

**425<sup>th</sup> meeting of the Accounts Commission for Scotland**

**Thursday 10 March 2016, 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 items 13 to 15 in private (\* see note).
4. **Minutes of meeting of 11 February 2016.**
5. **Minutes of meeting of Financial Audit and Assurance Committee of 25 February 2016.**
6. **Minutes of meeting of Performance Audit Committee of 25 February 2016.**
7. **Update report by the Secretary to the Accounts Commission:** The Commission will consider a report by the Secretary to the Commission on significant recent activity in relation to local government.
8. **Update report by the Controller of Audit:** The Commission will consider a verbal report by the Controller of Audit providing an update on his recent activity.
9. **Review of annual audit reports 2014/15:** The Commission will consider a report by the Controller of Audit and Director of Performance Audit and Best Value.
10. **Annual Audit Impact Report:** The Commission will consider a report by the Assistant Auditor General
11. **Code of Audit Practice:** The Commission will consider a report by the Assistant Auditor General.
12. **Briefing: Community Justice (Scotland) Act 2016:** The Commission will consider a report by the Director of Performance and Best Value.

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

13. **Work Programme: outputs from consultation:** The Commission will consider a report by the Secretary to the Commission.
14. **Procurement of audits: appointments:** The Commission will consider a report by the Assistant Auditor General.
15. **Commission business matters:** The Commission will discuss matters of interest.

\* It is proposed that items 13 to 15 be considered in private because:

- Item 13 will require discussion of the draft Work Programme before it is published, including consideration of comments thereon from councils and other stakeholders.
- Item 14 will require discussion of issues involving commercial confidentiality
- Item 15 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 the Commission of 11 February 2016	AC.2016.3.1
<b>Agenda Item 5:</b> Minutes of meeting of the Financial Audit Assurance Committee of 25 February 2016	AC.2016.3.2
<b>Agenda Item 6:</b> Minutes of meeting of the Performance Audit Committee of 25 February 2016	AC.2016.3.3
<b>Agenda Item 7:</b> Report by Secretary to the Commission	AC.2016.3.4
<b>Agenda Item 9:</b> Report by Controller of Audit and Director of Performance Audit and Best Value	AC.2016.3.5
<b>Agenda Item 10:</b> Report by Assistant Auditor General	AC.2016.3.6
<b>Agenda Item 11:</b> Report by Assistant Auditor General	AC.2016.3.7
<b>Agenda Item 12:</b> Report by Director of Performance Audit and Best Value	AC.2016.3.8
<b>Agenda Item 13:</b> Report by Secretary to the Commission	AC.2016.3.9
<b>Agenda Item 14:</b> Report by Assistant Auditor General	AC.2016.3.10

MEETING: 10 MARCH 2016

**MINUTES OF PREVIOUS MEETING**

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Minutes of the 424<sup>th</sup> meeting of the Accounts Commission held in the offices of Audit Scotland at 102 West Port, Edinburgh, on Thursday, 11 February 2016, at 10.15am

PRESENT: Douglas Sinclair (Chair)  
Ronnie Hinds (Deputy Chair)  
Alan Campbell  
Sandy Cumming  
Sheila Gunn  
Christine May  
Stephen Moore  
Graham Sharp  
Pauline Weetman  
Geraldine Wooley  
Sophie Flemig  
Tim McKay

IN ATTENDANCE: Paul Reilly, Secretary to the Commission  
Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value (PABV)  
Angela Canning, Assistant Director, PABV [Item 11]  
Mark McCabe, Senior Manager, PABV [Item 11]  
Dave McConnell, Assistant Director, ASG [Item 9]  
Cathy MacGregor, Audit Manager, PABV [Item 11]  
Martin McLauchlan, Senior Auditor, PABV [Item 11]  
Gordon Neill, Senior Manager, PABV [Item 9]  
Ronnie Nicol, Assistant Director, PABV [Item 9]  
Stephen O'Hagan, Senior Manager, ASG [Item 9]

<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 14 January 2016
5.	Minutes of meeting of Audit Scotland Board 3 December 2015
6.	Update report by the Secretary to the Commission
7.	Update report by the Controller of Audit
8.	Local Government Benchmarking Framework – annual report 2014/15
9.	Audit of Best Value: City of Edinburgh Council
10.	Audit of Best Value: City of Edinburgh Council – Commission consider actions
11.	Performance audit: draft report – An Overview of local government
12.	Commission business matters

1. Apologies for absence

It was noted that no apologies for absence had been received.

2. Declarations of interest

The following declarations of interest were made:

- Ronnie Hinds, in item 8, as a former Chair of the Local Government Benchmarking Board, and in item 11, as a former Chief Executive of Fife Council
- Sophie Flemig, in items 9 and 10, as a resident of the City of Edinburgh council area
- Sheila Gunn, in item 11, as a non-executive Director of the Wheatley Group
- Tim McKay, as a former elected member of City of Edinburgh Council and a resident of the City of Edinburgh council area
- Christine May, in item 8, as Vice-Chair of Fife Cultural Trust
- Pauline Weetman, in items 9 and 10, as a resident of the City of Edinburgh council area
- Geraldine Wooley, as a property-owner in the City of Edinburgh council area.

3. Decisions on taking business in private

It was agreed that items 10 to 12 should be taken in private for the following reasons:

- Item 10 progress report, which the Commission is to consider and decide how it wishes to proceed.
- Item 11 proposes a draft performance audit report, which the Commission is to consider and to agree the process for finalising the report.
- Item 12 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.

4. Minutes of meeting of 14 January 2016

The minutes of the meeting of 14 January 2016 were submitted and approved, subject to noting that, in item 10, the actions should be for the Director of Audit Services.

Arising therefrom:

- In relation to item 7, in response to a query from Tim McKay, advice from the Director of PABV was noted that further information on the rationale behind the local government finance settlement and longer-term trends of allocations would be incorporated into the Local Government Overview.
- In relation to item 9, advice from the Secretary was noted that further discussion on social media would feature at the Commission's annual Strategy Seminar.

5. Minutes of meeting of Audit Scotland Board 3 December 2015

The minutes of the meeting of the Audit Scotland Board 3 December 2015 were submitted and noted.

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 26 of the report, agreed that the Director further consider the implications of the Burial and Cremation (Scotland) Bill in relation to the Commission's work programme.

*Action: Director of PABV*

- In relation to paragraph 43 of the report, noted advice from the Secretary that there would be briefings to the Commission on the progress of discussions and development of new financial powers in relation to the Scotland Bill at the April and October meetings of the Commission.

Thereafter, 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.

8. Local Government Benchmarking Framework – Overview Report 2014/15

The Commission considered a report by the Secretary to the Commission, advising of the publication of the Local Government Benchmarking Framework Overview Report for the year 2014/15.

During discussion, the Commission:

- Noted the report.
- Noted the engagement arrangements between the Commission and the Local Government Benchmarking Board, including a meeting between the Chair and Deputy Chair and the Board in relation to the report.
- Agreed that as part of this engagement, that the following points be articulated:
  - It would be beneficial to set out how the report is being used by practitioners, council officers and by elected members.
  - The Commission continues to have an interest in how the project can reflect outcomes.
  - The Commission continues to have an interest in further development of social care measures, particularly around different client experiences, such as those with disabilities.

*Actions: Secretary*

- Note that Audit Scotland will be considering further the implications of the report on its work.

Following discussion, the Commission noted the report.

9. Audit of Best Value: City of Edinburgh Council

The Commission considered a report by the Secretary to the Commission seeking its consideration of the Controller of Audit's report of the Best Value audit of City of Edinburgh 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.

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

The Commission discussed how to proceed in relation to the statutory report by the Controller of Audit on the audit of Best Value in City of Edinburgh Council.

Following discussion, the Commission agreed:

- To make findings, to be published on 25 February 2016.
- As part of those findings, to note that it will maintain its interest in the progress made by the Council and that the Controller of Audit will continue to monitor progress through the annual audit process

*Actions: Secretary*

11. Draft report: An overview of local government in Scotland [in private]

The Commission considered a report by the Director of PABV seeking approval of and agreeing the process for the finalising of the draft report *An overview of local government in Scotland*.

This paper invites the Commission to consider the attached draft local government overview report and to agree the process for finalising the report

Following discussion, the Commission agreed:

- To approve the draft report subject to the audit team considering points raised in discussion in conjunction with the Chair and Deputy Chair.
- That members with any further comment should convey these to the Secretary.
- To approve the publication and promotion arrangements for the report.
- That, further to this, an Executive Summary be part of the publication.
- To note that there would be opportunity for further discussion on issues around the form, shape and purpose of future such reports at future meetings of the Commission.

*Actions: Director of PABV*

12. Commission business matters

There being no further business, the meeting was closed.

MEETING: 10 MARCH 2016

**MINUTES OF MEETING OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE OF 25 FEBRUARY 2016**

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Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of Audit Scotland, 102 West Port, Edinburgh on Thursday, 25 February 2016, at 10am.

PRESENT: Ronnie Hinds  
Tim McKay  
Douglas Sinclair  
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)  
Anne Cairns, Manager, Technical, Audit Strategy [Item 6]  
Angela Cullen, Assistant Director, PABV [Item 7]  
Gemma Diamond, Senior Manager, PABV [Item 12]  
Mark Ferris, Senior Audit Manager, Audit Services [Item 7]  
Toby Freer, Trainee Auditor, Audit Services [Items 9 and 10]  
Russell Frith, Assistant Auditor General [Items 6, 8, 9, 10 and 11]  
John Gilchrist, Manager, Procurement, Audit Strategy [Item 8]  
Fiona Kordiak, Director of Audit Services [Item 4]  
Dave McConnell, Assistant Director, Audit Services [Item 10]  
Gordon Smail, Senior Manager, Audit Strategy / PABV [Item 12]  
Owen Smith, Senior Manager, Audit Strategy [Items 9 and 10]  
Gillian Woolman, Assistant Director, Audit Services [Item 4]

1. Apologies for absence
2. Declarations of interest
3. Draft minutes of meeting of 26 November 2015
4. Current audit issues and risks in councils
5. Intelligence Report: Scottish Public Services Ombudsman
6. Review of housing benefit subsidy certification issues 2014/15
7. Financial capacity in councils
8. Audit quality survey – 2014/15 audits
9. Risks: outputs from the annual audit 2014/15
10. Annual audit – impact review
11. Accounting and auditing update
12. Policy Briefing: Public investment, environment and infrastructure
13. Any other business

## Chair

It was agreed that, in the absence of Graham Sharp, Douglas Sinclair would act as Chair.

### 1. Apologies

It was noted that apologies for absence had been received from Graham Sharp and Sheila Gunn.

### 2. Declarations of interest

The following declarations of interest were made:

- Ronnie Hinds, in item 4, as a former Chief Executive of Fife Council.
- Douglas Sinclair, in item 4, as a former Chief Executive of Fife Council.
- Geraldine Woolley, in item 4, as a member of the Fife Valuation Assessment Committee and previous member of Madras School parent council.

### 3. Minutes of meeting of 26 November 2015

The minutes of the meeting of 26 November 2015 were noted and approved.

Arising therefrom:

- In relation to item 3, second bullet point (social care payments), advice from the Controller of Audit was noted that the matter would not feature prominently in the Local Government Overview report due to space constraints, but nevertheless, the matter had been raised by the Director of Audit Services in recent discussions with the Scottish Local Authority Directors of Finance group.
- In relation to item 4, first bullet point, fourth sub-bullet (Non-Domestic (Business) Rates Revaluation 2017, advice from the Secretary and Controller of Audit was noted that the matter would feature on a forthcoming briefing on business rates policy in Scotland.

### 4. Current audit issues and risks in councils

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

During discussion, the Committee agreed:

- To note advice from the Controller of Audit, in response to a query from Tim McKay, that a scope on the proposed audit on equal pay would be considered by the Performance Audit Committee at its April meeting.
- To note advice from the Controller of Audit, in response to a query from Geraldine Wooley, that he would bring more information to the Committee on issues around the decision by Stirling and Clackmannanshire councils to end shared education and social services..
- To note the error in Appendix 2 (i.e. the second entry for Fife Council should be deleted).



- To note advice from the Controller of Audit, in response to a query from Douglas Sinclair, that the issue of overspends in social work would feature in the ongoing performance audit in this regard.
- To note advice from the Controller of Audit, in response to a query from Douglas Sinclair, that he would provide the Committee with more information on the deal between Glasgow City Building and the Wheatley Group.
- To note advice from the Controller of Audit that he is currently investigating issues around the Dunfermline Flood Prevention Scheme, including the option of a statutory report to the Commission in this regard.

*Actions: Controller of Audit*

5. Intelligence Report: Scottish Public Services Ombudsman etc.

The Committee considered a report by the Secretary to the Accounts Commission providing an update of intelligence emerging from the work of the Scottish Public Sector Ombudsman (SPSO), Commissioner for Ethical Standards in Public Life in Scotland; Standards Commission for Scotland and Scottish Information Commissioner.

Following discussion, the Committee agreed to note the report.

6. Review of housing benefit subsidy certification issues 2014/15

The Committee considered a report by the Assistant Auditor General on the outcomes from a recent review of the auditors' Housing Benefit subsidy certification letters in 2014/15.

Following discussion, the Committee agreed:

- To note advice from the Assistant Auditor General that wider issues around the process would feature in his annual report to the Commission on the audit of benefits administration.
- To note the report.

7. Financial capacity in councils

The Committee considered a report by the Director of Performance Audit and Best Value inviting the Committee to consider the draft paper '*Financial capacity in local government – Key findings*'.

Following discussion, the Committee agreed:

- To endorse the draft report subject to the Director considering points raised in discussion in conjunction with the Chair and Deputy Chair.
- To recommend to the Commission that the report be published as a complement to the Local Government Overview report.

*Actions: Controller of Audit*

8. Audit quality survey – 2014/15 audits

The Committee considered a report by the Assistant Auditor General highlighting the main findings from biennial local government audit service quality survey for 2014/15.

