

The Accounts Commission for Scotland

Agenda

Meeting on Thursday 14 March 2013,
in the offices of Audit Scotland, 18 George Street, Edinburgh

The meeting will begin at 10:00 am

1. **Apologies for absence**
2. **Declarations of interest**
3. **Decisions on taking business in private:** The Commission will consider whether to take any items in private.
4. **Minute of meeting of 14 February 2013**
5. **Minute of meeting of Performance Audit Committee of 28 February 2013**
6. **Minute of meeting of Financial Audit & Assurance Committee of 28 February 2013**
7. **Chair's introduction:** The Chair will report on recent activity and issues of interest to the Commission.
8. **Update report by the Controller of Audit:** The Commission will consider a report from the Controller of Audit on significant recent activity in relation to the audit of local government.
9. **How councils work series – update report:** The Commission will consider a report by the Controller of Audit.
10. **Measuring the impact of Audit Services Group work: local government, 2011/12:** The Commission will consider a report by the Secretary and Business Manager.
11. **Competition Commission: Statutory audit services for large companies market inquiry - provisional findings report:** The Commission will consider a report by the Assistant Auditor General.
12. **Any other business**

The following papers are enclosed for this meeting:

Agenda Item	Paper number
Agenda Item 4: Minutes of the meeting of the Commission of 14 February 2013	AC.2013.3.1
Agenda Item 5: Minutes of the meeting of the Performance Audit Committee of 28 February 2013	AC.2013.3.2
Agenda Item 6: Minutes of the meeting of the Financial Audit & Assurance Committee of 28 February 2013	AC.2013.3.3
Agenda Item 8: Report by Controller of Audit	AC.2013.3.4
Agenda Item 9: Report by Controller of Audit	AC.2013.3.5
Agenda Item 10: Report by Secretary and Business Manager	AC.2013.3.6
Agenda Item 11: Report by Assistant Auditor General	AC.2013.3.7

ACCOUNTS COMMISSION

MEETING 14 MARCH 2013

MINUTES OF PREVIOUS MEETING

Minutes of the meeting of the Accounts Commission held in the offices of Audit Scotland at 18 George Street, Edinburgh, on Thursday, 14 February 2013, at 10am

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

IN ATTENDANCE: Barbara Hurst, Director of Performance Audit (PAG)
Fraser McKinlay, Controller of Audit
Paul Reilly, Secretary and Business Manager
Antony Clark, Assistant Director, Best Value and Scrutiny Improvement (BVSI) [Items 9, 11 and 12]
Martin Walker, Assistant Director, BVSI [Items 9]
Angela Cullen, Assistant Director, Performance Audit Group (PAG) [Items 8, 13 and 14]
Ronnie Nicol, Assistant Director, PAG [Item 13]
Angela Canning, Assistant Director, PAG [Item 13]
Mark MacPherson, Portfolio Manager, PAG [Item 9]
Lesley McGiffen, Portfolio Manager, BVSI [Item 9]
Gordon Neill, Portfolio Manager, BVSI [Item 9]
Fiona Selkirk, Project Manager, BVSI [Item 9]
Carolyn Smith, Project Manager, PAG [Item 9]
Peter Worsdale, Project Manager, BVSI [Items 9 and 15]
Dick Gill, Portfolio Manager, PAG [Item 14]
Michael Oliphant, Project Manager, PAG [Item 14]
Gordon Smail, Portfolio Manager, BVSI [Item 15]

<u>Item No</u>	<u>Subject</u>
1.	Apologies for absence
2.	Declarations of interest
3.	Decisions on taking business in private
4.	Minutes of meeting of 17 January 2013
5.	Minutes of meeting of Performance Audit Committee of 24 January 2013
6.	Chair's introduction
7.	Update report by the Controller of Audit

8. Improving engagement and reinforcing messages in Accounts Commission reports
9. Audits of Community Planning
10. Any other business
11. Audits of Community Planning
12. Improving Community Planning in Scotland – key messages
13. The Performance Audit Programme 2013/14
14. Performance audit – Major capital investment in councils
15. Local government in Scotland 2013

1. Apologies for absence

Apologies for absence from Michael Ash were noted.

2. Declarations of interest

The following declarations of interest were made:

- Alan Campbell, in item 9, as a former member of various regional partnerships in Aberdeenshire, and item 13, as a former employee of Aberdeenshire Council.
- Christine May, in item 15, as a member of Fife Cultural Trust.

3. Decisions on taking business in private

It was proposed that items 11 to 15 should be taken in private as they contained draft reports and confidential issues.

4. Minutes of meeting of 17 January 2013

The minutes of the meeting of 17 January 2013 were submitted and approved, subject to noting that Colin Duncan should be removed from the list of those present.

5. Minutes of the Performance Audit Committee meeting of 24 January 2013

The minutes of the Performance Audit Committee meeting of 24 January 2013 were submitted and approved.

6. Chair's introduction

The Chair reported that:

- On 24 January, he attended meetings of Audit Scotland's Audit Committee and Board.
- Also on 24 January, he, along with Douglas Sinclair and Bill McQueen, attended a meeting of the Community Planning Partnership Audit Steering Group.
- On 7 February 2013, he chaired a meeting of the Strategic Scrutiny Group, also attended by Douglas Sinclair and Bill McQueen.
- Also on 7 February, he and Douglas Sinclair met Kevin Stewart MSP, Convener of the Local Government and Regeneration Committee of the Scottish Parliament.

7. Update report by the Controller of Audit

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

During discussion the Commission noted advice from the Chair that he would shortly be meeting Kenneth Hogg, Director of Local Government and the Third Sector at the Scottish Government.

Thereafter the Commission agreed to note the report.

8. Improving engagement and reinforcing messages in Accounts Commission reports

The Commission considered a joint report by the Director of Performance Audit and Controller of Audit setting out proposals to improve how to engage with stakeholders about findings and recommendations in reports and reinforcing messages to encourage improvement.

During discussion the Commission agreed:

- The package of proposals as set out in the report, on the basis of priority being given to activities around advocacy, reinforcing messages and engaging with key local government stakeholders.
- That advocacy activities also go beyond local government stakeholders as appropriate, for example the third and private sectors.
- Accordingly, that as a working principle, the use of other activities set out in the report be applied selectively to each performance audit report.
- That the Director further consider how to better exploit new social media in promoting reports.

Actions: Director of Performance Audit

- To note the Commission at its annual strategy seminar would further consider issues around promotion, marketing and impact.

9. Audits of Community Planning

The Commission considered a report by the Secretary and Business Manager asking that it consider the reports of the three early audits of community planning in Aberdeen, North Ayrshire and Scottish Borders, produced by Audit Scotland for the Commission and the Auditor General for Scotland.

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

Following discussion, the Commission agreed to note the reports and to consider in private how it wished to proceed.

10. Any other business

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

11. Audits of Community Planning [in private]

The Commission agreed that this item be held in private to allow it to consider actions in relation to the reports on the three early audits of community planning.

Following discussion, the Commission agreed to make findings in conjunction with the Auditor General for Scotland, to be published in early course.

The Chair thanked the audit teams for their work.

12. Improving Community Planning in Scotland – key messages [in private]

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

The Commission considered a report by the Controller of Audit seeking approval of a draft report - produced jointly with the Auditor General for Scotland – setting out key messages around how community planning can be improved, drawing upon the three early community planning audits and previous wider work on community planning.

Following discussion, the Commission agreed to approve the draft report, subject to the report team considering a number of points raised in discussion.

The Chair thanked the report team for its work.

13. The Performance Audit programme 2013/14 [in private]

The Commission agreed that this item be held in private to allow it to discuss confidential issues.

The Commission considered a report by the Director of Performance Audit setting out proposals for additions to the performance audit programme for 2013/14.

Following discussion, the Commission agreed:

- To add the following areas to the programme for 2013/14:
 - Education spend and attainment
 - Procurement in local government

Action: Director of Performance Audit

- That option appraisal be part of the *How councils work* series, and that the Controller of Audit report further details in this regard to the Performance Audit Committee.

Action: Controller of Audit

- That the Director prepare a paper on wider discussion of the programme beyond 2013/14.

Action: Director of Performance Audit

- To note advice from the Director that a follow-up report on the *Commissioning social care* report, published on 1 March 2012, would be reported to a future meeting.

14. Performance audit – Major capital investment in councils [in private]

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

The Commission considered a report by the Director of Performance Audit proposing a draft report, key messages and good practice guide on the performance audit of major capital investment in councils.

Following discussion, the Commission agreed:

- That the good practice guide be branded as part of the *How councils work* series.
- To approve the draft report, subject to the audit team considering a number of points raised in discussion and consulting further with the sponsors of the performance audit.

Action: Director of Performance Audit

The Chair thanked the audit team for its work.

15. Local government in Scotland 2013 – overview report [in private]

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

The Commission considered a report by the Controller of Audit proposing a draft report on an overview of local government in Scotland in 2013.

Following discussion, the Commission agreed to approve the draft report, subject to the audit team considering a number of points raised in discussion and consulting further with the Chair, Deputy Chair and sponsors of the report.

