# Areas for improvement

Improvement Area	Improvement Action	Responsibility and timescale	Para Number
<p>1 The BVAR reporting timetable needs to be effectively coordinated with other work programme and annual audit pressures. BV audit work needs to be planned as early as possible. To facilitate this the year 3 BVAR programme is to be discussed with auditors as soon as possible.</p>	<p>A draft year three BVAR programme is in place. The scheduling of reports will be discussed with auditors, councils and the Secretary to the Commission when the next Local Scrutiny Plans and Annual Audit Plans are published in March 2018.</p>	<p>Lead of BV development group to coordinate – May 2018</p>	<p>Para 48 &amp; 99</p>
<p>2 All BVARs include overall judgements on the pace, depth and continuity of improvement. Auditors form these judgements based on assessment of the improvement made in the BV characteristics and service performance.</p>	<p>Future BVARs are to include more explanation on how the overall judgements are reached.</p>	<p>Auditors – 2018 BVARs</p>	<p>Para 70</p>
<p>3 The scope of each BVAR is designed to reflect the specific risks and context for each council. There is evidence that not all councils understand this.</p>	<p>Communication of the BV audit approach should explain the five year approach and the proportionate and risk based nature of each BVAR to councils.  How the auditor selected areas for coverage is to be included in BVARs.</p>	<p>Accounts Commission Spring engagement events  Auditors as part of their ongoing engagement with council officers</p>	<p>Para 73</p>

Improvement Area		Improvement Action	Responsibility and timescale	Para Number
4	The time taken to produce the first six BVARs has exceeded our planning assumptions. We can scope future BVARs more tightly and deliver more concise reports.	The 2018 BVAR audit teams have agreed that the scoping of the 2018 BVARs will be tightened up and more concise reports published.	Auditors – 2018 BVARs	Para 74
5	Reporting on service performance based on a range of evidence is a key part of the BV assessment. How this information is used by auditors needs to be more clearly explained to councils and in BVARs.	Future BVARs are to include: - explanation that improved performance is not expected in all services at all times - comment on how service performance is evaluated by auditors.	Auditors – 2018 BVARs  Auditors also to discuss as part of their ongoing engagement with council officers.	Para 77
6	Work on Words say that the impact of the BVARs would increase if some commonly used BV terms e.g. strategic direction are explained to readers.	Consideration is to be given to how best to do this in the 2018 BVARs.  Training is being provided to BVAR auditors.	BV development group and BVAR Auditors –2018  BVAR 'editors' to attend an event in Feb 2018	Para 94
7	Auditors have said that the resourcing of BV audit work has been a challenge and delays in confirming team members have hindered the start and scheduling of work.	Coordinated resource planning covering BVARs, the annual audit and the PABV work programme needs to be progressed sooner.	Auditors & PABV link managers – Immediate	Para 48 & 99
8	The range of time spent in both ASG and PABV on each council for BV work, indicates audit teams are inconsistent in their approach to recording time spent on the local BV work.	There is currently a project ongoing in Audit Scotland which is looking at how staff spend their time. Coding of audit inputs is being considered as part of this work	Associate Director PABV - 2018	Para 100
9	Auditors have said that the reporting, publication and promotions process can take	The BVAR reporting process is to be reviewed in an attempt to streamline it and make it more	BV development team and Communications	Para 102

Improvement Area		Improvement Action	Responsibility and timescale	Para Number
	too long can take up a relatively significant amount of resource. It also increases the risk that findings are out of date and lose credibility with councils.	effective.	Manager - May 2018	
10	A communications plan is useful to prepare for publication of each BVAR. However, auditors have commented about the amount of time that is currently being used to feed into this part of the audit.	A meeting is planned in February between members of the BV development team, the Secretary to the Commission and the communications team, to review the approach used for the first 6 BVARs and to identify areas for improvement.	BV development team, Secretary to the Commission and Communications Manager - May 2018	Para 103
11	The areas of good practice and areas for improvement identified from this review need to be incorporated into the 2018 BV audit approach.	The Guidance Notes for Auditors compiled from at Appendix B, will be shared with all appointed auditors, PABV link managers and BV audit teams. They will also be built into the Local Government Audit Manual - Auditing Best Value.	BV development group – March 2018	Para 121
12	BVARs are not presented to Council meetings by the audit team. The impact of the reports could increase with their presentation to members.	Presentation of each BVAR to full council by the auditor on behalf of the Commission could be part of the standard reporting process. This is to be discussed with the Accounts Commission.	Controller of Audit and Commission Secretary, March 2018	Para 134

# Guidance notes for auditors

1. The Local Government Audit Manual - Auditing Best Value provides guidance and should be used by auditors. These notes supplement this guidance with good practice and learning points from the February 2018 review of the BV audit approach.