Following discussion, the Committee:

- Noted advice from the Assistant Auditor General that he is discussing with the Secretary how to improve the reporting of quality and impact of audit to the Commission.
- Notwithstanding this, to note that this would be the last such survey under the current round of audit appointments.
- Noted the continuing high level of satisfaction with the quality of audits provided by auditors and the survey results for recent performance audits.

Thereafter, the Committee noted the report.

9. Risks: outputs from the annual audit 2014/15

The Committee considered a report by the Assistant Auditor General on the follow-up review of audit risks identified from the 2014/15 audit process as reported in the council annual audit reports.

Following discussion, the Committee:

- Noted advice from the Assistant Auditor General that he is discussing with the Secretary how to improve the reporting of audit risks to the Commission.
- Such discussion will include:
  - The definition of risk, in relation to the audit and to the audited body.
  - The balance of risks between financial and service sustainability and impact.
  - Ensuring better read across between categories of risk and impact.

*Actions: Assistant Auditor General*

Thereafter, the Committee noted the report.

10. Annual audit – impact review

The Committee considered a report by the Assistant Auditor General advising of the types, prevalence and significance of risks and recommendations being reported by appointed auditors.

Following discussion, the Committee noted advice from the Assistant Auditor General that the discussions referred to in item 9 above were resonant to this item.

Thereafter, the Committee noted the report.

11. Accounting and auditing update

The Committee considered a report by the Assistant Auditor General advising of recent accounting and auditing developments affecting the public sector, particularly local government in Scotland.

Following discussion, the Committee noted the report.

12. Policy briefing: Public investment, environment and infrastructure

The Committee considered a report by the Secretary to the Commission introducing a briefing by the Director of PABV on the public finances, investment and economic

development cluster. The briefing had previously been presented to the Performance Audit Committee, and the Financial Audit and Assurance Committee Chair had asked that it be presented to this Committee. The presentation was done by Gemma Diamond, Senior Manager, PABV and Gordon Smail, Senior Manager, PABV.

Following discussion, the Committee agreed:

- That the Director of PABV provide more information on the progress of the review into the office and function of the Scottish Road Works Commissioner.

*Action: Director of PABV*

- To note the report.

13. Any other business

There being no further business, the meeting was closed.

MEETING: 10 MARCH 2016

**MINUTES OF MEETING OF PERFORMANCE AUDIT OF 25 FEBRUARY 2016**

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Minutes of meeting of the Performance Audit Committee of the Accounts Commission held in the offices of Audit Scotland, 102 West Port, Edinburgh on Thursday, 25 February 2016, at 2pm.

PRESENT: Ronnie Hinds (Chair)  
Alan Campbell  
Sandy Cumming  
Sophie Flemig  
Christine May  
Stephen Moore  
Douglas Sinclair

IN ATTENDANCE: Paul Reilly, Secretary to the Commission  
Fraser McKinlay, Director of PABV  
Antony Clark, Assistant Director, PABV [Item 5]  
Angela Cullen, Assistant Director, PABV [Item 6]  
Graeme Greenhill, Senior Manager, PABV [Item 6]  
Mark McCabe, Senior Manager, PABV [Item 8]  
Gordon Neill, Senior Manager, PABV [Item 8]  
Rebecca Smallwood, Auditor, PABV [Item 7]  
Shelagh Stewart, Audit Manager, PABV [Item 6]  
Claire Sweeney, Assistant Director, PABV [Items 4 and 7]  
Peter Worsdale, Audit Manager, PABV [Item 5]

<u>Item no.</u>	<u>Subject</u>
1.	Apologies for absence
2.	Declarations of interest
3.	Minutes of meeting of 26 November 2015
4.	Work program update
5.	How councils work: scope – Follow-up work on Roles and relationships
6.	Performance audit: emerging messages – Roads maintenance
7.	Performance audit: impact report – Reshaping care for older people
8.	Policy briefing: Communities, health and care cluster
9.	Any other business

1. Apologies for absence

It was noted that apologies for late arrival had been received from Sophie Flemig.

2. Declarations of interest

The following declarations of interest were made:

- Christine May, in items 4 and 5, as Vice-Chair of Fife Cultural Trust.
- Ronnie Hinds, in item 7, as a non-executive Director of the Scottish Government.

3. Minutes of meeting of 26 November 2015

The minutes of the meeting of 26 November 2015 were approved.

Arising therefrom:

- In relation to item 7 (Performance audit: impact report – procurement in councils), advice from the Secretary was noted that the report was published on 8 February 2016, and the Chair has written to leaders of councils (copied to chief executives and members of the Scotland Excel Joint Committee) and the Minister for Local Government and Planning commending the report.
- In relation to item 8, second bullet point (Housing benefit audit: scope – *Good management practice in housing benefit administration*), advice from the Secretary was noted that discussions were ongoing around sponsorship of the audit.
- In relation to item 9, second bullet point (Independent review of Scotland's planning system), advice from the Secretary was noted that the matter was covered in his report to the Commission at its January meeting.

4. Work programme update

The Committee considered a report by the Director of PABV providing an update on progress with the range of work carried out on behalf of the Accounts Commission and Auditor General.

During discussion, the Committee agreed:

- To note advice from the Director:
  - in response to a query from Stephen Moore in relation to activity around community justice, that the team would consider issues around court reform.
  - in response to a query from Stephen Moore in relation to children with disabilities, that he would ensure adequate reflection of the issue in forthcoming briefing papers in relation to education and learning activity.
  - in response to a query from Alan Campbell in relation to wider equalities issues associated with equal pay, that the team would consider this in scoping the proposed audit work in this regard.
  - in response to a query from Sandy Cumming in relation to college issues, that these would feature in the College sector overview report by the Auditor General.

- in response to a query from Sophie Flemig in relation to the implications of the European referendum on audit work, that he would be considering this issue further, and would keep the Commission updated in this regard.
- That future reports set out clearly the allocation of audit and other work between the Commission, the Auditor General and joint work.

*Actions: Director of PABV*

Thereafter, the Committee noted the report.

5. How councils work: scope – Follow-up work on Roles and relationships

The Committee considered a report by the Director of PABV inviting the committee to approve the proposed approach to follow-up work on the 2010 Accounts Commission *How councils work* report on roles and working relationships.

During discussion, the Committee agreed:

- To note the outputs from a 'round table' meeting of stakeholders held to explore issues worthy of inclusion in the scope of the work.
- That, in relation to a point raised at the round table event in relation to vulnerable users, that Director give further thought to the profile of vulnerable service users across work programme development and audit work.
- That the potential be considered of using the published report as a basis for development activities for the new intake of councillors following the 2017 local government elections.
- That further discussion take place in relation to the options for outputs arising from this work.
- To approve the approach to the follow-up audit work

*Actions: Director of PABV*

6. Performance audit: emerging messages – Road maintenance

The Committee considered a report by the Director of PABV advising of emerging messages from the performance audit *Roads maintenance*.

Following discussion, the Commission agreed:

- To endorse the emerging messages, subject to a number of revisions and other points to be addressed by the audit team in drafting the report of the audit, in conjunction with the sponsors of the report, Alan Campbell and Christine May.
- That a draft report be taken to the Commission meeting in May 2016.

*Actions: Director of PABV*

7. Performance audit: impact report – Reshaping care for older people

The Committee considered a report by the Director of PABV seeking approval on the impact of the *Reshaping care for older people* report.

Following discussion, the Committee agreed:

- To endorse the draft report.
- To recommend to the Commission that it be published.

- That the Director give further thought as to how to manage the messages between this report and other ongoing performance audits in relation to social care issues.

*Actions: Director of PABV*

8. Policy briefing: Communities, health and care cluster

The Committee considered briefing from the Director of PABV on the Communities, health and care cluster. The presentation was done by Gordon Neill, Senior Manager, PABV and Mark McCabe, Senior Manager, PABV.

During discussion, the Committee agreed:

- That a Commission member attend the proposed stakeholder meeting to discuss the scope of the proposed audit on housing.
- That relevant stakeholders in relation to the proposed audit on equal pay should include the Society of Directors of Personnel Scotland and the Local Authority Directors of Finance group.

*Actions: Director of PABV*

9. Any other business

There being no further business, the meeting was closed.

MEETING: 10 MARCH 2016

REPORT BY: SECRETARY TO THE ACCOUNTS COMMISSION

## UPDATE REPORT

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### Introduction

1. The purpose of this report is to provide a regular update to the Commission on significant recent activity relating to local government, as well as issues of relevance or interest across the wider public sector.
2. The regular Controller of Audit report to the Commission which updates the Commission on his activity complements this report. The Commission's Financial Audit and Assurance Committee also receive 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 extranet site, which provides more detailed news coverage in certain areas.
3. The information featured is also available on the Accounts Commission member portal. Hyperlinks are provided in the electronic version of this report for ease of reference.

### Commission business

4. The [City of Edinburgh Council Best Value](#) report was published on 25 February; the report found that the Council had made progress towards balancing its books after facing a £67 million funding gap. In a [press release](#) Edinburgh Council's leader said he welcomed the report, and the Finance Committee's convener said he was delighted that the report had recognised the strong leadership required to make the changes. A spokesman for Unison said that "the council's job is not just about managing finances, it's about actually delivering services". There was good media coverage with articles in the Scotsman, Herald, Metro and Holyrood. The report has been downloaded 99 times and the podcast 64 times.
5. On 8 February, the [Procurement in Councils – Impact Report](#) was published. The report detailed the coverage and response to the Commission's April 2014 report on [Procurement in Councils](#). The report found that all councils had improved their Procurement Capability Assessment (PCA) score between 2009 and 2014. It reported that new procurement legislation will be brought into councils in 2016. Therefore it concluded there was scope for a procurement performance audit in three years time. The report has been downloaded 216 times. On 25 February, the Chair wrote to all Council Leaders (and copied to all Chief Executives and members of the Scotland Excel Joint Committee) commending the report.
6. The third Community Planning update report will be published by the Commission jointly with the Auditor General on 3 March. The press release accompanying the report notes that community planning yet to plug the gap between expectations and delivery, and that progress on community planning has not yet achieved the major change needed to fulfil its potential to reduce inequalities and put communities at the heart of delivering public services. The Chair will accompany the Auditor General to the meeting of the Public Audit Committee on 9 March to present a briefing on the report.



7. On 29 February, the Commission met with Argyll and Bute Council to discuss the [report of the Best Value audit](#) of the Council which was published on 17 December. The Commission was represented by Douglas Sinclair, Ronnie Hinds, Alan Campbell, Christine May and Sophie Flemig. The Council decided that all elected members would be invited to the meeting, and nearly all attended.
8. Over the last 12 months the following reports have been published by the Commission the download statistics are shown below.

Report	Date	Report downloads	Podcast downloads
<a href="#">City of Edinburgh Council Best Value</a>	25 Feb 2016	99	64
<a href="#">Major Capital Investment in Councils - Follow Up</a>	14 Jan 2016	765	167
<a href="#">Argyll and Bute Best Value Audit</a>	17 Dec 2015	463	< 30
<a href="#">Health and Social Care Integration</a>	3 Dec 2015	3666	453
<a href="#">The Moray Council: Audit of Best Value and Community Planning Follow Up</a>	29 Oct 2015	826	182
<a href="#">Falkirk Council: Audit of Best Value and Community Planning</a>	27 Aug 2015	1020	243
<a href="#">Aberdeen City Council Best Value Audit</a>	2 Jul 2015	951	35
<a href="#">East Dunbartonshire: Audit of Best Value and Community Planning Follow Up</a>	4 Jun 2015	1055	41
<a href="#">Borrowing and Treasury Management in Councils</a>	19 Mar 2015	1727	44
<a href="#">Commonwealth Games 2014: Third Report</a>	12 Mar 2015	2428	542
<a href="#">An Overview of Local Government in Scotland 2015</a>	5 Mar 2015	5278	52

I will report this regularly in my future reports to the Commission.

9. On 25 February, members of the *Major Capital Investment in Councils* audit team presented the findings from the audit to the [7<sup>th</sup> Annual Capital Investment and Infrastructure conference](#). Other speakers included the Cabinet Secretary for Infrastructure, Investment & Cities, the Deputy Chief Executive of Scottish Futures Trust, representatives from Strathclyde and St Andrews University and Hub South East.
10. The audit team have been approached by South Ayrshire Council with a request to present their findings to elected members. Other council's have also expressed an interest. In March, supplementary data from the report will be published on the Audit Scotland website in an interactive map format.
11. The Accounts Commission's 2014 report on School Education was mentioned at the Education and Culture committee at their meeting on [24 February](#). The Committee was

discussing school spending and educational attainment when figures on the number of Quality Improvement Officers were quoted from the report.

12. Stephen Moore attended a national seminar on the 'Shared Lives' model of care and support in the summer of 2015. A Shared Lives approach is essentially matching an individual who has care and support needs with a family or individual in the community who is able to meet those needs, either in short breaks, day support, hospital to home arrangements or long-term permanent homes. The report from those seminars has now been published and is available on the Commission members' extranet.

### **Audit Scotland**

13. A paper on the next round of audit appointments will be considered at today's meeting.
14. The official opening of the new Audit Scotland offices will take place on 24 March. The Presiding Officer of the Scottish Parliament will be the guest of honour. Commission members have been invited to the event.
15. The Auditor General has been recognised by CIPFA as one of their [50 outstanding people in public finance in 2016](#).