Action: Controller of Audit

The Chair thanked the report team for its work.

ACCOUNTS COMMISSION

MEETING 14 MARCH 2013

MINUTES OF MEETING OF PERFORMANCE AUDIT COMMITTEE OF 28 FEBRUARY 2013

Minutes of meeting of the Performance Audit Committee of the Accounts Commission held in the offices of Audit Scotland, 18 George Street, Edinburgh on Thursday, 28 February 2013, at 10.30am.

PRESENT:

Douglas Sinclair (Chair)
Mike Ash
John Baillie
Alan Campbell
James King
Christine May
Colin Peebles

OTHER COMMISSION MEMBERS PRESENT: Sandy Cumming

IN ATTENDANCE:

Barbara Hurst, Director, Performance Audit
Fraser McKinlay, Controller of Audit
Paul Reilly, Secretary and Business Manager
Angela Canning, Assistant Director,
Performance Audit Group (PAG) [Items 4 and 5]
Ronnie Nicol, Assistant Director, PAG [Items 4
and 6]
Angela Cullen, Assistant Director, PAG [Items 4
and 7]
Martin Walker, Assistant Director, Best Value
and Scrutiny Improvement (BVSI) [Items 8 and
9]
Steven Hanlon, Project Manager, PAG [Item 5]
Claire Sweeney, Portfolio Manager, PAG [Item
5]
Graeme Greenhill, Portfolio Manager, PAG
[Item 6]
Gill Miller, Project Manager, PAG [Item 6]
Gordon Neill, Portfolio Manager, Best Value and
Scrutiny Improvement (BVSI) [Item 8]

<u>Item no.</u>	<u>Subject</u>
1.	Apologies for absence
2.	Declarations of interest
3.	Minutes of meeting of 24 January 2013
4.	Update report on performance audit programme and Best Value and Scrutiny Improvement work
5.	Performance audit: project brief - Reshaping care for older people
6.	Performance audit: follow-up report – Maintaining Scotland’s roads
7.	Performance audit: impact report – Overview of Scotland’s criminal justice system
8.	Joint report by Accounts Commission and Auditor General for Scotland: update - Managing early departures in the Scottish public sector
9.	How councils work series – update report
10.	Any other business

1. Apologies for absence

Apologies for absence were received from Jim King and Christine May.

2. Declarations of interest

The following declarations of interest were made:

- Michael Ash, in items 5 and 8, as a member of NHS Lothian Board.
- James King, in items 5 and 8, as a member of NHS Forth Valley.

3. Minutes of meeting of 24 January 2013

The minutes of the meeting of 24 January 2013 were approved as a correct record.

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

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

During discussion, the Committee agreed to note advice from the Director of Performance Audit that the performance audit *Major capital investment in councils* would be published on 14 March 2013.

Thereafter the Committee agreed to note the report.

5. Performance audit: project brief - Reshaping care for older people

The Committee considered a report by the Director of Performance Audit seeking its approval for the approach to the performance audit - to be carried out jointly with the Auditor General for Scotland - on *Reshaping care for older people*.

During discussion, the Committee:

- Agreed that, when presenting the report of the audit to the Commission, the Director set out opportunities for follow-up and related work.
- Agreed that the following points be considered as part of the audit:
 - reflect both quality and cost in the audit
 - reflect that double running costs may arise as changes in service delivery are made
 - further in this regard, ensure appropriate coverage of historical context
 - whether the Change Fund is being used for its intended purposes
 - the importance of ancillary services such as shopping and cleaning to some older people
 - whether rurality is a significant enough issue to feature in the audit
 - whether telecare is a significant enough issue to feature in the audit

- that access to out-of-hours primary care services can be difficult for some older people
- increased support to carers need not necessarily lead to reduction in statutory services for older people.
- Noted that the audit would make reference to cost and quality issues in relation to the private sector.

Action: Director of Performance Audit

Thereafter the Committee approved the approach as set out in the project brief.

6. Performance audit: follow-up report – Maintaining Scotland’s roads

The Committee considered a report by the Director of Performance Audit setting out the results of local follow-up work on the performance audit *Maintaining Scotland’s roads: a follow up report*, published in February 2011. The report also proposed a new approach to reporting what progress has been made by councils in implementing the Commission’s recommendations and to promoting the issues again across local government.

During discussion, the Committee agreed:

- To recommend to the Commission the audit update paper in relation to the performance audit *Maintaining Scotland’s roads: a follow up report*, subject to the audit team considering a number of points raised in discussion.
- To note that Graham Greenhill is an observer on the Roads Maintenance Strategic Action Group.
- The proposals on publication and promotion of the report as set out in the covering paper subject to including user groups as a primary stakeholder.

7. Performance audit: impact report – Overview of Scotland’s criminal justice system

The Committee considered a report by the Director of Performance Audit setting out details of the impact made by the performance audit report – published jointly with the Auditor General – *An overview of Scotland’s criminal justice system*, which was published on 6 September 2012.

During discussion, the Committee agreed:

- That the Director keep a watching brief on action and issues set out in the performance audit report.
- That the Director provide details of the spread of radio coverage amongst national and local radio, and that such analysis be a feature of future impact reports.
- That potential issues associated with the audit – for example in relation to victims and witnesses – be considered as part of the proposed seminar of the Commission on issues for inclusion in the performance audit programme.

Actions: Director of Performance Audit

Thereafter the Committee agreed to note the report.

8. Joint report by Accounts Commission and Auditor General for Scotland: update - Managing early departures in the Scottish public sector

The Committee considered a report by the Controller of Audit setting out a progress report on the audit of early severances in the Scottish public sector and an outline of the emerging issues.

During discussion, the Committee agreed:

- To note advice from the Controller of Audit that it was intended that the publication of this report be largely electronic.
- To note the close relationship between this report and the performance audit Scotland's public finances: workforce planning, which will be considered by the Committee at a forthcoming meeting.
- To approve the emerging messages that will form the basis of the report *Managing early departures in the Scottish public sector*, subject to the report team considering a number of points raised in discussion.
- That a draft report be submitted to the Commission.

Action: Controller of Audit

- That a Communications Officer attend the meeting of the Commission at which the report is to be discussed, to facilitate a discussion on publicity and marketing in relation to the report.

Thereafter the Committee agreed to note the report.

9. How councils work series – update report

The Committee considered a report by the Controller of Audit which provided an update on the *How Councils Work* series of reports. The report invited the Committee to note the progress made to date and consider potential topics for future reports in the series.

Following discussion, the Committee agreed:

- To recommend to the Commission that two subject areas be prioritised, namely:
 - Option appraisal
 - Charging for services
- To seek the views of the Commission on the most appropriate reporting route for the draft reports through the Commission and its committees.

10. Any other business

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

ACCOUNTS COMMISSION

MEETING 14 MARCH 2013

**MINUTES OF PREVIOUS MEETING OF FINANCIAL AUDIT AND ASSURANCE
COMMITTEE OF 28 FEBRUARY 2013**

Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of Audit Scotland, 18 George Street, Edinburgh on Thursday, 28 February 2013, at 10.30am.

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

IN ATTENDANCE: Russell Frith, Assistant Auditor General
Fiona Kordiak, Director, Audit Services
Fraser McKinlay, Controller of Audit
Paul Reilly, Secretary and Business Manager
Martin Walker, Assistant Director, Best Value and Scrutiny Improvement (BVSI) [Item 8]
Anne MacDonald, Senior Audit Manager, Audit Services Group (ASG) [Item 6]
Alasdair Craik, Senior Audit Manager, Audit Services Group (ASG) [Item 7]
Gordon Neill, Portfolio Manager, BVSI [Item 8]

1. Apologies for absence
2. Declarations of interest
3. Minutes of meeting of 29 November 2012
4. Current audit issues in councils
5. 2011/12 Local government pension Fund Accounts
6. Briefing: Aberdeen City Council local authority trading company
7. Measuring the impact of Audit Services Group work: local government, 2011/12
8. Joint report by Accounts Commission and Auditor General for Scotland: emerging messages – managing early departures in the Scottish public sector
9. Any other business

1. Apologies

It was noted that there were no apologies for absence.

2. Declarations of interest

The Committee noted a declaration of interest by Douglas Sinclair in item 5, as a member of Fife Council Pension Fund.

3. Minutes of meeting of 29 November 2012

The minutes of the meeting of 29 November 2012 were approved.

Arising therefrom, the Committee:

- In relation to item 4, second bullet point, noted advice from the Controller of Audit that the make-up of audit committees would feature in the local government overview report 2013.
- In relation to item 4, fifth bullet point:
 - Noted advice from the Director of Audit Services on the ownership of Dundee Energy Recycling Limited.
 - Agreed that the Director provide further information on the non-council share of the ownership.
- In relation to item 4, noted advice from the Controller of Audit on the data loss case in Scottish Borders Council.
- In relation to item 5, second bullet point, noted advice from the Controller of Audit that he would engage in early course with COSLA on ensuring dialogue on issues arising from the local government overview report.