## Working effectively in integrated teams

2. For integrated teams to work well the roles and tasks assigned to team members need to be clear from the start of each BVAR project. The roles of team members should reflect the strengths of the team members based on their experience and taking account of their availability.
3. The profiling of your BVAR work needs to be discussed with the PABV and ASG resourcing groups as early as possible to reflect the project plans.
4. Each BVAR project plan should be discussed with all team members.
5. Weekly catch up telephone calls for team members worked well for some teams. They can to keep everyone involved and up to date with the audit and are good for sharing intelligence and reaching collective judgements.

## Audit Scotland audits

6. PABV staff found using MKI a steep learning curve. Some teams recorded audit evidence outwith MKI first and then copied it into MKI later but found this problematic and inefficient. Teams are advised to record all evidence straight into MKI. PABV staff found using MKI as steep learning curve. Teams need to agree at the start of each BV project how they will structure their MKI files. They need to decide how they will record 'matters arising' to provide summary points for reporting key judgements, areas of improvement and good practice examples. Speak to previous BVAR teams for tips on how best to do this. PABV staff should seek support from their ASG colleagues if they need help on using MKI.

## Firm audits

7. Integrated teams consisting of firm local auditors and PABV staff need to discuss their risk assessments and plans each year. The teams need to agree their approach to recording their audit work at the start of each BVAR project. The West Lothian Council BVAR team prepared tools that may assist other teams.
8. Councils should not be charged additional fees for audit work on BVARs. Audit Scotland may in some circumstances pay firms for additional work on BVARs. The firm needs to establish

what work is required, who's going to do it (between PABV colleagues/ firm, staff) and what additional costs (if any) over and above the fee are to be discussed. The starting point is to have that conversation with the Audit Scotland link manager as part of the planning process.

## Resourcing all BV audit work

9. The pattern of audit resources applied needs to change, to balance the needs of the local BV audit work with BVARs more effectively. This is needed to resource follow up of findings from early BVARs and annual audit BV work. It should also reduce the input required to publish BVARs later in the five year programme.
10. Resource planning of the integrated team needs to be progressed sooner each year to enable the audit work to be scheduled and carried out more effectively alongside other audit work. The audit team members for the BVARs have all been identified. The profiling of BVAR work needs to be agreed by each audit team and discussed with the PABV and ASG resourcing groups as early as possible to reflect the project plans. PABV link managers are to work with the local auditors and the PABV programme resourcing group to secure BV audit resources earlier each year.

## BVARs

### Planning for BVARs

11. The scope of future BVARs can be tightened, with the aim of producing more concise reports.
12. Auditors should speak to colleagues from other BVAR teams to learn about their experiences and share good practice. For example the Orkney audit team will have useful approaches to share with other island audit teams.
13. Local area networks consider the scope of BV audit work for their five year BVAP as part of their shared risk assessment discussions. If the BV audit covers areas where scrutiny partners could provide useful information or contribute to audit work this should be considered by the LAN and reflected in local scrutiny plans.

### Drafting BVARs

14. BVARs are to include an explanation of the proportionate and risk based nature of the approach and an explanation on how the scope of the audit was decided i.e. using the intelligence from annual audit and LANs.
15. Auditors need to include overall judgements on the pace and depth of continuous improvement in all BVARs. Comment needs to be included in BVARs for councils on how these judgements are reached.