### **Issues affecting local government**

#### ***Scottish Government:***

16. On 24 February, MSPs at Holyrood passed the Scottish Budget. 64 MSPs voted to pass the budget while 57 voted against it. The budget included a £10.3 billion settlement to local government. The Local Government Overview report states that this represents a 5 per cent reduction in Local Government funding. SPICe has produced a [briefing](#) on Local Government funding allocations.
17. All councils accepted the Scottish Government's funding arrangement by the deadline of 9 February. This is despite COSLA [stating](#) the day before that the deal remains unfair and undeliverable. Councils are now in the process of setting their budgets and UNISON has warned that 15,000 jobs could be lost in the next few years as a result of the decrease in budgets. John Swinney announced on the 1 March that Scottish councils had spent £70 million less than budgeted last year and now had reserves of £1.9 billion. He argued that the local government funding cuts were not unfair to councils.
18. At a speech to the David Hume Institute on 23 February the First Minister announced that changes to local funding will see a percentage of income tax being paid directly to councils. She stated that the effect of this is that if councils boost economic growth and thus income tax receipts they will share some of the benefit. These measures will be part of wider proposals which will be announced today (2 March) and will include an alternative to council tax.
19. The Forth Road Bridge reopened to all vehicles on the 20 February; this was after some HGVs had been allowed to use the bridge overnight in a phased return. The Transport Secretary reported that all repairs were now completed and no further defects were found.
20. On 17 February, the Cabinet Secretary for Infrastructure signed a memorandum of understanding between Transport Scotland and Transport for the North, to enhance the transport connectivity between Scotland and the Northern Powerhouse.

21. On 17 February, the Health Secretary launched a [National Clinical Strategy](#), which sets out a blueprint for how health and social care will be delivered over the next 10 to 15 years. It includes a range of improvements and ways to modernise the service whilst taking into account Scotland's ageing population.
22. On 11 February MSPs voted to set the Scottish Rate of Income Tax at 10p, which means the tax paid by Scottish residents in 2016/17 will be the same as those taxpayers in the rest of the UK.

### ***Scottish Parliament***

#### ***Parliamentary Committee News.***

##### *Local Government and Regeneration Committee:*

23. At its meeting on 24 February, the Committee took evidence from the Improvement Service and SOLACE on the Local Government Benchmarking Framework (LGBF). Before this meeting the Committee invited comments on the LGBF. The responses can be found [here](#) including a [letter](#) from the Accounts Commission. The Committee discussed possible improvements that could be used made to the framework. Members of the committee argued that the data provided could be more accessible to the public. SOLACE argued that as the information appeared in Commission reports and in councils' own reports it already has a high public profile.
24. Also on 24 February, the Committee:
  - took evidence from the Minister of Local Government and community empowerment and the Scottish Government on the assessment of non domestic buildings (Scotland) draft regulations and approved the draft.
  - took evidence from Minister of Local Government and community empowerment and the Commission of Local Tax reform on Local Tax reform.
25. On 10 February, the Committee approved draft subordinate legislation on Freedom of Information after taking evidence from the Minister for Parliamentary Business. At the same meeting it took evidence from the Electoral Management Board on the Scottish local government elections in 2012.
26. At its meeting on 3 February, the Committee took evidence from the Deputy First Minister on the draft Budget Scrutiny 2016-17 and the draft Local Authority (Capital Finance and Accounting) (Scotland) Regulations. It also heard evidence from the Scottish Public Sector Ombudsman.
27. At its meeting on the 2 March the Committee considered in private a draft report of their inquiry into Arms Lengths Organisations. The report was not available at the time of writing, but I expect it to fully reflect the work of the Accounts Commission in this regard.

##### *Public Audit Committee:*

28. The Public Audit Committee met once during February, on the 10th. At that meeting it took evidence on the section 22 report, [the 2014/15 audit of the Scottish Police Authority](#) from the Director General of Learning and Justice, the Chief Executive and Chair of the Scottish Police Authority and Chief Constable Gormley of Police Scotland.
29. At the same meeting the Committee considered a response from the Scottish Government on the 2015 section 23 report on Scotland's Colleges.

### *Infrastructure and Capital Investment Committee*

30. The Committee continued its inquiry into the circumstances surrounding the closure of the Forth Road Bridge. It took evidence from engineers on 3 February and from the Minister for Transport and Islands and Transport Scotland on 24 February. Audit Scotland submitted [supplementary evidence](#) to the inquiry after being asked by the Committee to provide evidence on FETA's accounts from 2002/03 onwards. It had submitted [initial evidence](#) on the accounts from 2010/11 to 2014/15.
31. At its meeting on 24 February, the Committee approved the Draft Procurement (Scotland) Regulations after taking evidence from the Cabinet Secretary for Infrastructure, Investment and Cities.
32. On 10 February, the Committee approved the draft Letting Agents Code of Practice and agreed amendments to the [Private Housing \(Tenancies\) \(Scotland\) Bill](#). The Minister for Housing and Welfare, a Senior Policy Officer from the private rented sector regulation team and a Principal Legal Officer from the Scottish Government gave evidence at the meeting.
33. At their meeting on 3 February the Committee considered the Public Contracts (Scotland) Regulations and agreed to write to the Cabinet Secretary for Infrastructure, Investment and Cities with comments.

### *Finance Committee*

34. At their meeting on 10 February, the Committee agreed amendments to the [Scottish Fiscal Commission Bill](#) and the [Budget \(Scotland\) \(no 5\) Bill](#). They also took evidence from [NESTA](#), a charity established to stimulate more and better innovation.
35. The Committee took evidence on the [Land and Buildings Transaction Tax \(Amendment\) \(Scotland Bill\)](#) at their meeting on 3rd February. They heard from:
  - Housing industry representatives
  - Tax law specialists and
  - John Swinney and representatives from the Scottish Government.

### *Bills – Progress Updates:*

36. The following Bills have progressed since my last report:
  - The [Land Reform \(Scotland\) Bill](#) completed stage 2 on 10 February. It is being considered by the Rural Affairs, Climate Change and Environment Committee. SPICe has produced a [briefing](#) on the bill.
  - The [Scottish Fiscal Commission Bill](#) completed stage 2 on 11 February; it is being considered by the Finance Committee. SPICe has produced a [briefing](#) on the bill.
  - The [Community Justice \(Scotland\) Bill](#) passed stage 3 on 12 February; it was considered by the Justice and Finance Committees. (There is a briefing on the proposed legislation elsewhere on today's agenda.)
  - The [Education \(Scotland\) Bill](#) was passed by Parliament on 2 February.
  - The [Private Housing \(Tenancies\) \(Scotland\) Bill](#) completed stage 2 on 10 February. It is being considered by the Infrastructure Investment Committee. SPICe has produced a [briefing](#) on the bill.

37. The following Bills have been introduced since my last report:
- The [Budget \(Scotland\) \(no 5\) Bill](#) was introduced on 28 January and passed by parliament on 24 February.
  - The [Land and Buildings Transaction Tax \(Amendment\) \(Scotland\) Bill](#) was introduced on 27 January, it is being considered at stage 1 by the Finance Committee. SPICe has produced a [briefing](#) on the bill.
38. The following Bills have not progressed further since my last report:
- The [Footpath Parking and Double Parking \(Scotland\) Bill](#) is being considered at stage 1 by the Local Government and Regeneration Committee.

**Scotland Bill - Updates:**

39. On 25 February the Scottish Government published the [agreement](#) which is the result of negotiations between the UK and Scottish Governments on a fiscal framework for Scotland as part of the Scotland Bill. The principles of the agreement are:
- There will be a transition period to March 2022, during which there will be no net detriment to the Scottish Budget.
  - A review of the transitional funding arrangements will take place after the UK general election in 2020 and the Scottish elections in 2021.
  - The fiscal framework will not include or assume a method for adjusting the block grant after the transition period. Both parties will agree a method following the reviews in 2020 and 2021.
40. On 1 March the Scottish Government announced that a new delivery agency will be set up to administer £2.7 billion of social security payments when some welfare powers are devolved to Scotland. The Scottish Government will have power over 11 payments and the ability to top-up or create new benefits.
41. The Smith Commission's proposals were considered within the Scottish and UK Parliaments, principally through the [Referendum \(Scotland\) Bill Committee](#) (previously Devolution (Further Powers) Committee) and [Scottish Affairs Committee](#) respectively. [The Scotland Bill 2015-16](#) has now been approved by the House of Commons and passed the committee stage at the House of Lords on 23 February. The bill is now at the report stage.
42. The Scottish Affairs Committee launched an inquiry into [Revising Scotland's Fiscal Framework](#). It published a [report](#) on 11 February. The report found that:

*“The way in which the Scotland Bill and fiscal framework have been progressed has been unsatisfactory. Substantial changes are going to be made to the relationship between Scotland and the rest of the United Kingdom and it is to the detriment of everyone who will be affected that the process will not have been subject to the level of examination it deserves.”*

The report recommended that the fiscal framework is reviewed after four years to determine whether it is working and is fair to both the UK and Scotland.

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

### *Individual councils:*

43. Glasgow City Council and the parent company of Glasgow Housing Association (GHA), the Wheatley Group has announced a joint share in the arm's-length construction body, City Building Glasgow. The company will do all of GHA's repairs, the councils own repairs and will take control of GHA's £27 million capital investment programme. Glasgow Council estimate a £2.7 billion benefit to the Glasgow economy over the 30 years of the contract.
44. The Scottish Government [announced](#) on 26 February that it would be investing an additional £63 million in Dundee's waterfront as part of the Growth Accelerator Model developed by the Scottish Futures Trust.
45. Aberdeen City Region Deal board appointed Aberdeen City Council's Leader Jenny Laing as its Chair and the Aberdeenshire Council Co-leader Martin Kitts-Hayes as its Vice-Chair at its first meeting on 24 February.
46. There have been no council by-elections since my previous report.

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

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

47. The newsletter [SPSO News – February](#) summarises January 2016 case numbers, outlines investigations 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. More detailed intelligence from the SPSO is considered on a six-monthly basis by the Financial Audit and Assurance Committee.

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

48. Since the previous meeting of the Commission, four decisions on complaints relating to councillors were published by the [Commissioner](#). The Commissioner decided that in all four complaints the councillors did not contravene the Councillors' Code of Conduct. The complaints were against
  - [Councillor Alan O'Brien](#) of North Lanarkshire Council,
  - [Councillors James McCabe, Barry McCulloch and James Coyle](#) of North Lanarkshire Council,
  - [Councillor Michael Coyle](#) of North Lanarkshire, and
  - [Councillor Graeme Hendry](#) of Glasgow City Council.

### *Standards Commission for Scotland:*

49. There have been no hearings by the [Standards Commission for Scotland](#) since my last report.

### *Other UK Audit Bodies*

50. The Public Sector Audit Appointment body which was created to oversee council audits in England following the abolition of the Audit Commission is considering plans to jointly procure contracts from 2018/19. Its corporate plan states that it will work with

the Improvement and Development Agency to explore the feasibility of the body entering into contracts and appointing auditors to local bodies.

*Public Accounts Committee*

51. On 3 February, the Public Accounts Committee published a [progress report on the roll out of Universal Credit](#). The report advised that Universal Credit will be fully operational by March 2021, although the Office of Budget Responsibility forecasts a further six month delay to the roll out. The Committee are frustrated by the lack of transparency from the Department of Work and Pensions. It recommends that there is clarity around the business case and public reporting against clearly stated milestones.

**Other General**

52. On 20 February, the Prime Minister announced a referendum on the UK's membership of the European Union. This was after reaching agreement with the EU on a package of changes to the UK's membership. The First Minister [announced](#) soon after that the Scottish Government will be campaigning for Scotland to remain in the EU. At its recent meeting on 25 February, the Commission's Performance Audit Committee noted that the Director of Performance Audit is currently t considering the implications of the European referendum on audit work, and would keep the Commission updated in this regard.

**Conclusion**

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

**Paul Reilly**  
**Secretary to the Accounts Commission**  
**2 March 2016**

**MEETING: 10 MARCH 2016**

**REPORT BY: CONTROLLER OF AUDIT & DIRECTOR OF PERFORMANCE AUDIT AND BEST VALUE**

**REVIEW OF THE LOCAL GOVERNMENT ANNUAL AUDIT REPORTS 2014/15**

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**Purpose**

1. This paper summarises the outcome of the review of the 2014/15 annual audit reports for councils and related local authority bodies. It 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. I have included a summary financial analysis of the accounts of the 32 councils in Scotland at Appendix 1.

**Background**

2. Under the Code of Audit Practice approved by the Accounts Commission and the Auditor General, auditors are required at the conclusion of the annual audit to issue a report summarising the significant matters arising from the year's audit. In local government, these reports are addressed to elected members and to me as Controller of Audit and are submitted by 30 September each year. The reports are public reports and are available on the websites of the audited bodies and Audit Scotland.
3. The reports are reviewed by my team to:
  - Identify high-level issues and themes for inclusion in the Commission's annual local government overview report
  - Identify specific issues that I may wish to report to the Commission under my statutory reporting powers<sup>1</sup>. In short, these provide for reports 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 issues arising from the audits will be known to my team in advance of the annual audit reports, and reported to the Commission via the Financial Audit and Assurance Committee (FAAC). However, when such matters are included in the annual audit report, that can be the starting point for statutory reporting.

**Matters arising from the review of the 2014/15 annual audit reports**

5. General themes arising from the review were reflected in the draft local government overview report, which the Commission considered in February 2016 and will be published on 17 March 2016.
6. Common themes in annual audit reports included:
  - Audit opinions – none of the audit opinions were qualified, including the 32 councils, eleven pension funds, 33 other small boards and partnerships. It also includes 410 registered charities (in 127 sets of charity accounts), where a council or some council members are the sole trustees. All accounts were submitted and audited on time.
  - Financial position – significant budget gaps for future years continue to be reported, although councils use different definitions and timeframes. Many councils are implementing so called 'transformation programmes', although the extent to which some

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<sup>1</sup> Sections 102(1) and 102(3) of the Local Government (Scotland) Act 1973



of these are genuinely 'transformational' is less clear. Auditors recognise the risks inherent in these programmes and will continue to monitor them closely.