4. Current audit issues in councils

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

During discussion it was agreed:

- In relation to Appendix 1 of the report:
 - to include some reference to pro-rata costs or budgets
 - to include some reference to size of ALEOs associated with each council.

Action: Director of Audit Services

- To ask COSLA to consider how to address ALEOs in its Staffing Watch initiative.

Action: Controller of Audit

- That the Controller of Audit report to the Commission on the current use of ALEOs in local government.

Action: Controller of Audit

- To note advice from the Assistant Auditor General that he would be involving the Commission in the ongoing project on the expectations of audit, which he is leading.
- In relation to paragraph 6 of the report, to note advice from the Assistant Auditor General that he would report to the Commission on the outputs from his survey of all councils on their preparedness for welfare reform.
- To note advice from the Controller of Audit that he would consider how to provide an overview of issues associated with council budget consultations.
- That the Controller of Audit provide information on the progress of the Highland Change Plan for reshaping the care of older people.

Action: Controller of Audit

- To note advice from the Assistant Auditor General that it would be intended that there would be future audit activity around the tax incremental finance initiative.

Thereafter the Committee noted the report.

5. 2011/12 Local Government Pension Fund Accounts

The Committee considered a report by the Director of Audit Services summarising information from 2011/12 Local Government Pension Scheme ('LGPS') annual reports and annual audit reports.

During discussion the Committee:

- In relation to sharing the information with stakeholders:
 - Noted advice from the Director that a member of Audit Scotland's audit strategy team would be attending the next meeting of the Scottish Local Government Pensions Advisory Group.
 - Noted advice from the Director that she would be liaising with the Local Government Directors of Finance Group.
 - Agreed that the Director give further thought to how to engage with chairs of pension authorities.

Action: Director of Audit Services

- Noted advice from the Director that information on investment management costs would be part of instructions to auditors for the next financial year.
- Agreed that the Director and Controller of Audit provide further information on the number of admitted bodies in each local government pension fund.

Action: Director of Audit Services and Controller of Audit

Thereafter the Committee noted the report.

6. Briefing: Aberdeen City Council local authority trading company

The Committee considered a report by the Director of Audit Services providing a briefing on Aberdeen City Council's plans to establish a local authority trading company for adult social care services.

During discussion the Committee noted advice from the Director that since the report was drafted, the council have approved the plans.

Thereafter the Committee noted the report.

7. Measuring the impact of Audit Services Group work: local government, 2011/12

The Committee considered a report by the Director of Audit Services advising of the impact Audit Scotland's Audit Services Group has had as a consequence of audit work conducted on the 2011/12 financial statements of local government in Scotland.

During discussion the Committee:

- Agreed that the report be submitted to the Commission for its interest.

Action: Director of Audit Services

- Agreed that the Director and Controller of Audit consider how to compile such information for all auditors of local government.

Action: Director of Audit Services and Controller of Audit

- Noted advice from the Controller of Audit that issues associated with the Prudential Code for Capital Finance would be part of the local government overview report 2013.

Thereafter the Committee noted the report.

8. Joint report by Accounts Commission and Auditor General for Scotland: update report on managing early severance in the Scottish public sector

The Committee considered a paper by the Controller of Audit providing an update of progress on the audit of early severances in the Scottish public sector and an outline of the emerging issues.

During discussion the Committee:

- Noted advice from the Chair that the Performance Audit Committee had approved the emerging messages and agreed that a draft report be submitted to the Commission.
- Endorsed the emerging messages.

Thereafter the Committee noted the report.

9. Any other business

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

ACCOUNTS COMMISSION

MEETING 14 MARCH 2013

REPORT BY THE CONTROLLER OF AUDIT

UPDATE REPORT

Introduction

1. The purpose of this regular report is to provide an update to the Commission on significant recent activity in relation to the audit of local government.
2. It is intended to complement the intelligence reports to the Financial Audit and Assurance Committee, which provide a more detailed update on issues arising in local government.
3. The most recent such report was at the Committee meeting of 28th February 2013.

Local government issues

Shared Risk Assessment

4. The chief officers of each of the scrutiny bodies met at a national round table meeting on 6th March. The meeting considered the draft national scrutiny plan and an analysis report setting out the key features underpinning work proposals in the plan. This reflects the successful delivery of Assurance and Inspection plans for each council.

Current activity in local government

5. The Scottish Government has announced a £9.9 billion funding settlement for local authorities for 2013/14..This is a 0.2% decrease in cash terms relative to the 2012/13 budget, or a 2.2% decrease in real terms. Local authorities are committed to deliver two specific commitments:
 - freezing council tax at 2012/13 levels, for which £70m has been allocated, and
 - maintaining teachers numbers in line with pupil numbers and securing places for all probationers under the teacher induction scheme, for which £39m has been allocated.
6. Council plans for capital expenditure to report progress on good progress on a number of ambitious projects such as the Dundee Waterfront. But some councils, including East Dunbartonshire, Edinburgh, Comhairle Eilean Siar, and Fife council are experiencing difficulty with capital investment in schools because of delays in processes covering estate rationalisation.
7. I attended the recent COSLA conference. The conference's theme was two specific challenges facing Scottish local government:
 - dealing with of the outcome of the referendum vote in 2014; and
 - continuing to manage increased demand and diminishing resources.

8. SOLACE announced its new benchmarking project for local government in Scotland on 7 March 2013. Its purpose is to help councils understand their performance and how other comparable authorities achieve their results.
9. The Improvement Service (IS) has introduced an Economic Outcomes programme to help Councils and Community Planning Partnerships (CPPs) draw up new Single Outcome Agreements and Prevention Plans. The programme allows the Service and the Scottish Government to work with the councils and CPPs to maximise economic impact. It offers practical and hands-on support to help councils and partnerships implement the key messages of the Economic Development Improvement Guide.
10. The IS has also launched a Community Profiler tool to help highlight the different outcomes experienced by communities across Scotland. It provides data on communities within each Scottish local authority/Community Planning Partnership area. The primary focus of the tool is to assess life outcomes for the most and least deprived neighbourhoods using a selection of indicators including:
 - income deprivation
 - employment deprivation
 - S4 tariff scores
 - crime
 - child poverty
 - emergency hospital admissions and
 - life expectancy
11. David Anderson the Chief Executive of South Ayrshire Council is to retire on 22nd May.
12. Frances Elliot is leaving her post as Chief Executive of Health Improvement Scotland is leaving to take a post in the Scottish Government. John Glennie, a former Chief Executive of NHS Borders will take over as interim Chief Executive.
13. Fife Council has advertised for a new Chief Executive to replace Ronnie Hinds and, following an organisational review, Stirling Council is advertising for a new Deputy Chief Executive.
14. George Graham, QPM is to be appointed Her Majesty's Inspector of Constabulary (HMIC) for Scotland. Mr Graham, Chief Constable of Northern Constabulary, has been appointed following an open competition and succeeds Andrew Laing who has retired from the post. A similar process is under way to appoint a Chief Inspector of Fire and Rescue Services when Steven Torrie's current term of office comes to an end
15. The Care Inspectorate is introducing a number of changes to its senior management. The first appointment in that process is the announcement that Robert Peat, former Director of Social Work director at Angus Council as the new Director of Inspection.

Other Audit Agencies

Wales Audit Office

16. The Auditor General for Wales has published a report on public participation in recycling in Wales. It found that recycling rates in are increasing, with more members of the public taking part but that longer-term improvements are being hindered by substantial barriers and weaknesses in the way performance is measured

17. With the overall recycling rate in Wales at 43.6 per cent, local authorities have made steady progress in meeting targets for waste. They now provide a range of facilities and services that give residents the opportunity to reuse, recycle and compost more of their rubbish. Recycling is increasingly a part of normal daily life for many citizens.

Northern Ireland Audit Office

18. The Comptroller and Auditor General, for Northern Ireland has published a report on literacy and numeracy achievement in schools. It found that the proportion of children achieving established targets for stages of literacy and numeracy learning had increased slowly since 2006. It noted, however, that unacceptably large numbers of pupils are failing to achieve even minimal levels in literacy and numeracy.

Other major reports

Health and Social Care Integration: Scottish Government response to consultation

19. The Scottish Government published its response to its consultation on its proposals for health and social care integration. The paper describes Ministers' thinking with regard to the Bill that will be introduced to the Scottish Parliament later in 2013. The Secretary and Business Manager has circulated copies of the report to Commission members. The Director of Performance Audit will report to the Commission in this regard at its next meeting.