16. When emerging findings/ areas for discussion are being documented for discussion with officers, they should include the overall judgements on pace and depth of continuous improvement. This enables them to be discussed with councils at the earliest stage of the clearance process. This avoids surprises for councils, which are not conducive to acceptance of audit findings. A number of audit teams presented their key messages in a slide show format which they found worked well in discussing them with council officers prior to the draft reports being issued.
17. The BVAR template is to be used for year 2 reports but sections and content will vary in length in different audits. Exhibits should only be included if they support the story being told on the council. The only compulsory exhibits are :
  - Appendix 1 the BV audit timeline
  - table showing the BV judgements in the last BV report and today ('exhibit 12' in Inverclyde)
  - standard performance data (to be advised by the PABV link managers group).
18. A link to the latest Annual Audit Report is to be included in each BVAR.
19. When auditors report on an area, judgements should be clear. For example it is felt that auditor judgements on the effectiveness of a councils own self evaluation and its self awareness could be clearer in future BVARs.
20. Councils have commented that they would like to be provided with examples of good practice in any areas of suggested improvement included in BVARs. Auditors should consider the AARR, Local Government Overview reports and previous BVARs to identify and report on 'good practice' in areas where they are making improvement recommendations.
21. All audit recommendations should include cross references to the relevant paragraphs in the BVAR.
22. When drafting reports, auditors are to use plain language techniques such as average sentence length and avoiding or explaining jargon.

### Using focus groups to gather audit evidence

23. Focus groups are useful for gathering evidence and triangulation. Some issues for audit teams to consider:
  - Ensure the purpose of the focus group is clear and the questions are clearly focussed around what you want to know / emerging judgements you want to test out
  - Timing - often it is useful if focus groups are timed towards the end of the fieldwork as they can be used to test judgements but also gives time to react to any new issues raised
  - Focus groups can be useful where senior officers tend to run to a corporate script but middle managers often provide more useful input

- The political make up of elected members groups - they can work best if political groups are not mixed
- Trade union focus groups can work well to gain a different, non management perspective
- Community groups can be challenging and should only be used with a clear purpose and careful planning. Not appropriate for all audits.
- The need to ensure the council's input to who attends each focus group does not unduly influence the likely outcome of the discussions.

## Reporting on Service Performance / outcomes in BVARs

24. The Accounts Commission's strategy says 'Our overriding aim is holding councils to account for their pace, depth and continuity of improvement facilitated by effective governance. It is for councils to make choices in where they focus their improvement work but they need to be able to show how they have arrived at such choices.'
25. All BVARs are to explain that the Commission does not expect continuous improvement in all service areas, but it is looking for improved outcomes in a councils strategic priority areas. Having said that councils also need to understand the impact that their decisions are making on all services. E.g. if they identify education as a priority service and target resources to it, do they understand the impact on the quality of roads. An analysis of a range of wide reaching benchmarks is therefore appropriate in the BVARs, not just those of service priority areas.
26. Auditors should include comment in BVARs on:
  - the councils own assessment of its performance and in particular the impact this has on outcomes (its performance over time is reviewed to identify its pace of improvement)
  - the council position compared to the national picture based on key published indicators. We support the continued use of a core set of indicators for all BVARs. This year we will base this on those published in the 2018 Local Government Overview, as the basis for the national comparisons.
  - the LGBF data is considered to be an appropriate source of nationally published comparable information. Auditors should use 'benchmarking' and report comparisons between a councils position compared to national and family group averages where it contributes to the judgements being made. Comparing a councils own performance over time, 'trend analysis' will also be a useful source of evidence for measuring a councils improvement in its priority service areas.
27. We need to clearly articulate in the BVARs why we are reporting these indicators , reflecting on the national picture that they are painting, and then interpret this data locally in a way that supports the conclusions and judgements we are reporting on each council.

28. A small team of PABV auditors is being coordinated to prepare the service performance assessment date for all six BVAR councils in 2018. This will help ensure consistency and further develop skills in the interpretation of the data for future BVARs. Auditors should liaise with their PABV link managers regarding this work.

## 2017/18 Council Annual Audits

29. When making and reporting BV judgements, auditors should consider the AARR, Local Government Overview reports and previous BVARs to identify and report on 'good practice' in areas where they are making improvement recommendations.

### Reporting on the SAP: Reporting performance in a way that enhances accountability to citizens and communities

30. Whilst auditors reported in their AARs a judgement on each councils arrangements for publishing performance information relating to the two SPIs, there was limited commentary on the quality of the reporting. Auditors are to provide more detail on the quality of performance information published by councils in 2017/18.