- Financial performance – the aggregated results for all 32 councils show total income in 2014/15 was £18.3 billion. The net cost of providing services (after accounting for service income) was £12.0 billion, with the highest areas of gross expenditure seen in education, social work and housing services. Total long term assets owned by the councils amounted to £40.0 billion, while long term liabilities were £24.0 billion. An increase of almost £2 billion to long term liabilities from prior year was seen, driven by the councils' increased net pension liability and an increase in borrowing levels. Appendix one provides more analysis of the councils' financial results.
  - Governance and financial management – the need to ensure that scrutiny and governance arrangements are effective, particularly given continuing changes in senior management teams and structures and the council elections in 2017. The FAAC recently considered a report on financial capacity in councils. All auditors have reported on preparations for integrating health and social care, about which the Commission published a report in December 2015.
  - Best Value – council audit reports report on Best Value, covering issues such as performance management, scrutiny, and public performance reporting. This will be the focus of the developing new approach to auditing BV in future.
7. There were issues in six councils that I considered particularly closely this year (the council's auditor is in brackets). In all cases, we have briefed the Commission (and/or one of its committees) on these issues during the year.
- Fife Council (Audit Scotland) – the Dunfermline Flood Prevention Scheme has run significantly over time and budget. The Commission commented on the project in its recent follow up report on Major Capital Investment in Councils. I have asked the appointed auditor for a fuller briefing, after which I will decide whether to bring a s102 report to the Commission.
  - Dundee City Council (KPMG) – cost overruns and subsequent review of the V&A project in Dundee.
  - Aberdeen City Council (Audit Scotland) – the Marischal Square development in Aberdeen has attracted controversy and the auditors undertook some assurance work around the decision making process.
  - North Lanarkshire Council (Scott Moncrieff) – the contract for housing and non-housing repairs was the subject of a specific review by the local auditors, following concerns about the financial sustainability of the service and decisions made by the Council regarding the value of the contract in future.
  - East Dunbartonshire Council (Audit Scotland) – having received significant amounts of correspondence in relation to the Lennoxtown Initiative (LI), we conducted a review of the arrangements for the governance of the LI and its relationship with Celtic plc. In the event, it was not appropriate to bring a s102 report to the Commission, given the relatively limited involvement of the council and the historical nature of the allegations. We did, however, publish our conclusions from the review and there are lessons to be learned for public bodies in relation to the use of ALEOs.
  - East Renfrewshire Council (Audit Scotland) – weaknesses in internal control led to significant overpayments (totalling £1.3m) being made to three care providers by the community health and care partnership in relation to adults with learning difficulties.
- In all cases, auditors continue to monitor these issues and will be reporting to me again in September 2016.

## **Links to other reports that the Commission receives**

8. In addition to the annual local government overview report, the Commission receives a range of other reports throughout the year which reflect emerging issues, themes and risks in Councils. These include reports on:
  - Best Value – the Commission considered six BV reports in 2015/16
  - The shared risk assessment process
  - Current issues in local government, including reports for the Commission's Financial Audit and Assurance Committee (FAAC)
  - The impact of local audit work, reported to the FAAC in February 2016
  - The transparency and quality of audit activity.
9. I will be reporting in April to the Commission on the outcome of this year's shared risk assessment process and the proposed Best Value audit activity for the forthcoming year, in line with the new approach.

## **Conclusion**

10. The Commission is asked to note the outcome of the review of annual audit reports for local government bodies.

**Fraser McKinlay**

**Controller of Audit and Director of Performance Audit and Best Value**

**2 March 2016**

### **Purpose**

This financial summary invites the Commission to consider the aggregate financial results of all 32 councils in 2014/15, to supplement the review of local government annual audit reports. Exhibit 8 onwards also provides a financial summary of councils on an individual basis.

Please note that the draft local government overview report which the Commission has considered contains a more detailed review of financial performance in recent years and outlines our key messages to councils. This paper is intended to provide a summary focusing on financial results for the year 2014/15 only.

### **Accounting Framework**

The financial statements for all Scottish councils are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. The figures in this appendix are therefore quoted in terms of IFRS accounting requirements.

### **Income and Expenditure**

#### **Headlines**

- Aggregate income for all 32 councils was £18.3 billion as shown in Exhibit 1.
- £10.8 billion (59.0%) of the councils' income was funded by the Scottish Government (2013/14: £10.5 billion, 58.3%).
- Total gross expenditure to provide council services was £17.6 billion (2013/14: £17.7 billion). Exhibits 2 and 3 show this expenditure broken down across the main services.
- The highest areas of gross spend in 2014/15 were £5.4 billion for education (2013/14: £5.5 billion), £4.1 billion for social work (2013/14: £4.1 billion) and £3.7 billion for housing services (2013/14: £3.7 billion). These three service areas accounted for 75% of overall gross spend.
- The net cost of providing services (after accounting for service income) was £12.0 billion.
- Overall, the councils' made a deficit on the provision of services of £0.4 billion.

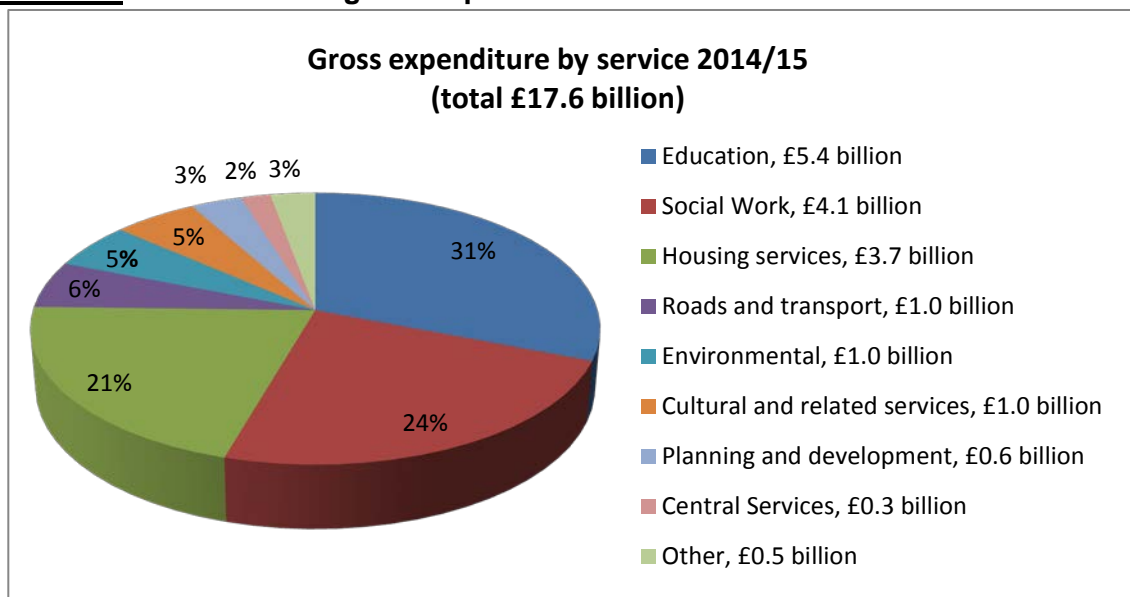
**Exhibit 1: Sources of Funding**

Where the money came from	2013/14 (£ billion)	2014/15 (£ billion)
General revenue funding from government	7.3	7.2
Service income, fees and charges	5.5	5.6
Non-domestic rates	2.5	2.7
Council Tax	2.0	2.0
Capital grants and contributions	0.7	0.9
<b>Total income</b>	<b><u>18.0</u></b>	<b><u>18.3</u></b>

**Exhibit 2: Consolidated Income and Expenditure Statement 2014/15**

How the money was spent	2013/14 (£ billion)	2014/15 (£ billion)			
		Net expenditure	Gross expenditure	Gross income	Net expenditure
<b>Service Expenditure Analysis</b>					
Education	5.3	5.4	0.2	5.2	
Social Work	3.3	4.1	0.9	3.3	
Housing	0.5	3.7	3.3	0.4	
Roads and transport	0.7	1.0	0.3	0.7	
Cultural and related	0.8	1.0	0.1	0.8	
Environmental	0.8	1.0	0.2	0.8	
Planning and development	0.3	0.6	0.2	0.4	
Central Services	0.1	0.3	0.2	0.1	
Other expenditure	0.5	0.5	0.1	0.4	
<b>Gross expenditure on services</b>		<b>17.6</b>			
<b>Gross income from services</b>			<b>5.6</b>		
<b>Net cost of services</b>	<b><u>12.3</u></b>			<b><u>12.0</u></b>	
Other expenditure	1.0			1.1	
Funding and council tax income	(12.5)			(12.8)	
<b>(Surplus)/ deficit on the provision of services</b>	<b><u>0.8</u></b>			<b><u>0.4</u></b>	

### Exhibit 3: Breakdown of gross expenditure



### Balance Sheet

#### Headlines

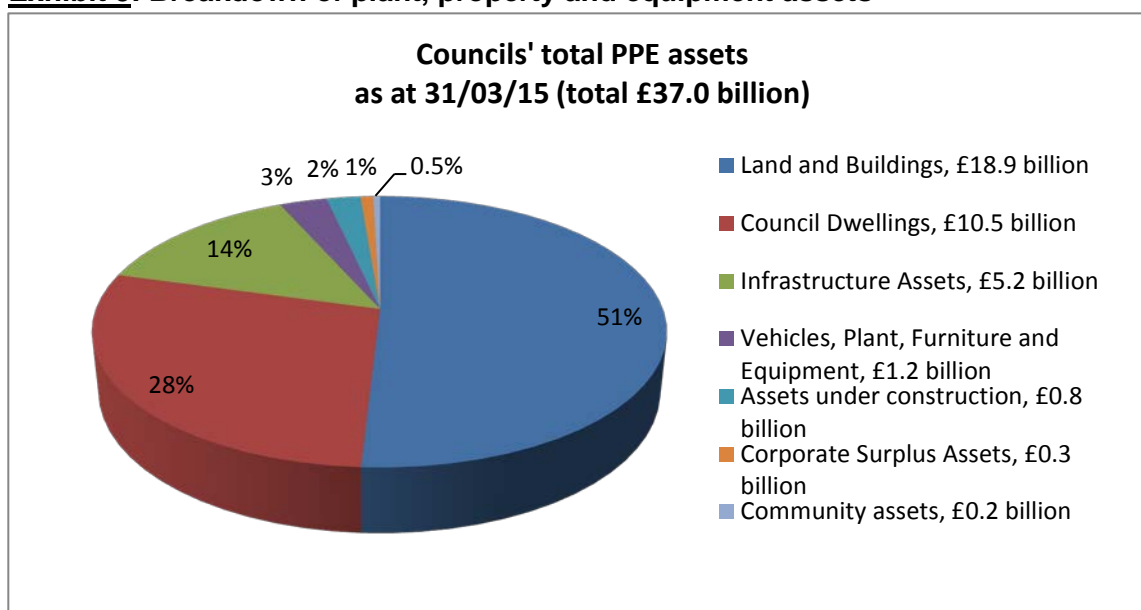
#### **Assets**

- Total assets owned by the councils' amounted to £43.0 billion as at 31 March 2015, an increase of £1.2 billion since the prior year.
- The councils' total net assets as at 31 March 2015 amounted to £15.2 billion as shown in Exhibit 4.
- In aggregate, the councils' owned property, plant and equipment (including land) worth £37.0 billion as at 31 March 2015. PPE assets by category are shown in Exhibit 5. The main high value items are schools, roads, council office buildings and council houses.
- Other non current assets owned by the councils' amounted to £3.0 billion. These items mainly consist of heritage assets, long term investments and long term debtors.
- Current assets owned by the councils' amounted to £3.0 billion as at 31 March 2015 as shown in Exhibit 6. This included aggregate cash and cash equivalents held in bank amounting to £0.8 billion (31 March 2014: £0.6 billion).
- The level of total usable reserves has remained stable since last year, amounting to £2.3 billion.

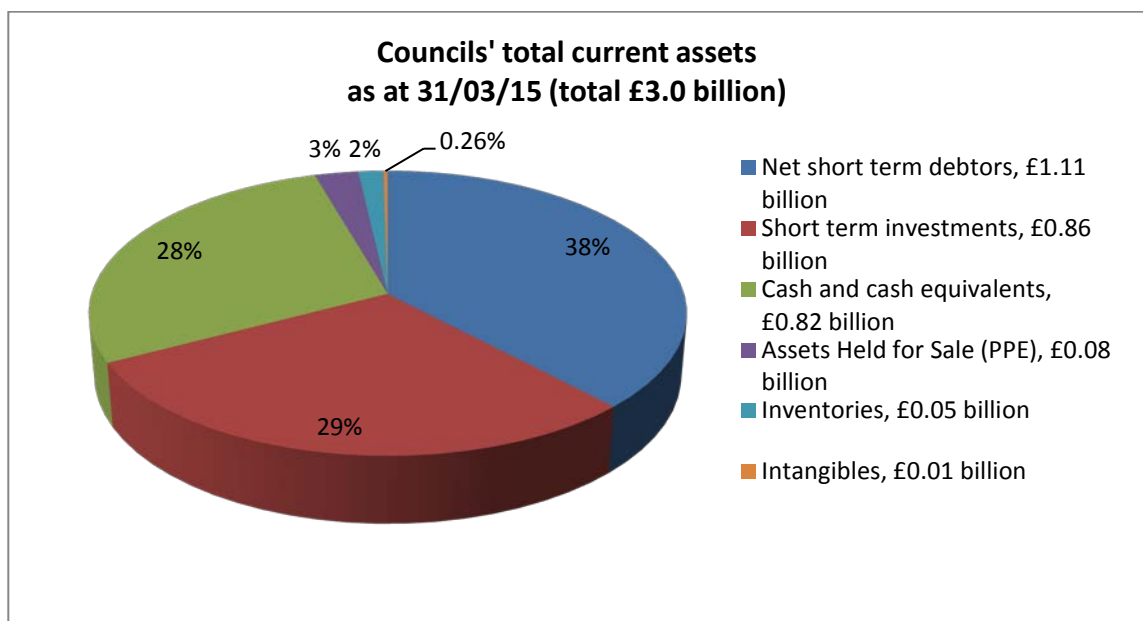
**Exhibit 4: Consolidated Balance Sheet (aggregate for all 32 councils)**