Francis report: Mid Staffordshire Hospital Trust

20. The Francis report on the enquiry into Mid Staffordshire Hospital Trust was published in February. Although the report is primarily about the clinical performance at a hospital, a number of its findings highlight the need for good governance and the importance of external scrutiny. An extract from the report's executive summary covering sections on the Board and External Organisations is attached in the Appendix. These re-emphasise the need for important management controls that are frequently highlighted in reports to the Commission such as:

- the need to follow through where scope for improvement is recognised
- the importance of proper scrutiny by a board of management; and
- the value of high quality scrutiny

Conclusion

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

Fraser McKinlay
Controller of Audit
6 March 2013

Extracts from the Executive Summary of the Francis report on Mid Staffordshire Healthcare Trust

Governance

In 2002, the Commission for Health Improvement (the predecessor of the HCC) reported that the Trust lacked effective clinical governance. This had not been corrected by the beginning of the period under review. The new Chair who arrived in August 2006 understood this deficiency existed and the need to remedy it. Part of her solution was to pursue Foundation Trust status as a driver for improvements in governance. The structure had several layers of management between divisional governance groups and the Board. The Medical Director and the Director of Nursing were the only two routes through which clinical or nursing concerns were likely to reach the Board. Higher level committees focused on financial matters and did not appear to have been receiving or addressing clinical issues as a priority.

Clinical audit was poorly developed at the Trust. Many individual clinicians were reluctant to engage in it and there was a lack of resources and support for those who did.

Incident reporting systems were criticised by many staff, in particular because of the lack of feedback and because reports attributing incidents to staffing issues were perceived to be discouraged. These factors led some staff to be reluctant to file incident reports. There was, at least for a time, a lack of clarity about the requirements for filing a serious untoward incident report. The Inquiry found evidence that a number of deaths which led to inquests had not been reported in this system when they should have been.

The investigation of complaints was frequently delegated to staff in the area with which the complaint was concerned. This could result in defensive rather than constructive reports which lacked credibility with complainants who perceived them to lack impartiality. Replies to complaints were often provided too slowly and did not always address all the issues raised. There was a formulaic approach which appeared to value process over substance. Apologies when offered were not always well thought out. Staff who were the subject of complaints did not always have the full details put to them, devaluing any investigation.

A particularly disturbing feature of the complaints process was that the Trust often did not apply effective remedial action. This is evidenced by a series of complaints raising similar issues in which the response each time was an action plan which, if implemented, would have avoided a subsequent incident. It is difficult to understand how the Chief Executive, if he read the complaints, could have been unaware of systemic failings in the delivery of care. Some letters acknowledged multiple failings. There is no evidence that the substance of complaints were reported to the Board. If they had been told of some of the experiences of those who complained, they would not have been as shocked as they were when finally members of Cure the NHS were able to speak to them directly.

A poor complaints system has a negative impact on the patients and others who seek to use it. Inadequate responses cause distress and may exacerbate bereavement. Complainants are left desperate for answers to their questions. While the Board received reports of themes of

complaints, these were too broad to be informative. With a serial filtering of information with no involvement from non-executive directors, the Board was distanced from the reality of complaints.

Appraisal and professional development were accorded a low priority, as indicated by national surveys. There was evidence that staff were not supported by a robust appraisal system and that continuous professional development was sporadic. There was also evidence of a reluctance to take robust disciplinary action where this appeared to be needed. Concerning cases of alleged misconduct and deficient performance have either not been addressed at all or only in a hesitant manner. This is starkly evidenced by two Royal College of Surgeons' reviews of the hospital's surgical division and the dysfunction brought to light by them.

The few instances of reports by whistleblowers of which the Inquiry was made aware suggest that the Trust has not offered the support and respect due to those brave enough to take this step. The handling of these cases is unlikely to encourage others to come forward, and the responses to the investigation of the concerns raised have been ineffective.

The Board

The Inquiry examined the experience of Board members during the period under review together with their explanations of what happened and their reactions to the HCC report. It also examined the process leading up to the departure of the Chair and Chief Executive in March 2009. It was noted that the non-executive directors recruited by the Trust were on the whole inexperienced in NHS board positions. While this may be inevitable in a relatively small trust, it does give rise to a need to call on more training or outside assistance.

The codes of conduct and guidance for directors make it clear that their duty is to provide strategic direction and that they should refrain from intervening in operational detail, but that they are collectively accountable for all aspects of the performance of the Trust. The Board may have interpreted the division between the strategic and the operational too rigidly, particularly at a time when they were aware that there were serious deficiencies in the governance structure. They may have failed to understand that in such circumstances there will be many instances when a non-executive director can only understand the issues by being informed of operational detail.

The styles and characteristics of various Board members may help to explain how they functioned as a group. The Chair throughout the relevant period was a strong leader with a clear vision admired by her colleagues. The clinicians taking the role of medical director were reluctant recruits to part-time posts. They may have been handicapped in presenting the professional view to the Board by the disinclination of consultants to engage with management issues. They were not natural leaders and lacked an external perspective which might have alerted them more readily to issues about standards. The registered nurse who had the post of Director of Clinical Standards was unpopular with staff and lacked the confidence of the Chair and was replaced. Her successor may have had a disadvantage in coming from a trust which would have offered fewer challenges and greater support. She was able, however, to demonstrate to the Inquiry that she was conscientious and able to work out what needed to be done, although she may have found prompt implementation difficult to achieve. The Director of Operations gave an impression of

having focused on individual tasks, such as the achieving of targets, at the expense of leading the overall operation of the Trust.

The non-executive directors, including the Chair, had an appreciation that there were serious deficiencies in certain areas of the Trust's operation. The Chair provided a list of them to the Inquiry. The other non-executives supported her to set about remedying these by the replacement of the Chief Executive. Likewise, the Director of Nursing who arrived in December 2006 appreciated that there were serious nursing issues to be addressed. In spite of that appreciation, too often the initiation of a process such as the appointment of a new chief executive or the setting up of a new governance structure was regarded as sufficient and the executive could then be left to get on with things. Remedial action has often not been pursued with the vigour and urgency warranted by the situation.

The Inquiry examined the clinical floors project and the Board's management of this issue. The Board approved this without an adequate examination of the implications. While placing reliance on the advice of the Executive Director who was the architect of the project, little attention was paid to any other opinion, and little attempt was made to engage front-line staff. There was no adequate impact or risk assessment and, once set in motion, no proactive assessment of how it was working. Their approach was symptomatic of a passive style from which challenge and engagement with the key issues was absent.

With regard to the Board's approach to workforce reduction, this was agreed at a time of maximum financial pressure when there may have been no alternative to staff cuts. However, assurances were too readily accepted as to the safety of the proposals and there was little challenge evident. When the deficiencies were appreciated as a result of the commencement of the skill mix review, this was not progressed with the speed required by the circumstances.

The application for Foundation Trust status was pursued by the Board in part as a means of furthering the need for improvement in governance structures rather than ensuring that the Trust was in a genuinely fit state for the application before embarking on it. There may have been external encouragement to seek Foundation Trust status, but it remained the Board's duty to ensure that it was an appropriate step to take. The pressures of the process are likely to have distracted the Board from other tasks. The Inquiry does not accept that the Board set out to deceive anyone with the application, but their declarations in relation to the quality of care provided at the Trust revealed a profound misunderstanding of their responsibilities. The focus seems to have been on processes not outcomes.

The Board did not engage with the public as it should have done; in particular, it conducted more business than was appropriate in private. The Board's reaction to the HCC report was individually and collectively one of denial instead of searching self-criticism. The most common reaction among directors was that the report was unfair because it did not adequately reflect the progress that had been made. During the investigation itself, a degree of complacency was shown and there continued to be a lack of urgency in seeking solutions to the problems identified.

Although the Chief Executive between January 2005 and March 2009 was not medically fit to attend the Inquiry, documentary material was obtained from which his response to the criticisms of the HCC report could be gleaned, as could the process leading to his departure from the Trust. He asserted that he had been appointed to a failing trust and had achieved a turnaround of the organisation by putting in place a sustainable future, robust governance, and improving quality and standards of care. He considered that the high mortality figures were attributable to coding issues, and that skill mix issues had been identified and were being addressed. Acknowledging that there was work to do, he described the Trust's culture as being inwardly focused and complacent, resistant to change and accepting of poor standards. He considered the HCC report to be unfair. Whatever Mr Yeates may have believed at the time of his departure, in reality the issues raised in this report had not been remedied. He focused on systems, not their outcomes. There was a need for senior management to be deeply involved in service delivery until they could be satisfied that the systems were actually working. He did successfully get to grips with some issues, but the concerns described by both him and his Chair were largely the same as those discerned by the current Chief Executive on his arrival. This does not suggest a successful period of management.

The Chair was asked to leave by the Chair of Monitor on the publication of the HCC report. While such a termination is efficient in the sense that it allows the Trust to move on under new management, it is unsatisfactory that there is no process of accountability which allows for a fair determination of the performance of the individual as against the standards and codes of conduct to be expected of someone in such an important public position.

The Chief Executive stepped aside before being formally suspended by the Board which then commissioned an external report into his performance. Although the report recommended that there was a prima facie case for disciplinary action, the Board decided on pragmatic and commercial grounds to negotiate terms for an agreed departure. The result was that the Chief Executive was also forced out of office without any determination of whether his own performance was in breach of any relevant standards or the code of conduct. There was no public accountability of the type that would be expected in the case of, for instance, a doctor.