### Annual Audit Reports

31. The planning guidance says that 'Auditors should report findings and judgements on BV audit work in the 2017/18 annual audit report, including following up previous BV audit findings reported in 2016/17 (in the annual audit report and BVAR). The follow up should reflect on the council response to the findings and progress with improvement actions.'

### Councils where a year one BVAR has been published

32. The 2017/18 AARs are to include the council's overall response to their BVAR and a clear judgement on the progress made against each recommendation included in the BVAR and any additional recommendations made by the Accounts Commission in their findings.
33. Auditors should make reference to the judgement on the pace and depth of continuous improvement included in the BVAR together with an updated overall judgement based on the results of 2017/18 follow up work.

## 2017/18 IJB Annual Audit Reports

34. 'The Code of Audit Practice sets out how BV duties apply to organisations across the public sector, not just councils. 2017/18 IJB AARs are to include comment on how the IJB demonstrates that it is meeting its BV duties. Auditors are to report on the IJBs own arrangements for doing this it does not require detailed audit work against the BV characteristics.'



# Audit Scotland: Contribution to the review of the new Best Value approach

## The experience and perspectives of the first 6 Local Authorities to be audited

### Summary

- In general, there was strong support for the new approach. It was felt to involve a proportionate investment and matched well with current needs.
- The Final Best Value Assurance Reports were felt to be fair and balanced, with useful content and recommendations that were helpful in taking forward improvements.
- The process was highly iterative and open. Most councils reported significant shifts in content and tone between emerging findings/Draft Report and Final Report.
- There were significant variations in the experience of councils, ranging from 'extremely demanding' to 'less demanding than we were expecting', with related variations in perceived value.
- Part of the issues about demands was to do with the timing of some of the audits during an election period and the immediate post-election period.
- There was agreement that, on the whole, there was a stronger focus on outcomes and less on Council processes, but some councils expressed surprise at the lack of engagement with citizens/communities.
- There was some comment about the similarity between reports in terms of the issues raised and the wording used, but councils did not feel they had been subject to a process which squeezed them into a predetermined set of issues.
- There were a number of comments about the use of the Local Government Benchmarking Framework and on the need for its interpretation to be carried out with care. A number of councils felt that it had not been used in a sophisticated way and this had led to inappropriate comparisons and initial conclusions.

- Related to this, there were a number of requests for a more outward looking process, both in terms of national and international comparisons and comparisons across organisational types. One Council had asked for examples of good practice in an areas of suggested improvement, but the audit team had been unable (or unwilling) to provide this. Related to this were requests that identified areas for improvement should be accompanied by examples of councils who were doing it better.
- One council was keen for their own examples of good practice to be balanced by examples of issues where things had gone wrong and from which they could learn – not to be produced as part of the main report but as a private addendum for officers and members.
- There was a common view that the some of conclusions and recommendations which referred to political processes could be seen as ‘politically naïve’ and failed to take account of political realities.
- There were concerns about the Audit Scotland Press Releases, which were thought to unfairly focus on negative aspects of the Reports.

## 1 Introduction

Following completion of the first 6 Best Value Assurance Reports (BVARs) by Audit Scotland on behalf of the Accounts Commission, Audit Scotland and the Commission were keen to review the approach and understand the extent to which the it was meeting the objectives they had set for it.

As a contribution to this wider review Rocket Science was commissioned to talk to the Leaders and Chief Executives of the 6 councils which had been the subject of BVARs to explore their experience of the BVAR process and their views on its outcome.

The interviews were all carried out by telephone and varied in length between 30 minutes and 1 hour.

Following completion of all but one of these planned interviews (Appendix 1 presents a list of those interviewed and Appendix 2 the Topic Guide that we used), we present the main issues and points emerging from these interviews. It has been structured under the headings of the Topic Guide. In Appendix 3 we summarise the responses under each of the Accounts Commissions aspirations for the new BV approach.

## 2 The BVAR process

Overall, *the experience of the process and its outcomes was positive*, and it delivered *reports which were appreciated and considered useful*.

There was a consensus that *the process was clearly described*, and described effectively at each stage of the audit.