Balance Sheet as at 31 March 2015	2013/14 (£ billion)		2014/15 (£ billion)	
Property, Plant and Equipment	36.6		37.0	
Other non-current assets	2.7		3.0	
Current assets	2.5		3.0	
<b>TOTAL ASSETS</b>		41.8		43.0
Current liabilities	3.6		3.8	
Non-current liabilities	22.1		24.0	
<b>TOTAL LIABILITIES</b>		25.7		27.8
<b>NET ASSETS</b>		16.1		15.2
Usable reserves	2.3		2.3	
Non usable reserves	13.8		12.9	
<b>TOTAL RESERVES</b>		16.1		15.2

**Exhibit 5: Breakdown of plant, property and equipment assets**



## **Exhibit 6: Breakdown of current assets**



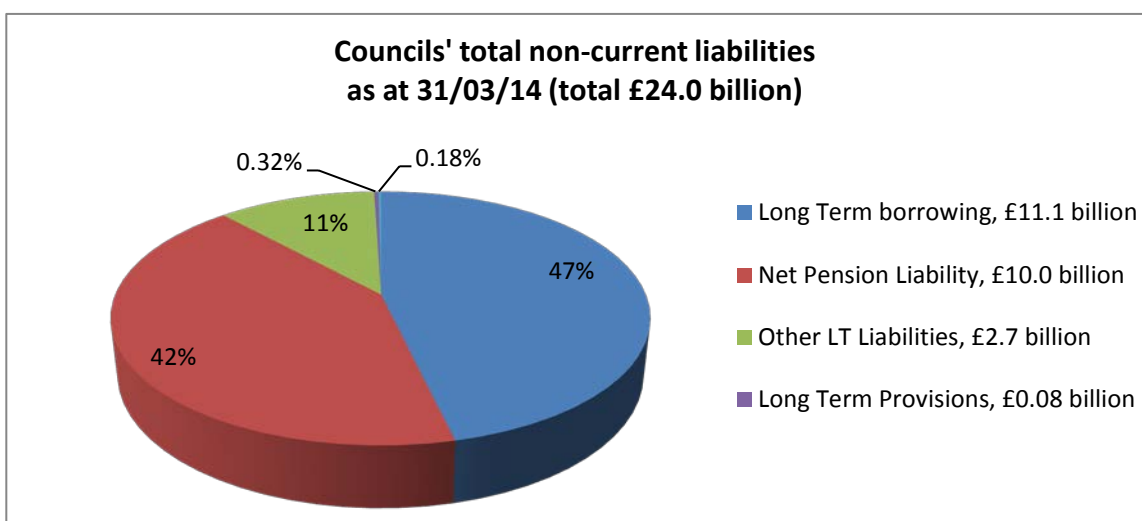
### ***Capital expenditure in 2014/15***

- The aggregate capital expenditure in 2014/15 amounted to £2.2 billion. This compares to a total capital budget of £2.6 billion, resulting in a £0.4 billion underspend against budget.
- Total capital expenditure in 2014/15 was split between general services capital expenditure of £1.6 billion and housing capital expenditure of £0.6 billion.
- The main areas of capital spending in 2014/15 were to build new housing, the new build and refurbishment of the schools estate, and to build and repair roads and other infrastructure.
- Some of the common reasons for capital underspends and slippage were due to delays in housing programmes and within education services, for building and refurbishment works on the schools estate.
- Slippage and underspends against planned capital projects is a recurring issue for councils, with 28 councils reporting underspends against their 2014/15 capital budget. The average underspend compared to capital budget was 14% across all councils.
- It is important that councils set realistic capital budgets each year, as failing to deliver capital projects will clearly impact on the ability of each council to deliver their operational objectives and will also impact on their borrowing requirements.

## Liabilities

- Total liabilities have increased by £2.1 billion since last year to £27.8 billion.
- Gross non-current liabilities amounted to £24.0 billion as at 31 March 2015, as shown in Exhibit 7. These long term liabilities mainly consisted of long term borrowing (£11.1 billion) and the net pension liability (£10.0 billion).
- **Pensions:** The net pension liability has increased significantly by £1.5 billion since last year (2013/14: £8.5 billion). The actuary for each local government pension scheme review the valuation of the pension funds every three years, with the most recent valuation completed in March 2014. This is the main factor for the rise in the liability, as the 2013/14 values were based on the previous 2011 valuation. In the 2014 valuation, changes to actuarial assumptions used have affected pension liabilities. In particular, the falling bond yields used in the calculations leads to a lower discount rate (i.e. the net price of inflation) which leads to a higher value being placed on liabilities. Other changes in the assumptions used, such as increased life expectancies, have also contributed to the increase in the liability.
- Note that the consolidated balance sheet at Exhibit 4 excludes the pension liability for teachers. Teachers' pensions are managed separately by the Scottish Teachers' Superannuation Scheme (STSS). This omission from the local government accounts is permissible as the assets and liabilities cannot be separated for each council. As at 31 March 2015, the pension liability in the STSS was £29.4 billion (31 March 2014: £27.1 billion).
- **Borrowings:** Short term borrowings have increased by £0.1 billion since last year (2014/15: £1.5 billion, 2013/14: £1.4 billion). Long term borrowings have increase by £0.4 billion (2014/15: £11.1 billion, 2013/14: £10.7 billion). A number of councils may have increased borrowing in recent years due to changes in the capital funding allocations from the Scottish Government and to take advantage of lower interest rates.
- **Interest paid:** In aggregate, the councils' paid interest of £0.8 billion on their total borrowings, similar to last year. The councils will have to repay these borrowings in line with agreed terms and will need to manage cashflows by operating effective treasury functions.

### Exhibit 7: Breakdown of non-current liabilities



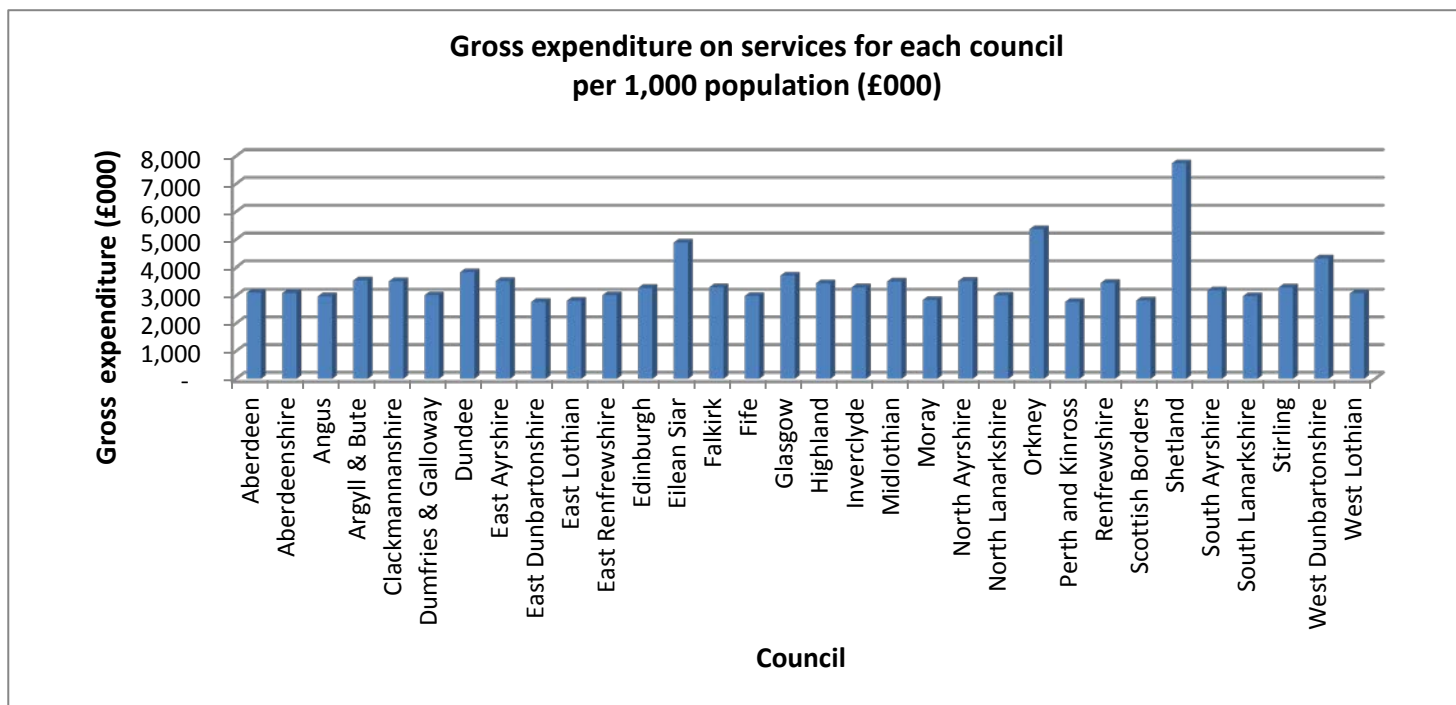


**Exhibit 8: Financial summary for individual councils in 2014/15 (sorted by SG funding and taxation, largest to smallest)**

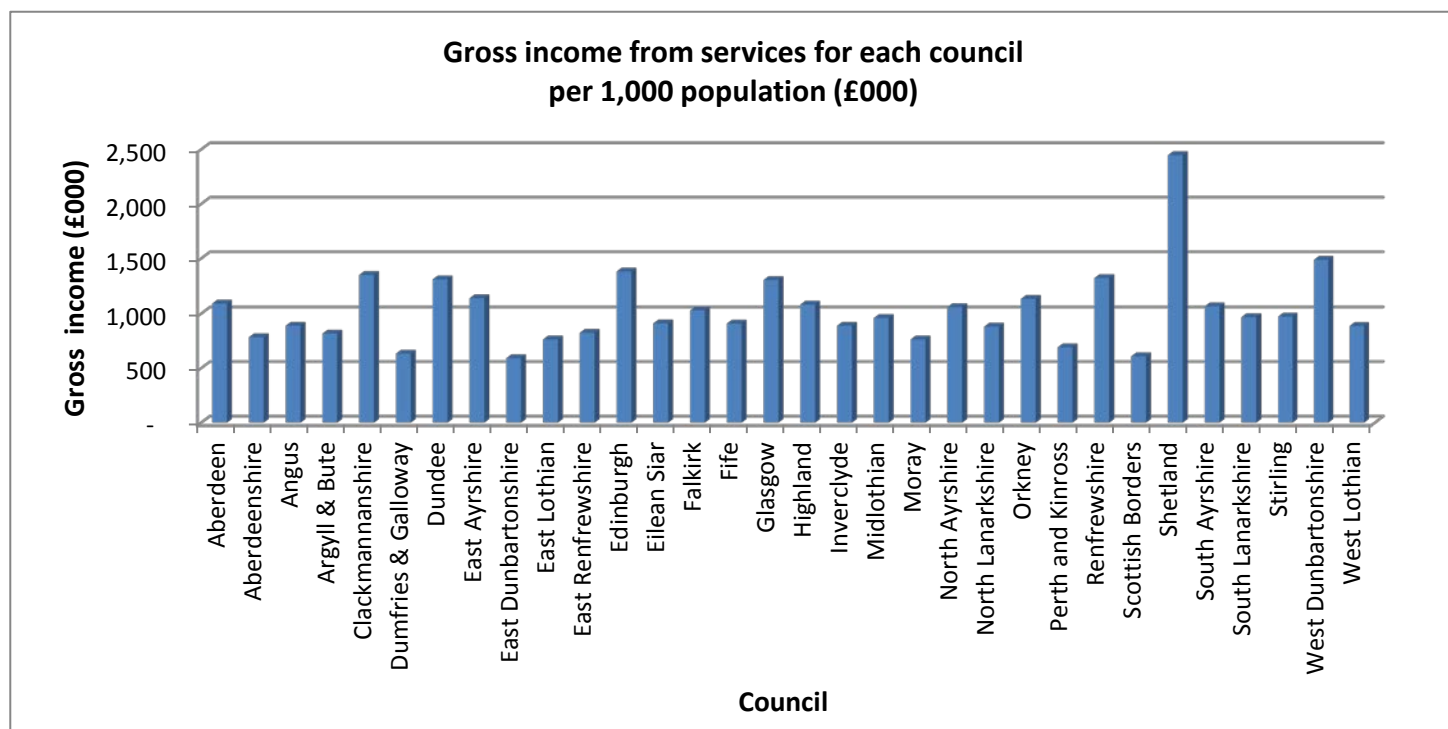
No	Council	Population estimate (Mid-2014)	SG funding and taxation £000 *	Gross spend on services £000	Gross income from services £000	Net cost of services £000	Total useable reserves £000
1	Glasgow City	599,650	1,539,552	2,230,781	781,204	1,449,577	92,141
2	Edinburgh, City of	492,680	1,032,794	1,612,253	679,543	932,710	192,556
3	Fife	367,260	828,210	1,097,058	333,622	763,436	100,584
4	North Lanarkshire	337,950	763,097	1,015,040	297,399	717,641	95,901
5	South Lanarkshire	315,360	722,801	939,749	305,175	634,574	58,126
6	Highland	233,100	624,147	802,859	252,444	550,415	86,896
7	Aberdeenshire	260,500	568,879	805,035	204,202	600,833	66,764
8	Aberdeen City	228,990	469,496	711,133	250,048	461,085	128,026
9	Renfrewshire	174,230	393,069	602,036	230,008	372,028	105,118
10	West Lothian	177,150	392,024	546,046	157,157	388,889	118,568
11	Dundee	148,260	384,127	569,405	193,931	375,474	24,192
12	Dumfries & Galloway	149,940	368,070	451,842	94,882	356,960	63,221
13	Falkirk	157,640	355,527	520,087	162,297	357,790	43,243
14	North Ayrshire	136,450	341,979	481,345	144,604	336,741	51,828
15	Perth & Kinross	148,880	335,526	412,730	102,836	309,894	79,948
16	East Ayrshire	122,150	287,000	430,767	139,259	291,508	58,162
17	Scottish Borders	114,030	273,555	321,892	69,370	252,522	27,896
18	Angus	116,600	267,307	346,711	103,658	243,053	32,770
19	Argyll and Bute	87,660	265,688	310,966	71,578	239,388	50,478
20	South Ayrshire	112,510	265,136	358,505	120,004	238,501	42,140
21	East Dunbartonshire	106,730	252,543	296,086	63,050	233,036	28,167
22	East Lothian	102,050	235,154	287,206	77,820	209,386	24,678
23	West Dunbartonshire	89,730	233,935	387,129	133,443	253,686	19,059
24	Moray	94,750	230,523	269,169	72,284	196,885	31,550
25	East Renfrewshire	92,380	226,769	278,607	76,094	202,513	53,968
26	Stirling	91,580	223,842	301,565	89,071	212,494	24,230
27	Inverclyde	79,860	204,441	263,250	70,958	192,292	54,400
28	Midlothian	86,210	187,090	302,375	82,721	219,654	60,617
29	Shetland Islands	23,230	126,616	179,767	56,846	122,921	240,955
30	Eilean Siar	27,250	124,835	133,184	24,805	108,379	21,968
31	Clackmannanshire	51,190	119,790	179,957	69,055	110,902	17,957
32	Orkney Islands	21,590	86,724	115,890	24,495	91,395	239,548
<b>TOTAL</b>		<b>5,347,600</b>	<b>12,730,246</b>	<b>17,560,425</b>	<b>5,533,863</b>	<b>12,026,562</b>	<b>2,335,655</b>
	<i>Source</i>	<i>National Records of Scotland, Mid-2014 Population Estimate</i>	<i>Councils' 2014/15 audited annual accounts</i>	<i>Councils' 2014/15 audited annual accounts</i>	<i>Councils' 2014/15 audited annual accounts</i>	<i>Councils' 2014/15 audited annual accounts</i>	<i>Councils' 2014/15 audited annual accounts</i>