External organisations

The Inquiry has received a considerable number of representations that there should be an investigation into the role of external organisations in the oversight of the Trust. Concern is expressed that none of them from the PCT to the Healthcare Commission, or the local oversight and scrutiny committees, detected anything wrong with the Trust's performance until the HCC investigation. While such an investigation is beyond the scope of this Inquiry, local confidence in the Trust and the NHS is unlikely to be restored without some form of independent scrutiny of the actions and inactions of the various organisations to search for an explanation of why the appalling standards of care were not picked.

ACCOUNTS COMMISSION

MEETING 14 MARCH 2013

REPORT BY CONTROLLER OF AUDIT

HOW COUNCILS WORK SERIES – PROGRESS AND FUTURE TOPICS

Purpose

1. This paper updates the Committee on the *How Councils Work* (HCW) series of reports, invites the Commission to note the progress made to date, and invites the Commission to consider the recommendations by the Performance Audit Committee on the potential topics for future reports in the series.

Background

2. The *How Councils Work* series began in 2010. Its aim was to use existing audit evidence to inform the sector on important issues and promote good practice.
3. On 28 February the Performance Audit Committee considered an update report on the *How Councils Work* series of reports.
4. The report, attached as appendix 1, summarised the reports published to date:
 - *Roles and working relationships: Are you getting it right?* – published in August 2010
 - *Arms length external organisations: Are you getting it right?* – published in June 2011
 - *Using cost information: are you getting it right?* – published in May 2012
 - *Performance Management and Improvement: Are you getting it right?* – published in October 2012
5. The report also identified a number of potential topics for future reports in the series.
6. The Committee agreed:
 - To recommend to the Commission that two subject areas be prioritised, namely:
 - Option appraisal
 - Charging for services
 - To seek the views of the Commission on the most appropriate reporting route for the draft reports through the Commission and its committees..
7. At its meeting on 14th February the Accounts Commission also agreed that the good practice guide which accompanies the *Major capital investment in councils* report should be published as part of the HCW series.

8. The reports have been well received, as evidenced by the media coverage, download statistics and invitations for the Commission members and Audit Scotland staff to give evidence at parliamentary committees and speak at events.

Proposed reports

Options appraisal and shared services

9. Councils are providing services through a variety of service delivery vehicles including shared services, ALEOs and outsourced contracts. This report could consider the range of vehicles being used and highlight the need for robust options appraisal to inform decision making.
10. The report could reinforce and develop some of the key messages in the Commission's submission to the Local Government and Regeneration Committee strand 3 inquiry into 'public sector reform and local government in Scotland which is considering 'developing new ways of delivering services'. It can also draw from the three Community Planning Partnership Audit reports, the HCW ALEOs report and the report on shared services the Commission considered in November 2012. The report could also consider examples of good practice from outside of Scotland.

Charging for services

11. The Commission agreed that this subject be moved from the rolling programme of national performance audits to the HCW series. The report could explore the range of services which councils charge for, the level and basis of the charges being made and promote good practice.
12. The report will be able to draw from the scoping work carried when the subject formed part of the national performance audit series. However, this work was done some time ago and it is likely that this report will require more primary audit work compared to other reports in the HCW series to date.

Recommendations

13. The Commission is invited to:
 - Consider the recommendation of the Performance Audit Committee that these reports form the next two reports in the HCW series
 - Invite the Controller of Audit to develop project briefs for the work
 - Consider the most appropriate reporting route for the draft reports through the Commission and its committees.

Fraser McKinlay
Controller of Audit
6 March 2013

ACCOUNTS COMMISSION

PERFORMANCE AUDIT COMMITTEE

MEETING 28 FEBRUARY 2013

REPORT BY CONTROLLER OF AUDIT

HOW COUNCILS WORK SERIES - PROGRESS

Purpose

14. This paper updates the Committee on the *How Councils Work* (HCW) series of reports, invites the Committee to note the progress made to date, and invites the Committee to consider potential topics for future reports in the series.

Background

15. In 2009, the Commission agreed, on the recommendation of the Committee, to the first themed areas for reports in a new series – later named the *How Councils Work* series.
16. The reports are produced under the Commission's powers to conduct comparative studies for the purpose of making recommendations on the economy, efficiency and effectiveness with which public bodies are using their resources. The reports are not directed at individual audited bodies. The aim is to use existing audit evidence to stimulate change and improve performance across all councils.
17. The HCW series produces short reports that focus on common themes arising from Best Value, annual audit and performance audit work. The reports have a particular emphasis on best value and resource management issues, these being two key elements of continuous improvement and successful service delivery by councils.
18. Increasingly the reports have been structured in a way which aims to support elected members in councils to provide constructive challenge and scrutiny.

Progress on the series

HCW1 – Roles and working relationships: Are you getting it right?

19. The first report in the series –*Roles and working relationships: Are you getting it right?* - was published in August 2010. This examined how well councillors and officers work together, how well councillors and officers understand their respective roles and responsibilities, and how the roles, responsibilities and relationships between councillors and officers contribute to achieving best value.
20. Given the style of these reports and the intended audience, we did not anticipate significant media interest. However, when the first report was published there was interest from national and local press and from broadcast media.
21. In the first two months of publication the report was downloaded from our website 1056 times and the podcast was downloaded 354 times. In the full first year since publication

(from August 2010 to August 2011), the *Roles* report was downloaded a total of 3118 times, and the podcast 1667 times, both higher than what we had originally expected..

HCW2 - Arms length external organisations: Are you getting it right?

22. The Commission agreed that the second report in the series would build on the themes of governance and accountability addressed in the first report, but with a specific focus on the governance and accountability issues that need to be considered when councils use arms-length external organisations (ALEOs) to deliver services. '*Arms length external organisations: Are you getting it right*' was published in June 2011.
23. The response to the ALEOs report was positive. In October 2011 the Commission's Depute Chair, supported by Audit Scotland staff, provided a briefing to the Scottish Parliament's Public Audit Committee based on the ALEOs report.
24. In the first two months of publication the report was downloaded 820 times, and the podcast downloaded 37 times. In the first full year since publication, the report was downloaded 2,793 times, while the podcast was downloaded 220 times.

HCW3 - Using cost information: are you getting it right?

25. The third report in the series '*Using cost information: are you getting it right?*' was published in May 2012. It highlighted that many of our audit reports have found that councils need to make better use of cost information, and aimed to help councils gain a better understanding of their cost information to help them demonstrate effective value for money.
26. To promote this report, we produced an A5 'flyer' to increase awareness of the report. We had 1600 flyers produced and distributed these to councils and other potentially interested parties.
27. In June 2012 the Commission's Chair, supported by Audit Scotland staff, provided a briefing on the *Costs* report to the Scottish Parliament's Local Government and Regeneration Committee.
28. There was good media coverage of the report. In the first two months of publication, the report was downloaded 512 times and the podcast downloaded 22 times. In the period from publication to the end of December 2012, the report was downloaded from our web site 1,568 times, while the podcast was downloaded 196 times.

HCW4 - Performance Management and Improvement: Are you getting it right?

29. The fourth, and most recent, HCW report '*Performance Management and Improvement: Are you getting it right?*' was published in October 2012. This report focused on helping councils improve their performance management arrangements, and highlighted that effectively managing performance and improvement helps councils demonstrate that they are delivering efficient and effective services to communities.
30. To promote this report we again produced a 'flyer' to increase awareness of the report. This flyer was targeted at elected members and highlighted key issues for them when considering performance.
31. In the two month period from publication to December 2012, the report was downloaded 2,242 times, with the podcast downloaded 58 times. This is significantly higher than the average for our other reports in their first two months of publication. This may be to do

with the appeal of this particular topic, especially for newly elected councillors. It may also have been because of the higher level of media interest the report achieved.

32. The Audit Scotland team have also been asked to present the report at Dumfries and Galloway council's Audit and Scrutiny Committee on the 14th March.
33. More generally, our monitoring of the download statistics also suggests that there was a renewed interest in all of the reports following the local government elections in May 2012. This indicates that the reports were used to inform the induction and training of elected members.

Future reports in the series

34. At its meeting on 14th February the Accounts Commission agreed that the 'Major Capital Investment in Councils' report should be published as part of the HCW series.
35. The Committee has previously noted that themes that may be suitable for future reports in the series are identified through a range of audit work and other sources, including, for example:
 - 'Issues recurring in reports on Best Value audits and local audit issues (and in the Commission's findings on such reports);
 - Issues recurring in local annual audit reports or in the regular 'Current issues in councils' reports considering by the Financial Audit and Assurance Committee;
 - Issues arising from the Shared Risk Assessment process;
 - Key points arising from performance audits or overview reports;
 - Other sources of intelligence about the local government environment, including correspondence.'
36. The Committee has also previously discussed specific potential topic areas for future reports, these include:

Subject area	Comments
Council's approaches to Public Performance Reporting	This report could examine how councils are responding to the 2003 Act in the context of the 2012 SPI Direction agreed by the Commission in December.
Charging for services	The Commission agreed that this subject be moved from the rolling programme of national performance audits to the HCW series. The report could explore the range of services which councils charge for and level and basis of the charges being made.
Partnership working	Since this subject was originally identified we have developed our approach to CPP audits and we should reconsider the need for a HCW report in this context.
Shared services and options appraisal	Councils are providing services through a variety of service delivery vehicles including shared services, ALEOs and outsourced contracts. This report could consider the range of vehicles being used and highlight the need for robust options appraisal to inform decision making.
Political governance and decision-making structures	Councils use a variety of political management arrangements including executive/ cabinet models through to more traditional policy & resources and service committees. This report could summarise the models being used by councils and identify good practice examples.
Borrowing and use of the	The Commission's 2013 Local Government Overview

Subject area	Comments
Prudential Code	report identifies the wide variation in the level of indebtedness across councils. The report calls for the LG sector to explore the reasons for the variation and for a review of the prudential code. We could follow up on this through a HCW report at a future date.
Update report on the Commission's 'following the public pound' reports	The Commission first reported on the importance of following the public pound in March 2004 and published an update report in 2005. A report in the HCW series would offer an opportunity to re-visit this area. This offers an alternative to, or a useful 'partner report' on the shared services report noted above.