## 3 Conduct of the audit

Most councils felt the process had been *well organised and highly collaborative*. There was a universally positive view about personal working relationships with the team.

The BV audit work was considered to be *well integrated with annual audit work* – even when there was a new external auditor recently appointed, but one council felt that the two audits had not connected well. In one instance the Draft BVAR suggested there had been no improvements over a 10 year period, when each of the Annual Audits recorded improvements.

There were *significant variations in the reported demands on the LAs*. These varied from 'extremely demanding' (involving senior staff cancelling leave and working over weekends and an estimated commitment of 2/3 senior staff full time for 6 months) to 'light touch, less demanding than we were expecting'. Given the status of the LAs represented at these extremes this seems to be about a different approach by different teams rather than being related to the scale of risk involved.

This led to *different views about value in terms of the return from the effort invested*. The LA noting that the process was very demanding considered the report a poor return on the effort expended, while the LA experiencing a light touch approach would have appreciated a bit more value from a more demanding process.

There also appeared to be an issue about *variations in the skills, experience and confidence of the teams*. In one case the process had been complicated and prolonged by a significant turnover in staff. A number of councils expressed the view that their team had been strong on financial skills but weaker on the skills needed for a more rounded assessment.

More generally, there was a view that the way aspects of the work were carried out, and the outcome (particularly at Draft Report stage) was influenced by the particular individuals on the audit team and their personal styles, and that there was *scope for greater consistency across teams*.

The *way that benchmarks were used was an issue* for a number of councils. This was reflected in two types of responses:

- There were a number of instances where it was felt that the use of the Local Government Benchmarking Framework was overly simplistic and unreasonable and there was a plea for a more sophisticated use of tools of this sort.
- There were a range of requests for more benchmarking insights – in particular, providing contacts and examples that may be useful when the scope for improvement in specific areas was identified. Some respondents felt that it was not helpful to state that performance in an area needed to be better without guidance on what better might look like through the use of examples.

*The issue of timing* was raised by councils whose audit process had overlapped with the election period or the immediate post-election period. At an executive level there was appreciation of the maturity and sensitivity of the audit teams in recognising and responding to the difficulties that could be caused by this timing. At a political level it was considered more of a problem, with some feeling that this period should be avoided in future since it created both difficulties around time for meaningful engagement and an opportunity for the report to become a political football.

There were three comments about (different) councils *being asked twice and sometimes three times for the same information* – sometimes quite demanding tasks or involving significant reports. This may indicate a scope to improve the recording of actions and the organisation of collected data.

Two councils expressed surprise at the *relatively light engagement with local citizens* and felt that a strongly outcome focused process should concentrate more on this aspect of the approach. There was one comment about the apparent dismissal of the views of citizens when compared with technical benchmarking outcomes (eg in a situation where citizens expressed high satisfaction levels for a service, but the service did not perform well against benchmark data).

All councils *appreciated the opportunity to have detailed discussions* (sometimes ‘intense’ discussions) in response to emerging findings and the Draft Report. Some reported that there was little connection between the emerging findings/Draft Report and the Final Report and most felt that at Draft Report stage there were significant issues around factual accuracy and balance. Although it was appreciated that the documents provided scope for detailed interaction to help the audit team home in on key issues and conclusions, there was a request for the Draft Report to be more integrated and consistent with annual audit. The process of refinement this involved was considered to be very open and constructive, with councils commending the consultation through a series of draft reports, and all Final Reports were considered fair and balanced.

Two councils reported that they were unclear from time to time about who (and even which organisation) was leading the process – both over time, and even within meetings, and who they should be relating to as the process leader. We did not probe these situations in detail, but it may be appropriate to reinforce the need to *ensure clarity about the leadership* of the team and the process throughout the process in future BVARs.

One council expressed the hope that teams could in the future adopt a more rigorous evaluative approach which used carefully defined evaluative language. There was a related plea for more experience in the audit teams of digital approaches and transformations.

The clearance process for the Final Report was considered *effective and appropriate*.

#### 4 The Report

All councils were comfortable - with some minor niggles - with the Final Report and considered it *fair and balanced*.