\*Scottish Government funding comprises of general revenue funding, non-domestic rates and capital grants and contributions. Council tax income is also included in these figures.

**Exhibit 9: Comparison of gross expenditure on services across the councils**



**Exhibit 10: Comparison of gross income from services across the councils**



**Sources**

- *Income & expenditure and balance sheet figures: Audit Scotland Local Government Audited Accounts Database 2014-15*
- *Capital expenditure figures: Individual local authorities' audited accounts 2014-15*
- *STSS pension figures: Scottish Teachers' Superannuation Scheme, Annual Report and Accounts 2014-15*
- *Population figures: National Records of Scotland, Mid-2014 Population Estimates Scotland, Published May 2015*

**Note**

Please note that balance sheet figures from prior year in this paper are quoted from unaudited accounts. It is estimated that there would be no overall material difference to the audited prior year balance sheet figures. All other figures throughout this report are extracted from audited accounts.

**MEETING: 10 MARCH 2016**

**COVER REPORT BY: SECRETARY TO THE COMMISSION**

**ANNUAL AUDIT - IMPACT REVIEW**

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**Purpose**

1. This paper introduces a report from the Assistant Auditor General which reports on the biennial review of impact of the annual audit.

**Background**

2. Audit Scotland undertakes a biennial review of the annual audit which it reports to the Commission through its Financial Audit and Assurance (FAA) Committee.
3. The last such review was in 2014. At its March 2014 meeting, the FAA Committee recommended to the Commission that, as well as FAA Committee consideration of the report, the Commission should also be given the opportunity to do so. The Commission agreed with this recommendation.
4. This year, at its 25 February meeting, the FAA Committee considered the attached report by the Assistant Auditor General on the biennial review. The Committee noted the report. (The Committee also considered and noted a separate report on the planning and reporting of risks in annual audit plans and annual audit reports. The Committee also noted this report.)
5. The Committee also noted advice from the Assistant Auditor General that he is discussing with the Secretary how to improve the reporting of audit risks and impact to the Commission. Such discussion will include:
  - The definition of risk, in relation to the audit and to the audited body.
  - The balance of risks between financial and service sustainability and impact.
  - Ensuring better read across between categories of risk and impact.

**Conclusion**

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

**Paul Reilly**  
**Secretary to the Commission**  
**2 March 2016**

**FINANCIAL AUDIT AND ASSURANCE COMMITTEE**

**MEETING: 25 FEBRUARY 2016**

**REPORT BY: ASSISTANT AUDITOR GENERAL**

**ANNUAL AUDIT - IMPACT REVIEW**

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**Purpose**

1. The purpose of this report is to inform the Committee of the types, prevalence and significance of risks and recommendations being reported by appointed auditors mapped across the four impact categories. This mapping is based on a review by Audit Scotland of their 2014/15 council annual audit reports.

**Background**

2. Audit Scotland is keen to determine and measure the impact that its work has to enable it to inform the Committee and wider stakeholders. Four impact categories have been agreed:
  - Governance and Financial Management
  - Financial Sustainability
  - Value for Money
  - Transparency of Reporting
3. For 2014/15 audits, the impact of both the firms and ASG has been compiled together rather than reported separately based on last years' recommendation.

**Results**

4. All 178 recommendations made by appointed auditors have been collated based on the four impact dimensions with:
  - 72 relating to governance and transparency
  - 59 to financial management
  - 38 to financial sustainability
  - 9 for value for money.
5. The number of low level risks being included in audit reports that grade risks has reduced by 12%.

**Looking Ahead**

6. 2015/16 is the final year of the current audit appointments and also the current Code of Audit Practice (Code). The new Code and supporting guidance will be in place for the

2015/16 audits and represents an opportunity to review the type of risk and impact reporting being made to ensure that it meets the requirements of the Accounts Commission going forward.

## **Conclusion**

7. The Committee is invited to note and provide comments on the contents of this report.

**Russell Frith**  
**Assistant Auditor General**  
**15 February 2016**

# Review of impact

## 2014/15 local government audits

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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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# Review of ASG and Firms' impact

## Purpose

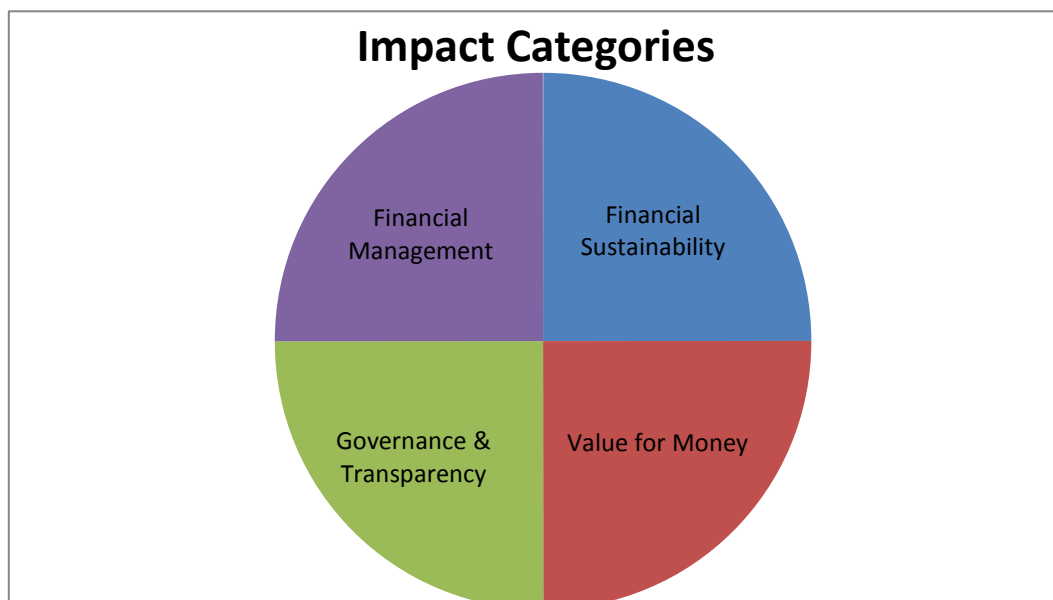
1. To provide the Committee with analysis and observations on the Accounts Commission's appointed auditors, Audit Service Group (ASG) and the private firms', Annual Audit Report (AAR) action plan recommendations using the revised Audit Scotland impact model.

## Key messages

- Recommendations were more evenly distributed across the revised four impact dimensions in 2014/15 than in previous years
- The firms have tended to focus more on financial management impact areas compared to ASG who identified more on the financial sustainability of councils.
- There is some evidence that firms are continuing to report some less significant risks in their AAR's contrary to the Code of Audit Practice (the Code) expectations and the Assistant Auditor General reminders.
- The results of this review will inform the supporting guidance for the new Code of Audit Practice.

## Background

2. These are the broad areas where Audit Scotland expects our work to have an impact:



3. This report summarises the results of a review of the recommendations made in the 2014/15 AAR's of ASG and the firms. The main focus is on what has been reported in the AAR's.

4. In previous years, separate impact reports were prepared on the Firms and ASG local authority audit appointments, but after a review of the process, it was felt that a combined ASG and Firms impact report would be more effective, comparing all 32 councils and the reporting between ASG and Firms.

## The 2011 Code reporting requirements

5. The Code does not cover 'impact' as an audit requirement for appointed auditors to plan for or report on. Audit Scotland is continuing to develop its impact framework in parallel with the next Code that will be in place for the 2016/17 audit appointments.
6. The AAR should summarise the significant matters that arose from the audit as a whole. Above all the AAR should:
  - reflect the wider responsibilities given to auditors under the Code
  - be concerned with achieving change
7. A key method by which auditors achieve change, or have an impact, is by agreeing recommendations for improvement on the significant risks identified with management. The Code states the following at paragraph 108:
 

*Annual audit reports should be concerned with achieving change and be accompanied by agreed action plans covering the significant risks identified from the audit and any recommendations. They should also refer to any significant issues where agreement was not reached.*
8. Audit Scotland's 2014/15 audit planning guidance, issued to auditors, does ask all auditors to consider the four impact categories in paragraph 2 as part of their audit planning and reporting.
9. It is not straightforward to capture the other impacts that auditors have at audited bodies, for example through discussions with management, though it should be noted that these 'softer impacts' can be very important.

## Firms' AAR's

10. In 2014/15 all the firms' AAR's contained an action plan with all the recommendations, where listed together with a management response, agreed either explicitly or by inference from the management response.
11. The number of recommendations reported in the 2014/15 AAR's are summarised in the following table together, highlighting which firms grade their risks to assist the audited bodies to prioritise their actions.

Council	Auditor	Action Plan Recommendations	Risk Graded?
Aberdeenshire Council	Deloitte	14	Yes
Clackmannanshire Council	Deloitte	4	Yes
Comhairle nan Eilean Siar	Scott-Moncrieff	8	Yes
Dumfries and Galloway Council	PWC	3	No
Dundee City Council	KPMG	5	Yes
East Lothian Council	KPMG	4	Yes
Inverclyde Council	Grant Thornton	5	Yes
Midlothian Council	Grant Thornton	9	Yes
Moray Council	PWC	1	No
North Lanarkshire Council	Scott-Moncrieff	8	Yes
Scottish Borders Council	KPMG	4	Yes
South Lanarkshire Council	PWC	2	No
Stirling Council	Grant Thornton	8	Yes
<b>Total firms</b>		<b>75</b>	

12. The following table analyses the agreed risks into 'low' or 'significant' (medium-high risk) grades where such grading has been provided (excludes PWC as the firm does not grade risks):

Council	Auditor	Number	Number graded 'low'	% lowest grade	Significant risks reported
Aberdeenshire Council	Deloitte	14	2	14	12
Clackmannanshire Council	Deloitte	4	2	50	2
Comhairle nan Eilean Siar	Scott-Moncrieff	8	6	75	2
Dundee City Council	KPMG	5	2	40	3
East Lothian Council	KPMG	4	3	75	1
Inverclyde Council	Grant Thornton	5	0	0	5

Council	Auditor	Number	Number graded 'low'	% lowest grade	Significant risks reported
Midlothian Council	Grant Thornton	9	5	56	4
North Lanarkshire Council	Scott-Moncrieff	8	4	50	4
Scottish Borders Council	KPMG	4	4	100	0
Stirling Council	Grant Thornton	8	5	63	3
<b>Total firms</b>		<b>69</b>	<b>33</b>	<b>48</b>	<b>36</b>

13. The Code expects that action plans should only report the significant risks and associated recommendations.
14. In comparison to 2013/14 the proportion of low risks, based on auditor's own grading system, being reported has reduced from 60% for 2013/14 to 48% for 2014/15. This is still a large number of low level risks included in AAR's which may not necessarily be required.
15. Examples of low risks being included in firms' AARs, based on their firm grading's are: to develop areas of the management commentary, remuneration report to be reviewed more thoroughly, incomplete transport infrastructure assets tab on data collection tool for WGA and follow up NFI matches to be completed by the specified deadlines.
16. Whilst it is up to individual auditors to determine risk inclusion and grading, the number of low level recommendations still being made raises the following concerns:
  - Auditors are still reporting insignificant risks in the AAR action plans which are public documents addressed to the elected members and the Controller of Audit.
  - Some firms are potentially diluting the impact that AAR's can have. Many of these low grade risks reported in the AAR's would be better communicated through a management letter.
17. Other observations:
  - There is an inconsistency between how individual firms report action plan gradings, with PWC being the only firm not to include grades, which is a similar approach to ASG.
  - The firms all report their action plans differently in terms of including the issue, risk and recommendation with the appropriate management response or action agreed. This in turn, shows a lack of consistency making it more difficult to make comparisons across all reports.

- a) KPMG are the only ones consistently recording all three (findings, risk and recommendation) similar to ASG AARs.
- b) Deloitte only record the recommendation, whereas Scott Moncrieff includes the issue and recommendation.
- c) Both Grant Thornton and PWC have different action plan layouts for each of their audits with Grant Thornton excluding the recommendation for Midlothian and Stirling Council and PWC omitting the risk for Dumfries & Galloway, as well as recommendation for Moray Council.