37. The Committee will be aware that a combination of best value audit work in councils, statutory reports and the CPP audits will most likely present a challenging work-plan for 2013/14. In this context I propose to report back to the Committee with project briefs and proposed timescales for future reports in this series based on the priorities decided by the Committee.

Conclusion

38. The Committee is invited to consider this report and, in particular, to:

- note the progress with the *How Councils Work* series;
- discuss preferences and prioritise what the next subject(s) in the series should be
- note that I will report back to the Committee with project briefs and timescales.

Fraser McKinlay
Controller of Audit
20 February 2013

ACCOUNTS COMMISSION

MEETING 14 MARCH 2013

REPORT BY SECRETARY AND BUSINESS MANAGER

**MEASURING THE IMPACT OF AUDIT SERVICES GROUP WORK:
LOCAL GOVERNMENT, 2011/12**

Purpose

1. This paper aims to inform the Commission of the impact Audit Scotland's Audit Services Group has had as a consequence of audit work conducted on the 2011/12 financial statements of local government in Scotland.

Background

2. At its meeting on 28 February 2013, the Financial Audit and Assurance Committee considered the attached report by the Director of Audit Services advising of the impact Audit Scotland's Audit Services Group has had as a consequence of audit work conducted on the 2011/12 financial statements of local government in Scotland.
3. The Committee:
 - agreed that the report be submitted to the Commission for its interest.
 - agreed that the Director and Controller of Audit consider how to compile such information for all auditors of local government.
 - noted advice from the Controller of Audit that issues associated with the Prudential Code for Capital Finance would be part of the local government overview report 2013.

Thereafter the Committee noted the report.

Conclusion

4. The Commission is invited to consider the attached report.

Paul Reilly
Secretary and Business Manager
6 March 2013

ACCOUNTS COMMISSION

FINANCIAL AUDIT AND ASSURANCE COMMITTEE

MEETING 28 FEBRUARY 2013

REPORT BY DIRECTOR OF AUDIT SERVICES

**MEASURING THE IMPACT OF AUDIT SERVICES GROUP WORK:
LOCAL GOVERNMENT, 2011/12**

Purpose

5. This paper aims to inform the Financial Audit and Assurance Committee of the impact Audit Scotland's Audit Services Group has had as a consequence of audit work conducted on the 2011/12 financial statements of local government in Scotland.

Background

6. This report has been compiled in a fashion consistent with the previous quarterly report which covered the 2011/12 Health audits. Consequently the source of this material is the Reports to Members of the 19 councils audited by ASG.

Findings

7. To better demonstrate the range of impact identified, the matters arising included in Reports to Members have been categorised using the Management Team's four audit priorities:
 - financial sustainability
 - transparency
 - value for money
 - leadership and governance.
8. 151 action points have been recommended to 19 councils as a result of the 2011/12 audits, all of which were accepted by management. The action points will be followed up during to 2012/13 audits.

Looking ahead

9. Whilst the current format of reporting has proved beneficial to ASG we recognise that the process does not capture softer intelligence about the impact we have had. In response to Management Team discussions on Impact in December 2012, ASG Impact Group have prepared a paper with a proposed way forward. This has been discussed at ASGMT and has been submitted for discussion at the next meeting of the Corporate Impact Group.

Recommendation

10. The Financial Audit and Assurance Committee is invited to note the content of the report ASG – Review of impact, Quarter 3, 2012/13 which is attached.

Fiona Kordiak
Director, Audit Services
19 February 2013

Audit Services Group

Review of impact

Quarter 3, 2012/13

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Introduction

1. Management team has approved a new methodology for measuring and reporting impact. All business groups have adopted a corporate impact framework to plan, report and assess responses to their audit work. A four category model sets out the broad areas where we expect our work to have an impact. Impact reports are to be produced quarterly for consideration by Management Team. This is the second of those new quarterly reports as produced by Audit Services Group (ASG).

Approach to impact in Audit Services Group

2. ASG intend to match the reporting deadlines of their work to respective quarters, i.e. focus on Health, Local Government and Central Government in the September, December and March quarters respectively. This is because the annual reports for Health audits are submitted in July, and the Local Government audits in October. This is a new and evolving process, however, and whether this meets the needs of Management Team and is an effective way to gather information, will be subject to continuous review.

Key statistics from reports

3. An Action Plan is appended to each Report to Members, detailing each key risk and obliging management to submit a response as to whether they agree that there is a risk, and how they will address it going forward. The number of action plan points in the 2011/12 Reports to Members, and the number and percentage accepted is recorded in the following table.

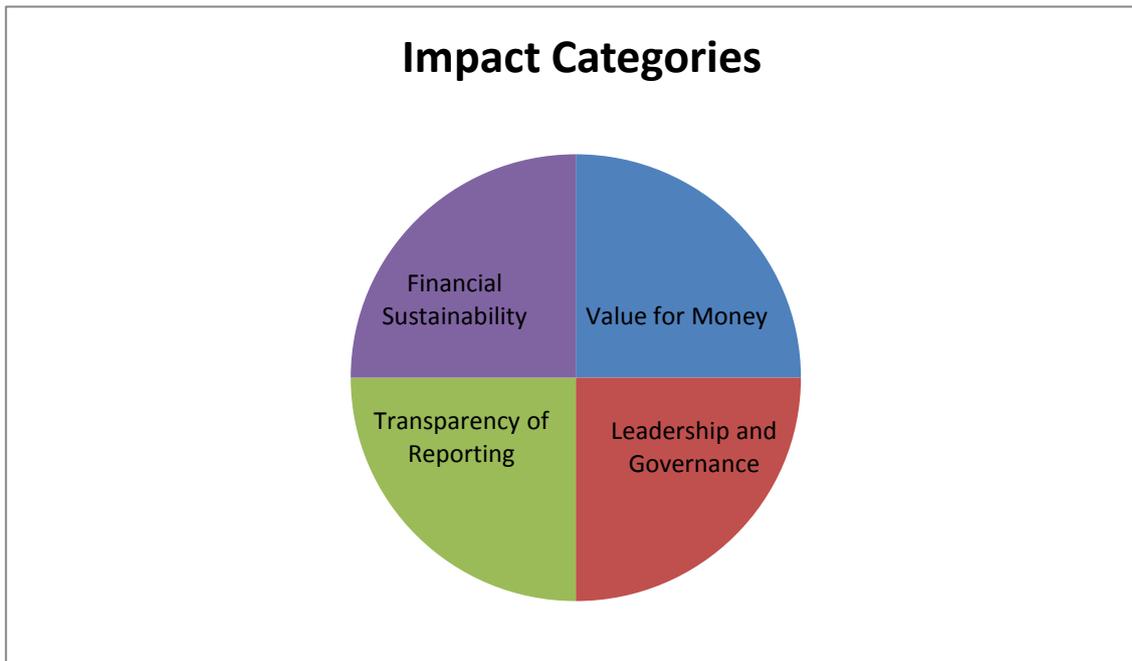
Council	Action Plan Recommendations	No. Accepted
Aberdeen City Council	5	5
Angus Council	5	5
Argyll & Bute Council	5	5
City of Edinburgh Council	15	15
East Ayrshire Council	6	6
East Dunbartonshire Council	11	11
East Renfrewshire Council	3	3
Falkirk Council	8	8
Fife Council	7	7
Glasgow City Council	10	10
Highland Council	5	5

Council	Action Plan Recommendations	No. Accepted
North Ayrshire Council	9	9
Orkney Islands Council	6	6
Perth and Kinross Council	10	10
Renfrewshire Council	3	3
Shetland Isles Council	8	8
South Ayrshire Council	20	20
West Dunbartonshire Council	12	12
West Lothian Council	3	3
TOTAL	151	151
% of recommendations accepted		100%

- Auditors follow-up recommendations as part of the following year's audit to determine whether they have been satisfactorily implemented.

Nature of the impact made

5. The corporate impact categories are:



6. The issues reported in the reports to members fall under the following categories:

Impact category	Key issues
Financial Sustainability	29
Value for Money	34
Transparency of Reporting	31
Leadership and Governance	57
Total	151

7. There were common findings across the Local Government audits, as well as findings specific to particular councils. A few examples of common themes against the four impact categories are considered below.