There was also a related point about *references to the wider context of councils* and their performance – in terms of both macro-economic changes and changes in national policy, both of which were seen as having a major impact on councils.

One council stressed the importance of *placing council performance in an international context* – through comparisons with councils across other comparable countries, and with other forms of organisations which displayed high performance in areas relevant to councils.

The Reports *took into account – and displayed a good understanding of – the local context*, and reflected the risk and priority areas for the councils. However, there were comments from a number of councils about the failure to reflect adequately the political priorities and the spending consequences of these.

A number of councils expressed concern about *how Reports were presented to the press* – specifically, in terms of the Press Releases issued with the Reports, which were widely seen as focusing on the few negative points in otherwise positive and balanced reports.

*'They take something that is fair and balanced and focus on the more controversial aspects which does a disservice to those audited and to the auditors.'*

All councils appreciated the *clarity and readability of the Reports*, and found them useful for a range of audiences. There was some limited request for a short summary version of c2 sides (eg to include in a council newsletter). The Reports were used for a range of purposes:

- As independent reinforcement of the need to act on a particular issue and motivate action on it
- To confirm the progress being made and instil confidence in current approaches
- To convey to the wider community the achievements of the council.

There was a comment from one council about the emerging 'identikit' content of the Key Messages of the reports – with clear similarities appearing in terms of Key Messages. However, there was no suggestion that councils felt as though their audit was seeking to squeeze them into a pre-determined mould.

## 5 Impact of the work

With one exception it was felt that the intention to shift from a focus on council processes to the impact of these processes on citizens and communities had been achieved, with a *notably enhanced focus on outcomes and difference made* which is consistently reflected in the Key Messages. The exception was a Council which felt that there was still too strong a focus on process.

The BVAR had been *helpful in identifying areas of improvement* for all the councils – even if this served to reinforce previously identified areas for improvement.

The Reports had *not identified new areas for action* for any of the councils.

## 6 Accounts Commission engagements

All the councils had found the November 2016 engagement about the new approach very helpful, involving a useful discussion that had helped to clarify expectations.

The 4 councils that had had their post publication meeting with the Accounts Commission all found these discussions helpful and constructive.

## Appendix 1: Chief Executives and Council Leaders interviewed

Local Authority	Interviewees
Inverclyde	Aubrey Fawcett, Chief Executive Cllr Stephen McCabe, Council Leader
Renfrewshire	Sandra Black, Chief Executive Cllr Iain Nicholson, Council Leader (cancelled)
East Renfrewshire	Lorraine MacMillan, Chief Executive Leader Cllr Tony Buchanan, Council Leader Provost Jim Fletcher, Former Council Leader
West Lothian	Graham Hope, Chief Executive Cllr Lawrence Fitzpatrick, Council Leader
Orkney Islands	Alistair Buchan, Chief Executive Cllr James Stockan, Council Leader
Clackmannanshire	Elaine Macpherson, Chief Executive Cllr Les Sharp, Council Leader

## Appendix 2: Topic Guide for interviews

### The BVAR process

- What was your overall experience of the BVAR process and its outcome?
- To what extent were you clear about what to expect? Did your experience match your expectations? What were the major differences?
- Did the auditor effectively explain the audit approach to you throughout each key stage of the audit?

### Conduct of the audit / audit teams

- To what extent was the BV audit work well integrated with the annual audit work?
- What is your opinion on the auditors' approach to gathering evidence for the BV work?
- What are your views of the clearance process used by the audit team to discuss the emerging messages from the audit?
- Did you have an opportunity to provide views on the factual accuracy and interpretation of evidence included in the draft BVAR prepared by the auditor?
- Was the clearance process for the draft report effective for you?

### BVAR

- Does the BVAR give a balanced view of the council's activities (covered by the scope)?
- To what extent did the Report take your local context into account and reflect it fairly?
- Does the scope of the BVAR reflect the risk and priority areas for the council?
- What are your views on the format/ style of the report?
- If you are able to compare the new BV audit approach to the previous approach do you find the new approach more useful? If so, in what ways?
- Is there anything that could be done to make the report more useful for you?