## ASG and Firms reporting on impact dimensions

18. The 178 recommendations identified in all the AAR's are summarised below under the four impact categories. It should be recognised that recommendations can often fit into more than one impact category.
19. Governance and Transparency impact category is the most common type of risk identified with 72 recommendations being made, with many of the councils highlighting issues relating to Health and Social Care Integration and the National Fraud Initiative. This area was followed by Financial Management (59) and Financial Sustainability (38).
20. Value for money recommendations are low in number (9) which is perhaps due to the focus of audit work being on the financial statements.
21. All ASG AARs are based upon the four impact dimensions, with risks highlighted under each section and apportioned below respectively. The firms, Scott Moncrieff and Grant Thornton both apply this format to their reports.
22. The other three firms address upon these impact dimensions in differing ways, therefore professional judgement required to summarise some of the risks into categories:
  - Deloitte briefly outline the council's performance of these within their Partner introduction section.
  - KPMG reports cover the financial statements, governance and performance management, but are not based on the impact dimensions.
  - PWC touch upon the impact dimensions under the headings financial standing, governance and internal control, best value and performance and fraud.
23. Both the firms and ASG risks focus on governance and transparency, but the main difference between them are that firms tend to concentrate more on the financial management arrangements of councils whereas ASG, although have raised risks in this area, raise more risks relating to the sustainability of councils finances.
24. The following table provides a breakdown of recommendations by impact area and auditor together with some examples of recommendations being made and the intended outcome. Some further examples of ASG and firms having an impact at councils are shown in appendix 2.

Impact Category %	ASG	Deloitte	Grant Thornton	KPMG	PWC	Scott-Moncrieff	Examples of recommendations made	Expected outcome
Financial Management <b>(33%)</b>	20	14	9	7	3	6	<p>The budget should include all anticipated costs and be reviewed to take account of areas of recurring overspend.</p> <p>Areas for further development on Annual Report (management commentary) to enhance readers understanding.</p> <p>Specific recommendations to improve financial statements procedures for Plant, Property and Equipment.</p>	<p>Improved budgeting</p> <p>Improved reporting</p> <p>Strengthened financial management</p>
Financial Sustainability <b>(21%)</b>	32	1	3	1	1	0	<p>Savings need to be identified and develop detailed plans to show how these will be delivered.</p> <p>The need to consider the available resource and project management capability in light of extensive capital expenditure plans for next few years.</p>	<p>Improved delivery and strengthened financial position</p> <p>Strengthened capital planning</p>

Impact Category %	ASG	Deloitte	Grant Thornton	KPMG	PWC	Scott-Moncrieff	Examples of recommendations made	Expected outcome
							<p>Re-assess the capital plan to ensure work can be completed.</p> <p>The need to maintain a level of usable reserve levels that achieves a balance between meeting current obligations and preparing for future commitments.</p>	<p>Strengthened financial planning</p>



Impact Category %	ASG	Deloitte	Grant Thornton	KPMG	PWC	Scott-Moncrieff	Examples of recommendations made	Expected outcome
Governance and Transparency <b>(41%)</b>	47	3	7	5	1	9	<p>Governance arrangements should be reviewed to ensure they continue to remain fit for purpose and avoid unnecessary duplication of reporting wherever possible.</p> <p>Update the corporate risk register to recognise the risk of a cyber-attack and ensure there are plans and resources in place to deal with such an attack.</p> <p>CFCR should be subject to the same budgetary control as any other budget line ensuring full transparency of movements during the financial year.</p>	<p>Improved governance</p> <p>Improved governance</p> <p>Increased transparency of reporting financial performance</p>
Value for Money <b>(5%)</b>	4	0	3	0	1	1	<p>The action plan should be sufficiently detailed to promote improvement and transformation</p> <p>Ongoing monitoring of the new</p>	<p>Improved performance</p> <p>Improved performance</p>

Impact Category %	ASG	Deloitte	Grant Thornton	KPMG	PWC	Scott-Moncrieff	Examples of recommendations made	Expected outcome
							arrangements should provide reasonable evidence to demonstrate continuous improvement in the performance of its functions	
<b>Total (178)</b>	<b>103</b>	<b>18</b>	<b>22</b>	<b>13</b>	<b>6</b>	<b>16</b>		

## Key themes across local authorities

25. Appendix 1 highlights the most common risks and recommendations auditors presented in 2014/15 with Health and Social Care Integration and National Fraud Initiative being commonly reported by both the firms and ASG, and financial sustainability relating to identifying and achieving savings was raised predominantly by ASG (87%).
26. Of the five most common financial management risks, the first four on Plant, Property & Equipment, Fixed Asset Register, Highways assets and Annual Report were largely raised by the firms. Whereas the fifth most common risk on budgeting is mainly associated with ASG and raising this type of risk is primarily linked with financial sustainability impact too.
27. Other examples of risks which are included less frequently (i.e. raised for three councils) coming through the AAR review are capacity of finance teams, workforce planning, councils borrowing approach and ALEO's governance arrangements. These show the variety of risks being raised across the councils, along with additional risks on an individual council basis.

## Other reported impact

28. Some firms have added value in their reports by comparing the council's performance against benchmarks (normally based on the firm's central ranges), carrying out benchmarking surveys on finance departments and building upon their additional UK wide and local area knowledge providing examples to help councils analyse their work to deliver better outcomes.
29. The use of applications has also been promoted by some of the firms for general ledger audit work. These applications allow firms to perform data analytics to thoroughly review most or all journals entries during the financial year to identify trends or weaknesses in the internal control systems. These tools can be useful in providing detailed analysis and highlight areas for councils to improve, with processes becoming more effective and efficient and shared across services as a result.

## Concluding remarks

30. Measuring and reporting impact is continuing to develop each year for both Audit Scotland and the appointed auditors. Audit Scotland will continue to engage with the firms in 2015/16 audit year to improve the reporting of impact emphasising the four impact dimensions and to inform them of the new Code of Audit Practice applicable to the new audit appointments.

## Appendix 1 -

Detail	Outcome (impact)	No. of Councils with related point raised
<b><u>Financial Management</u></b>		
<b>Property, Plant &amp; Equipment</b> Concerns around valuations and classification of PPE and effect may have on 15/16 financial statements.	Reviews of operations and adopting suggested valuation methods to improve process.	4 Aberdeenshire, Clackmannanshire, North Lanarkshire, Orkney.
<b>Infrastructure Assets</b> Concerns around arrangements to ensure councils comply with major changes in valuing transport infrastructure assets required by 15/16 Code.	Review compliance arrangements to ensure information available in time for implementation.	5 Aberdeenshire, Highland, Midlothian, Scottish Borders, Stirling.
<b>Fixed Asset Register</b> Concerns around fixed asset register reconciliations and year end balances resulting in incorrect capital accounting.	Review arrangements and the information held in its fixed asset management system to ensure it is correct.	6 Aberdeenshire, East Renfrewshire, Inverclyde, Orkney, Scottish Borders, South Lanarkshire.
<b>Annual Report</b> Areas for further development in the report and inclusion of non financial information	Content of the annual report (management commentary/Remuneration report and Governance statement) will be reviewed to ensure value added to report.	5 Aberdeenshire, Comhairle, East Lothian, Inverclyde, North Lanarkshire.

<p><b>Budgeting</b></p> <p>Concerns around budgets not accurately reflecting council expenditure for the year.</p>	<p>Continues to further develop the quality and accuracy of budgets and projections in specific areas, bearing in mind the very uncertain nature of some events.</p>	<p>Falkirk, Highland, Midlothian, South Ayrshire.</p> <p style="text-align: right;">4</p>
<p><b><u>Financial Sustainability</u></b></p>		
<p><b>Financial Planning</b></p> <p>Concerns around identifying and achieving savings, which need to be monitored closely for councils to achieve a balanced budget.</p>	<p>Continue monthly monitoring of finance performance, updating short and medium term financial plans and consider proposals to help deliver savings.</p>	<p>Aberdeen City, Argyll &amp; Bute, Edinburgh, Dundee City, East Dunbartonshire, Falkirk, Fife, Glasgow City, Highland, Moray, Orkney, Perth &amp; Kinross, Shetland, West Dunbartonshire, West Lothian.</p> <p style="text-align: right;">15</p>
<p><b>Capital Plans</b></p> <p>Councils recorded underspends against planned capital expenditure</p>	<p>Review capital monitoring processes and update to identify issues earlier and minimise the level of slippage.</p>	<p>East Dunbartonshire, Highland, Inverclyde, North Ayrshire, Orkney, Shetland.</p> <p style="text-align: right;">6</p>
<p><b>Reserves</b></p> <p>Concerns regarding reserve balances which may not support the medium to long term financial plans.</p>	<p>Reserves position to be continually monitored and considered as part of budgeting processes.</p>	<p>Falkirk, South Ayrshire, Stirling, West Dunbartonshire, West Lothian.</p> <p style="text-align: right;">5</p>

**Governance & Transparency**

**Health & Social Care Integration**

Concerns around arrangements not being in place for integration deadline 1 April 2016.

There are a range of workstreams to ensure that the arrangements in place by the deadlines and oversight in place to monitor financial position.

Aberdeen City, Aberdeenshire, Edinburgh, Comhairle, East Ayrshire, East Dunbartonshire, Falkirk, Fife, Glasgow City, Inverclyde, North Ayrshire, North Lanarkshire, Orkney, Renfrewshire, West Dunbartonshire, West Lothian.

16

**National Fraud Initiative**

There are a number of concerns regarding NFI process, the follow up and submission of data to account for any fraudulent activity.

Review and improve on current arrangements, with high priority matches completed first in order to complete investigations before NFI deadlines.

Aberdeenshire, Dumfries & Galloway, Dundee City, East Lothian, Falkirk, Glasgow City, Scottish Borders, Shetland, Stirling, West Lothian.

10

**Value for Money**

**Best Value**

Concerns regarding the development and implementation of an action plan in line with Best Value improvements.

Develop action plans to take forward improvements and monitor progress through delivery of plans and programmes achieving financial efficiencies and transformations.

East Dunbartonshire, Falkirk, Fife.

3

**Performance reporting**

Insufficient performance information for users to understand and take action on

Review arrangements and improve on these based on action plan and Accounts Commission recommendations.

Midlothian, North Ayrshire, South Ayrshire, Stirling.

4



MEETING: 10 MARCH 2016

REPORT BY: ASSISTANT AUDITOR GENERAL

## CODE OF AUDIT PRACTICE

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### Purpose

1. The purpose of this report is to update the Accounts Commission on the results of draft Code of Audit Practice (the Code) formal consultation process and present the updated Code for agreement.

### Background

2. The Code summarises the strategic framework for public audit in Scotland and sets out the responsibilities of audited bodies and auditors. By setting out this framework the Code provides a context within which auditors are encouraged to transparently report on significant audit risks alongside their judgements and conclusions thereon. This should improve the value and impact that public audit can have.
3. This Code takes public audit forward by clearly stating the expectations to be delivered from the range of audit work undertaken by appointed auditors and PABV staff. This work includes realising the Accounts Commission's ambitions for the audit of Best Value which, together with the creation of the four dimensions of wider scope audit, will be used to frame auditor work in this area such as planning and reporting. The audit dimensions are:
  - financial sustainability
  - financial management
  - governance and transparency
  - value for money.
4. The audits will be carried out by multi disciplinary audit teams and resources will be matched to the risks and relevant PABV programmes to ensure that these resources are used effectively and efficiently.
5. The Code is a high level document and will be supplemented by detailed guidance which will reflect changing priorities and auditing developments such as the approach to Best Value and support auditors to provide consistently high quality audits.

### Consultation

6. The consultation went public on 22 October and closed on 3 December 2015. The Code, a response form and a covering letter were emailed to:
  - Chief Executives or equivalent in all current audited bodies
  - The three UK audit agencies
  - Chartered Institute of Public Finance and Accountancy (CIPFA) Scotland and UK



- The Institute of Chartered Accountants Scotland (ICAS)
  - Institute of Chartered Accountants in England and Wales (ICAEW)
  - Financial Reporting Council (FRC)
  - Convention of Scottish Local Authorities (COSLA)
  - Currently appointed audit firms and those that had expressed an interest.
7. The Code was also made available on Audit Scotland’s website, tweeted and included in our regular update email to Audit Scotland subscribers.

## Results and analysis

8. The number of responses to the draft Code was:

<i>Sector or profession</i>	<i>2011 responses</i>	<i>2015 responses</i>
Accountancy body	3	3
Audit firms	6	3
Central Government	11	16
Further Education	4	2
Local Government	7	11
NHS	8	3
Scottish Water	0	1
<b>Total</b>	<b>39</b>	<b>39</b>

9. It is difficult to draw meaningful conclusions on the number of respondents as there has been the number of changes in the number of audited bodies, particularly in Local Government and Further Education sectors, in the time between the two Code consultations.
10. What is noted is the lack of consistency in the audited bodies that have responded to both of the last two Code consultations:
- only Falkirk Council from the local government sector
  - NHS Ayrshire and Arran, NHS Lothian and the Scottish Ambulance Service from the health sector
  - the Scottish Housing Regulator, Scottish Qualifications Authority, SEPA and Transport Scotland from the central government sector
  - no further education colleges
  - the NAO responded (previously the Audit Commission did) but neither the WAO nor NIAO responded. Audit Scotland responded to the recent NIAO Code revision.
  - ICAS responded.
11. There has been a relatively large drop in the number NHS responses which is out of step with the increases in the response numbers in the local and central government sectors.

12. Whilst Audit Scotland cannot make audited bodies or other relevant bodies respond to its consultations, the number of responses may indicate that it would be worth reviewing our engagement strategy for the next time.