8. From reports to members:

Detail	Outcome (impact)	No. of Councils specific point raised
Financial Sustainability		
<p>Financial Pressures <u>Glasgow City Council example</u> The council's recent budget forecasts estimate that there will be a funding gap of £48.8 million for the years 2013/14 and 2014/15.</p>	<p><u>Glasgow City Council example</u> The council will consider the impact of efficiency savings to meet this gap and the impact of corporate objectives as part of the 2013/14 budget process.</p>	10
<p>Road Maintenance <u>North Ayrshire Council example</u> The roads condition index, as measured in 2011/12, indicated that 43.8% of the road network should be considered for maintenance treatment.</p>	<p><u>North Ayrshire Council example</u> The council has prepared a draft Roads Investment Plan to assist with providing long-term funding estimates enabling the production of a long-term investment strategy.</p>	6
<p>Cost of Borrowing <u>City of Edinburgh Council example</u> The annual cost of borrowing continues to put pressure on the Council's budget setting process which is already seeking to deliver savings to meet future funding gaps.</p>	<p><u>City of Edinburgh Council example</u> The council will review and update the long-term financial plan on an on-going basis and incorporate provision for approved additional loan charges. Affordability of any additional capital investment will be considered within the financial planning and overall budget strategy.</p>	3
<p>Capital Receipts <u>East Dunbartonshire Council example</u> A number of anticipated capital receipts have been rescheduled and revalued downwards.</p>	<p><u>East Dunbartonshire Council example</u> The council will continually monitor, revalue and reschedule the timing and value of capital receipts. Any impact on value will be fed into the capital programme to aid management within available resources.</p>	3
<p>Equal Pay Claims <u>Falkirk Council example</u></p>	<p><u>Falkirk Council example</u> The council has set aside a provision to</p>	4

Detail	Outcome (impact)	No. of Councils specific point raised
A significant number of equal pay claims have been received for compensation. The ultimate cost to the council remains uncertain.	deal with Equal Pay Claims based on the best evidence available at this time. The position will be subject to continual review and the adequacy of the provision assessed accordingly.	
Workforce Reduction <u>Angus Council example</u> The council should prepare a costed workforce reduction plan including options for early release/early retirement when the impact of management restructuring becomes clearer.	<u>Angus Council example</u> The council will be reporting to members on the cost and funding implications as the restructure progresses.	7
Investment Income The medium term financial plan (MTFP) includes a number of challenging financial assumptions, particularly the level of investment income.	The council will review the assumptions within the financial plan on an annual basis and updated to take account of any developments. Financial monitoring has been build into the MTFP to assess progress to ensure that action is taken on any deviation from plan.	Shetland Isles Council
Value for Money		
Shared Services <u>East Dunbartonshire Council example</u> Potential shared service opportunities with neighbouring local authorities that are being explored are still at the planning stage with tangible benefits still to be realised.	<u>East Dunbartonshire Council example</u> A range of shared services opportunities are being considered. Viable options for improving service performance or cost efficiency will be pursued subject to agreement by Council.	2
Procurement <u>North Ayrshire Council example</u> The Scottish Government has set an expectation that councils will achieve a 50%	<u>North Ayrshire Council example</u> The council has set a target score of 46% for the 2012 assessment as a stepping stone towards the 50%.	3

Detail	Outcome (impact)	No. of Councils specific point raised
<p>'improved performance' rating in the 2012 Procurement Capability Assessment. This is required to be achieved by March 2013.</p>		
<p>Performance <u>Fife Council example</u> Although performance information reflects an improving overall performance, there remains a significant number of deteriorating performance indicators.</p>	<p><u>Fife Council example</u> A new council plan and scorecard are being put in place to reflect the objectives of the new administration. Performance indicators will be reviewed as part of this.</p>	9
<p>Workforce Planning <u>Shetland Isles Council example</u> The medium term financial plan will impact on the council's workforce with a possible detrimental impact on service delivery.</p>	<p><u>Shetland Isles Council example</u> The council will ensure the consultation and consideration of plans and reviews and impact on staff are addressed. A new People Strategy will provide overarching framework for workforce planning.</p>	7
<p>Significant Trading Operations While the Significant Trading Operations (STOs) have achieved surpluses in the current year, plans for delivering improvements in these services have yet to be fully developed.</p>	<p>Action plans for the STOs that did not meet the statutory target to break even over a rolling three year period are being prepared by management as part of overall internal improvement plans.</p>	City of Edinburgh Council
<p>Trams The tram project is very complex and until it is completed in 2014 there remains a risk of being adversely impacted by unforeseen events. Also, only</p>	<p>Progress on the tram project is being kept under close review by revised governance arrangements. A plan to dispose of surplus tram vehicles is being put in place.</p>	City of Edinburgh Council

Detail	Outcome (impact)	No. of Councils specific point raised
14 of the 27 trams ordered will be operationally required. The Council is currently examining disposal strategies for the remaining fleet.		
Transparency of Reporting		
Annual Governance Statement <u>Falkirk Council example</u> With regards to the Annual Governance Statement, no direct assurances are sought from the management of subsidiary organisations for local governance arrangements.	<u>Falkirk Council example</u> The council intend to seek assurances from the subsidiary organisations as part of the 2012/13 Annual Accounts preparation.	5
Common Good <u>North Ayrshire Council example</u> The council should review title deeds on all assets at the point of disposal to identify potential common good assets.	<u>North Ayrshire Council example</u> The council will carry out a review of all title deeds during 2012/13 to ensure that the common good asset register is complete. The review will consider the LASAAC guidance in determining ownership.	5
Performance Disclosure <u>Orkney Islands Council example</u> The council should ensure that they have systems capable of providing the data required for their key performance indicators.	<u>Orkney Islands Council example</u> The council are putting a performance management system in place that will enable the production of the data required for key performance indicators.	3
Trust Funds From 2013/14 the agreement between the East Dunbartonshire Council, West Dunbartonshire Council and East Renfrewshire Council	Arrangements for the administration of Trust Funds will be reviewed and changes will be made to ensure compliance with OSCR's requirements.	3

Detail	Outcome (impact)	No. of Councils specific point raised
relating to the independent examination of Trust Funds will no longer satisfy OSCR's requirements.		
Actuarial Assumptions The Council did not confirm that 2011/12 actuarial assumptions relating to pension costs reflected local circumstances and experience.	The council have agreed that actuarial assumptions will be reviewed and discussed with the actuaries in 2012/13.	Perth and Kinross Council
Investment Properties The council should review the non-current assets included in the balance sheet as "investment properties" to ensure that they have been classified in accordance with the Code.	The council plan to review of investment properties to ensure that the classification is correct. Any required adjustments will be reflected in the 2012/13 accounts.	South Ayrshire Council
Leadership and Governance		
Workforce Planning <u>Fife Council example</u> The council does not have a corporate workforce plan, with much of the workforce planning being managed at a service level.	<u>Fife Council example</u> The council will continue to implement and formalise a corporate approach to workforce planning, structured around the development of workforce plans for individual occupational groups which are common to all Directorates.	4
Accounts Disclosure <u>Aberdeen City Council example</u> A review of the arrangements for the preparation and audit of the financial statements and WGA return should be undertaken to identify improvements for 2012/13 and beyond.	<u>Aberdeen City Council example</u> Review and feedback sessions planned to identify improvements that can be achieved in the preparation and audit of the Statement of Accounts and to set out the timetable for year end close as at 31 March 2013.	3

Detail	Outcome (impact)	No. of Councils specific point raised
<p>Welfare Reform <u>Argyll and Bute Council example</u> The council will face challenges in understanding and acting upon welfare reform changes, and communicating these accurately and effectively to local residents.</p>	<p><u>Argyll and Bute Council example</u> A working group with cross service membership and key community partners has been set up in relation to welfare reform. The council will continue to monitor developments and bring forward plans based on developments.</p>	7
<p>National Reports <u>City of Edinburgh Council example</u> National performance reports could be used more effectively by the council as members are often only asked to note their content.</p>	<p><u>City of Edinburgh Council example</u> The council's Governance and Risk Committee will consider the most appropriate means through which to take forward the recommendations contained within relevant reports.</p>	2
<p>Partnership Working <u>Highland Council example</u> New arrangements for the provision of health and social care services commenced on 1 April 2012. Work is ongoing to redesign frontline services and develop shared support services.</p>	<p><u>Highland Council example</u> The final details associated with the Lead Agency arrangements are to be confirmed on the basis of implementation and practice. Discussions have yet to be concluded on the financial implications of these arrangements, and this is likely to be dependent on the longer term approach taken from April 2013.</p>	3
<p>Housing Revenue Account <u>South Ayrshire Council example</u> Officers and members should review the budget setting process to identify reasons for persistent HRA underspending.</p>	<p><u>South Ayrshire Council example</u> Areas of persistent underspending will be reviewed as part of the 2013/14 rent setting process to ensure that resources can be allocated appropriately.</p>	2
<p>Capital Underspends <u>Perth and Kinross Council example</u></p>	<p><u>Perth and Kinross Council example</u> The council are to review existing arrangements and develop proposals</p>	5