### Impact of the work

- Does the BVAR succeed in shifting the focus from Council processes to the impact of those processes on citizens and communities?
- Is the BVAR useful in identifying areas of improvement for the council?
- Did it identify anything that you were not aware of – or change your view on priorities for action?
- What does the council plan to do with the recommendations made in the BVAR?
  - Content and coverage of council implementation plans
  - Officer and member ownership of implementation plans
  - Early progress against implementation plans

### Accounts Commission

- Were the November 2016 engagement events useful in describing the objectives of the new BV approach. Did they prepare you for the BV work?
- Accounts Commission members met with you after publication of the BVAR. How useful were these discussions?

### Overall

- What are your overall views of the new BV audit approach?
- Have council expectations of the process been met?
- What did you like about the audit approach and BVAR?
- How could the approach be improved?
- How could the report and post-report engagement process be improved?

## **Appendix 3: Responses related to Accounts Commission aspirations**

In this Appendix we compare the responses with each of the Accounts Commission's aspirations for the new approach

### **Have a focus on driving the pace and depth of improvement in local government**

There was a consensus that the Final Reports contributed to driving improvement. There was a commonly expressed view that improvement could be further supported by the provision of contacts and examples in situations where it was stated that performance needed to improve.

### **Have a focus on the quality of service experienced by the public and outcomes achieved for communities**

There was surprise noted by two councils about the relatively low level of engagement with the public and they were both keen for this engagement to be more substantial – with the view that if this was done independently it would be of considerable value and emphasise the shift to outcomes and the difference made to citizens and communities. One council felt that citizen views were dismissed in favour of technical benchmark evidence where these presented views that did not align.

### **Underline the importance of good governance, including effective scrutiny arrangements**

The Reports clearly reflect this focus. However, a number of councils felt that the views expressed on political engagement did not reflect the realities of the political process (and in particular the management of complex and sensitive coalitions).

### **Reflect the local context as well as the shifts in the wider local government context**

There was general agreement that audit teams gained an accurate sense of the local context and this was reflected in the Reports.

### **Continue to be proportionate and risk-based in the scope of work for each council audit**

All councils agreed that the audits focused on the areas of risk and priorities – though there were comments that not enough focus was placed on the relationship between performance and political priorities and the spending implication of these decisions (eg higher than expected spend on a relatively high performance area was because, despite current high performance, a political decision had been maintained to drive performance even higher).

**Have an increased focus on each council's level of self-awareness and its approach to self-evaluation to support improvement**

General agreement that the Reports reflected this, but one council was surprised about the lack of focus on the council's on self-evaluation.

**Have less emphasis on the council's processes and more on the impact of these in terms of the quality of services, performance and outcomes for communities**

All but one of the councils felt that this shift was reflected in the process, with a strong focus on outcomes and difference made reflected in Reports. One council felt that the research still focused too strongly on processes and not outcomes.

MEETING: 8 FEBRUARY 2018

REPORT BY: ASSISTANT DIRECTOR, APPOINTMENTS AND ASSURANCE TEAM

PROPOSED CHANGE OF AUDIT APPOINTMENT

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### Purpose

1. This report recommends that the Accounts Commission change the appointment to audit the East of Scotland European Consortium (ESEC) from KPMG to the Director of Audit Services, Audit Scotland.

### Background

2. The ESEC appointment was linked to Aberdeen City Council when the initial audit appointments were made following the 2016/17 to 2020/21 audit tender. This meant that KPMG, as the auditor of Aberdeen City Council, was appointed to audit ESEC.
3. Soon after the start of the audits, we discovered that the administration of ESEC had changed, and was now carried out by Angus Council, an ASG audit. Angus' administration of ESEC runs until May 2019. ESEC has not yet decided which authority will take on administrative responsibility after May 2019.

### Consultation

4. We have discussed the audit appointment of ESEC with KPMG and the Director of Audit Services. KPMG are happy to withdraw from the appointment, and the Director of Audit Services is happy to accept the appointment. The additional work would be carried out within the current staffing complement which in combination with using the host council auditor to audit ESEC should lead to an increase in audit efficiency.

### Conclusion

5. The Commission is asked to:
  - a) Accept KPMG's withdrawal from the appointment to audit ESEC.
  - b) Appoint Fiona Kordiak, Director of Audit Services, Audit Scotland, to audit ESEC.

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