Detail	Outcome (impact)	No. of Councils specific point raised
The Council's general fund capital programme was underspent by 25% this year and housing revenue by 29%.	that will address a number of issues surrounding governance, slippage, asset management, capital budget setting and procurement & contract management within General Fund and HRA capital programmes.	
Benefits Processing <u>Aberdeen City Council example</u> Improved arrangements should be implemented for benefit processing.	<u>Aberdeen City Council example</u> The council are reviewing their checking regime for benefit processing with the objective of tackling errors effectively and timeously. The council will focus on improving the speed of processing claims.	2
Data Handling Information Commissioner's Office (ICO) concluded that limited assurance could be taken from the council's data handling arrangements.	The council are collating recommendations arising from the ICO report and other Information security reports and will report to the Finance and Audit Scrutiny Committee on a quarterly basis.	Glasgow City Council
Sickness Absence The Council has highest sickness absence level in Scotland for Local Government employees.	The council are reviewing sickness absence and have an action plan in place. Progress against this action plan will be presented to the management team on a monthly basis and the Policy and Resources Committee on a quarterly basis.	East Dunbartonshire Council
Self Evaluation Self-evaluation is under developed and more work is required to develop a culture of continuous improvement and behavioural change across services.	The council have planned a regular, proportionate and risk-based programme of self-assessment activity across all services.	North Ayrshire Council
Best Value Improvement Agenda Linkages between service	The council have set out draft strategic priorities which will be the subject of consultation and will inform the new	South Ayrshire Council

Detail	Outcome (impact)	No. of Councils specific point raised
plans clear and strategic plans at the council need to be made clearer.	Community Plan, SOA, Council business plan and feeding down into service and team plans.	

Concluding remarks

9. ASG Management Team has reviewed this summary and approved wider circulation of it to ASG to share intelligence and to promote positive news stories of the impact we are having on financial sustainability, value for money, transparency of reporting and governance and financial management. Local audit teams will follow up implementation of these recommendations as part of the 2012/13 Local Government audits.
10. The next quarterly ASG impact report will summarise the content of Central Government year end Reports to Members.

ASG Impact Group

January 2013

ACCOUNTS COMMISSION

MEETING 14 MARCH 2013

REPORT BY ASSISTANT AUDITOR GENERAL

**COMPETITION COMMISSION: STATUTORY AUDIT SERVICES FOR LARGE COMPANIES
MARKET INQUIRY - PROVISIONAL FINDINGS REPORT**

Purpose of Report

1. The purpose of this report is to brief the Commission on the findings and possible remedies following the Competition Commission's investigation into the statutory audit services market.

Background

2. In October 2011 the Office of Fair Trading made a reference to the Competition Commission (CC) for an investigation into the supply of statutory audit services to large companies in the UK.
3. The CC has to determine whether there are features of the market that either alone or in combination with each other prevent, restrict or distort competition such that there is an adverse effect on competition (AEC).
4. For the FTSE 350, the overwhelming majority of companies are audited by the Big 4. Whilst companies formally only engage auditors for one year, 31 per cent of the FTSE 100 and 20 per cent of the FTSE 250 have had the same auditor for more than 20 years (67 per cent and 52 per cent respectively for more than 10 years).
5. On 22 February 2013 the CC published its provisional findings and a notice of possible remedies. The findings are provisional and interested parties have until 21 March to submit comments. The CC will then make its final decisions.
6. Whilst this investigation is in the context of FTSE 350 companies the larger public bodies in Scotland are at least as large as many of the FTSE 350 and the public interest as citizens and taxpayers should require similar standards within the audit regime. It is therefore relevant to consider the CC's work in the context of the public sector audit arrangements.
7. The CC's work also needs to be seen in the context of the wider European Union consideration of statutory audit arrangements which includes some of the same possible remedies.

Provisional findings

8. The CC listed the following as features of the market:
 - a. Barriers to switching:
 - (i) companies face significant hurdles in comparing the offerings of an incumbent firm with those of alternative suppliers other than through a tender process;
 - (ii) it is difficult for companies to judge audit quality in advance due to the nature of audit; and

- (iii) companies and firms invest in a relationship of mutual trust and confidence from which neither will lightly walk away as this means the loss of the benefits of continuity stemming from the relationship.
 - b. Company management face significant opportunity costs in the management time involved in the selection and education of a new auditor.
 - c. Mid Tier firms face experience and reputational barriers to expansion and selection in the FTSE 350 audit market.
 - d. Auditors have misaligned incentives, as between shareholders and company management, and so compete to satisfy management rather than shareholder demand, where the demands of executive management and shareholders differ.
 - e. Auditors face barriers to the provision of information that shareholders demand (in particular from the reluctance of company management to permit further disclosure).
9. The CC provisionally found that the features listed in (a) to (c) above give rise to an AEC, either individually or in combination, by weakening a company's bargaining power outside the tender process. Incumbent auditors therefore face less competition for their ongoing engagements than they would were the company more willing to switch thereby reducing rivalry. The features listed in (d) to (e) above give rise to an AEC as auditors, by being insufficiently independent from executive management and insufficiently sceptical in carrying out audits, compete on the wrong parameters for appointment as statutory auditor and fail to respond to the demands of shareholders.
10. As a result of the AEC, the CC has provisionally found that companies are offered higher prices, lower quality and less innovation (and differentiation of offering) than would be the case in a market without the features, and shareholders and investors (as potential future shareholders) have demand which is unmet.

Commentary on the findings in relation to public sector audit in Scotland

11. The findings in relation to the way in which the market operates and barriers to switching are largely addressed for the public sector market in Scotland by the independent appointment process and tender arrangements currently in place. There are costs involved in the tender process and in the first year of new audits but these are seen as offset by the benefits of a fresh pair of eyes and greater perception of independence.
12. The findings in relation to misalignment of incentives do have some resonance as auditors are expected to report in public and to comment on issues that are of interest to the Commission/Controller of Audit as well as maintain a good working relationship with audited body management.
13. The CC's more detailed findings in relation to the closeness of the relationship between auditor and management and their suggestions for greater involvement of audit committees as representatives of shareholders also have some resonance as there have been a number of examples of audit committees in the public sector seeking to defend management or the body rather than acting as part of a governance and scrutiny regime.

14. The CC also considered the work of the FRC's Audit Quality Review Team and concluded that there were still concerning issues around audit quality including examples of a lack of demonstrable scepticism.

Possible remedies

15. The CC set out seven possible remedies designed to address AECs that they have identified. These are:
 1. mandatory tendering;
 2. mandatory rotation of audit firm;
 3. expanded remit and/or frequency of Audit Quality Review team (AQRT)
 4. prohibition of 'Big Four only' clauses in loan documentation; reviews;
 5. strengthened accountability of the External Auditor to the Audit Committee ;
 6. enhanced shareholder-auditor engagement; and
 7. extended reporting requirements.

Commentary on the remedies in relation to public audit in Scotland

16. The approach taken to the appointment of auditors already addresses several of the possible remedies. In considering recommendations for audit appointment the Commission already requires tendering every five years (unless extended to a maximum of seven) and will expect to see a significant amount of auditor rotation. Full auditor rotation would not be possible whilst Audit Scotland undertakes more than 50 per cent of the work.
17. The frequency and extent of audit quality reviews is kept under consideration and is only one part of the overall audit quality arrangements.
18. The Commission already appoints firms outside the Big Four.
19. Accountability of public sector auditors to the audit committee is already perhaps stronger than in the private sector due to the independent appointment but does not go as far as the suggestion made by the CC that the chair of the audit committee should be the principal relationship for the audit engagement partner and the first point of discussion for major audit issues arising, as well as for fee negotiations and non-audit work.
20. Enhanced shareholder reporting is seen by the CC as a possible way of increasing scrutiny of auditors and aligning their work to the needs of shareholders. More of the work of public sector auditors is carried out in public meetings such as full council meetings where annual reports are considered but engaging the public, as the ultimate shareholders, is often a challenge for auditors.
21. The proposals for extended audit reporting are broadly in line with where the IAASB and FRC are already heading in requiring more description of the work of auditors to be included in the audit opinion and/or in the audit committee report. Much of what is proposed is already reported in public in Scotland through the annual audit report although a part of this could move to the audit opinion. There is already considerable debate about what should be disclosed with areas such as the auditor's materiality figure and audit approach being some of the more controversial.
22. The CC also considered but ruled out some potential remedies including banning non-audit services, joint audits and auditor appointments being made by shareholder groups or the FRC.

23. Further information including the full report (297 pages plus over 1000 pages of appendices) is available at <http://www.competition-commission.org.uk/our-work/statutory-audit-services> .
24. Audit Scotland will continue to monitor the development of the CC's findings and remedies.

Recommendation

25. The Commission are invited to discuss the report and to note its contents.

Russell Frith
Assistant Auditor General
6 March 2013