### Significant or consistent areas of response

13. In the main the responses were positive and provided a useful test for the Code in terms of it supporting the direction that the Account's Commission and the Auditor General are looking to take public sector audit in Scotland over the next five years.
14. A number of changes have been made to the draft Code to reflect the suggested improvements or clarifications identified from the consultation responses provided.
15. The Code is a strategic document that it is intended to survive for the duration of the five year appointments and as such cannot be the vehicle for the detail that some of the consultation responses have asked to be included in the Code.
16. For those areas that require a more precise response it was always intended that these would be best dealt with in the supplementary guidance to be issued in support of the Code. It is here that the greatest benefit from the formal consultation process, in terms of developing the specifics of how Audit Scotland can support auditors in making the wider scope real, will be realised.
17. The following table provides a summary of the key areas that generated the most responses:

Area of Code	Comment
<p><b>Best Value audit</b></p>	<p>Some concerns were made about whether we were applying the risk based and proportionate principle when we are stating that all councils will be getting a BV audit over next 5 years.</p> <p><i>Response –none for the Code. This will be addressed in the new approach to BV audit being developed and supplementary guidance.</i></p> <p>It is also worth noting that the Best Value audit and supporting work will be proportionate to the risks in each council and that the Commission's strategy to cover all councils in a 5 year period is not solely based on risk.</p> <p>The Accounts Commission have also identified that there is also a need to identify best practice and to obtain a breadth of Best Value council experience from across all councils.</p>
<p><b>Wider scope</b></p>	<p>Overall the responses were positive on the direction of travel. There were some specific concerns about terminology and how this would translate to an audit. Concerns around use of the words such as 'conclusion' and 'significant risk' were expressed.</p> <p>There was also comment on how practicably an audit could provide opinion on future events. The latter related to the extension of the Going Concern principle beyond 12 to 18 months.</p> <p><i>Response: Minor changes to the Code.</i></p> <p><i>This will be expanded upon in the supplementary guidance with examples and application to wider scope work using the terminology.</i></p> <p><i>In terms of audit and future events we have added the following paragraph:</i></p> <p style="padding-left: 40px;">'The annual audit reports that are prepared under this Code will include both opinions and conclusions which are retrospective in nature and also prospective views which will necessarily be based on assumptions about the future.'</p>

	<p><i>These prospective views will be based on the appropriateness or preparedness of an audited body's arrangements in response to say financial sustainability risks. Auditors are perfectly capable of obtaining sufficient and relevant evidence to support any views made.</i></p> <p><i>The supplementary guidance will also include examples of what this could look like.</i></p>
<b>Small bodies/reduced wider scope</b>	<p>This issue raised the most comments mainly around the application of the wider scope, in particular:</p> <ul style="list-style-type: none"> <li>• When does this apply?</li> <li>• What will the criteria be to determine this?</li> </ul> <p><i>Response: No changes to the Code. This will be expanded upon in the supplementary guidance.</i></p>
<b>Publication of audit outputs</b>	<p>This was commented on in a number of responses although not from councils. For example, the Scottish Government wanted clarification on 'matters in the public interest'. They provided the following comment:</p> <p style="padding-left: 40px;">In our view, there is a distinction between audit outputs for users of accounts as distinct from information to management/those charged with governance. Paragraph 94 provides for the annual ISA 260 report to those charged with governance to be included within the annual audit report or separately reported. There may well be matters that should be reported to management at a level of detail that would be more appropriate for a private report or letter. Similarly, it would be unfortunate if a focus on published reporting was at the expense of providing appropriate information in a way that would be most useful for management/Audit Committees. Perhaps the approach to this is something that could be agreed between appointed auditor and audited body and/or its Audit Committee for each assignment?'</p> <p><i>Response - no change to the Code. Publication of outputs is critical to Audit Scotland meeting the transparency principle requirements.</i></p> <p><i>The concern raised also does not recognise that the work that auditors do is for the audited body <b>and</b> the Accounts Commission or the Auditor General as well the public.</i></p> <p><i>This is what the Code says will be published:</i></p> <p style="padding-left: 40px;">Audit plans, the principal audit outputs arising from audit plans and any other outputs on matters of public interest will be published on Audit Scotland's website.</p> <p><i>The reality is that all of these publications will have been through a process of engagement and of factual accuracy agreement with the audited body. It would not be appropriate to agree at individual audits what would be published. There may also be times where agreement cannot be reached. This could potentially call into question our independence and ability to report without fear or favour. Audit Scotland will however listen to reasons why a particular output or parts of it should not be published.</i></p>
<b>Integration Joint Boards</b>	<p>Concern was raised that the Code does not address this subject directly?</p> <p><i>Response – none, the Code is for all sectors and is a principles based strategic document.</i></p>
<b>Auditor performance</b>	<p>Comment was made on how Audit Scotland would measure auditor performance against the Code?</p> <p><i>Response – none for the Code. Audit Scotland will need to develop and agree a set of quality arrangements that meet the needs of the Accounts Commission and the Auditor General before start of the next audit appointments.</i></p>

<p><b>'Requests for auditor views'</b></p>	<p>This section caused some concern. Concern was focussed on that it was sensible for auditors to give views that could be relied on later. For example:</p> <p style="padding-left: 40px;">We would suggest that it would be helpful if the section in paragraphs 113 and 114 described what value can be relied on for auditor views. It would be legitimate to rely on a view of proposed accounting policy such that it would at least be unlikely to be challenged in future. The wording as it stands would appear to allow for a different opinion to be given at the annual audit when it is effectively too late.</p> <p>The Financial Reporting Council response was to make it absolutely clear that:</p> <p style="padding-left: 40px;">Appointed auditors should be as helpful as possible, but should bear in mind that their independence must not be prejudiced by being involved in audited bodies' decision making .... I think it should be clearer that under ethical standards auditors should not be involved in the decision taking of the audited entity (in line with the Audit Directive).</p> <p><i>Response –added in the following bullet:</i></p> <ul style="list-style-type: none"> <li>• they must comply with professional standards</li> </ul> <p><i>This section is a necessary disclaimer that supports the independence principle and the need to comply with professional standards. Common sense should prevail but we need to state this clearly in the Code.</i></p>
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### Supplementary guidance

18. Throughout the development of this Code it was recognised that to support auditors realise the ambition of the Accounts Commission, Controller of Audit and the Auditor General there would need to be detailed supporting guidance developed.
19. This is particularly so in relation to the audit of Best Value and the wider scope. Audit Strategy are working with the Best Value Review team and the rest of Audit Scotland to ensure that the audit approach and work required for the successful delivery of Best Value audit will be in place by the start of the next appointments. Arrangements are already in place to ensure that the key audit intelligence on Best Value is captured for each council during the audit handover process.

### Risk

20. The new Code is designed to increase expectations from auditors. The parallel procurement process (see separate Agenda item) has generated competitive offers from firms. Audit Scotland recognises that these offers present a risk to achieving the consistent quality of audit that the Commission and Auditor General expect and we are therefore considering how we enhance our quality assurance processes to ensure that high quality audit continues to be delivered.

### Next stages

21. The progress of the Code to publication is closely linked to the current procurement and appointment exercise that is in progress. The Code is currently scheduled for publication on the 26 May 2016. It is proposed that the Code will be published together with the final audit appointments for the next five years.

### Conclusion

22. The consultation has been successful in confirming that the direction the Code will take public sector audit in Scotland over the next five years is appropriate. It was also very useful in providing appropriate challenge, suggestions and improvements to the Code and for the supplementary guidance.

## **Recommendation**

23. The Commission are asked to:

- note the outcome of the consultation process
- approve the text of the revised Code of Audit Practice
- agree that the Chair should finalise the Foreword and any final amendments in conjunction with the Auditor General.

**Russell Frith**  
**Assistant Auditor General**  
**1 March 2016**

# Code of Audit Practice

## Post consultation draft



Prepared for the Auditor General for Scotland and the Accounts Commission  
March 2016

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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# Foreword

We recognise that the public sector landscape in Scotland will continue to change significantly with the greater powers and responsibilities being devolved to the Scottish Parliament for taxation and social security. The creation of Integration Joint Boards for health and social care mark a shift in the planning and delivery of these major services whilst the public sector will continue to face challenging financial and demand pressures.

As we set out in Public Audit in Scotland, public audit helps create a strong and effective system of financial accountability and transparency which supports the best use of public money in the public interest. Public audit provides independent assurance that public money is spent properly and provides value for money.

This Code of Audit Practice sets the framework for public audit in Scotland including auditor compliance with International Standards on Auditing and ethical standards and providing conclusions on the four dimensions of wider scope audit: financial sustainability, financial management, governance and transparency, and value for money. These dimensions will also help to focus auditors' work in support of the Accounts Commission's evolving new approach to Best Value audit.

The requirement for auditors to conclude on the wider scope of audit will ensure not only that they provide appropriate assurance to us and wider stakeholders, but that they also add value to audited bodies so that they are better placed to address the challenges that they face.

The Code is a high level document and will be supplemented by more detailed guidance which will reflect changing priorities and auditing developments and support auditors to provide consistently high quality audits.

Caroline Gardner

Auditor General for Scotland  
Scotland

Douglas Sinclair

Chair, Accounts Commission for

# Introduction

## Background

1. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and the Accounts Commission and it is a condition of their appointment that they follow it.
2. The Code also describes the scope of public audit in Scotland where audit work is undertaken by appointed auditors, performance audit and best value audit staff from Audit Scotland or jointly depending on the nature and timing of the work.
3. The Code forms part of the wider context in which the conduct of public audit in Scotland takes place. This wider context is set out at Exhibit 1:

### Exhibit 1 - Context for public audit in Scotland <sup>1</sup>

Legislation	<ul style="list-style-type: none"> <li>• Establishes the legal basis for audits to be carried out</li> </ul>
Public Audit in Scotland A joint statement on the principles for the audit of Scottish public sector bodies	<ul style="list-style-type: none"> <li>• Prepared by the Auditor General, the Accounts Commission and Audit Scotland</li> <li>• Sets out the overarching principles for integrated public audit</li> </ul>
Code of Audit Practice	<ul style="list-style-type: none"> <li>• Outlines the principles and standards to be followed by auditors and their responsibilities</li> </ul>
Letter of appointment	<ul style="list-style-type: none"> <li>• Sets out the contractual elements of an auditor's appointment</li> </ul>
Audit Scotland guidance	<ul style="list-style-type: none"> <li>• Provides detailed guidance on the application of the Code for individual audit years or specific pieces of audit work</li> </ul>
Quality arrangements	<ul style="list-style-type: none"> <li>• Provide assurance on and promote improvement in the quality of audit delivered under this Code</li> </ul>

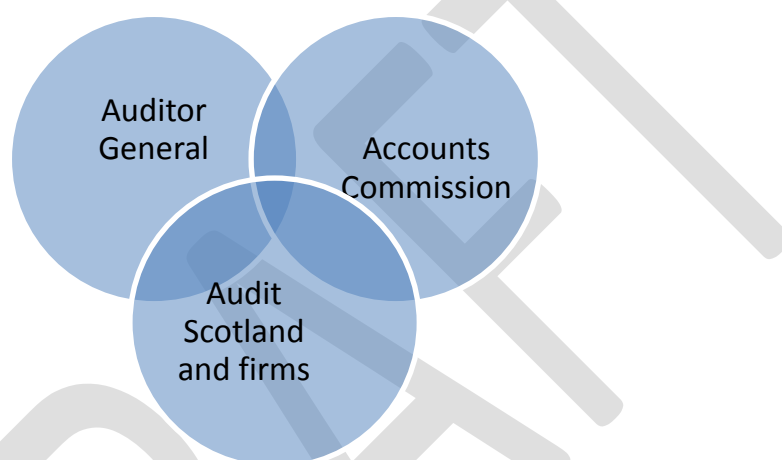
<sup>1</sup> The standard letters of appointment will be published on Audit Scotland's website. These letters cover all the contractual elements and responsibilities to be followed by appointed auditors when undertaking audits for the Auditor General and the Accounts Commission including relevant environmental, sustainability and other matters.

4. This Code applies to external audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011.

## Responsibility for public audit in Scotland

5. The Auditor General and the Accounts Commission are responsible for securing the external audit of most public sector bodies in Scotland. They work closely together and by looking at issues across boundaries aim to maximise the effectiveness of audit work. Audit work is carried out by Audit Scotland staff and appointed auditors including private firms.

### Exhibit 2 - Responsibility for securing and/or undertaking public audit in Scotland<sup>2</sup>



#### The Auditor General for Scotland

6. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of the Scottish Parliament. The Auditor General is independent and not subject to the control of any member of the Scottish Government or the Parliament.
7. The Auditor General is responsible under the Public Finance and Accountability (Scotland) Act 2000 (the 2000 Act) for appointing the external auditors of most public bodies in Scotland outside the local government sector, and reporting on their financial health and performance. The following bodies fall within the Auditor General's remit:
- The Scottish Government, its agencies and its non ministerial departments.
  - Scottish Parliamentary Corporate Body and other directly funded bodies.
  - Crown Office and Procurator Fiscal Service.
  - National Health Service bodies.
  - Further education colleges.

<sup>2</sup> Private firms are appointed as auditors by the Auditor General and the Accounts Commission to undertake around a third of the annual audit work with Audit Scotland staff appointed to audit the remaining.

- Scottish Water.
  - Commissioners and Ombudsmen.
  - Non-departmental public bodies and others (eg, Scottish Enterprise).
8. Audited annual financial statements including the independent auditors' reports, and reports by the Auditor General where the Auditor General decides these are appropriate, are sent to Scottish Ministers to be laid before the Scottish Parliament.
9. The Auditor General may initiate examinations into the economy, efficiency and effectiveness with which the relevant public bodies have used their resources in discharging their functions.

### **The Accounts Commission for Scotland**

10. The Accounts Commission for Scotland is an independent public body with its members appointed by Scottish Ministers to hold local government to account. The Accounts Commission has five main responsibilities:
- Securing the external audit, including the audit of Best Value and Community Planning. The Commission appoints auditors to councils, local government joint boards and committees and integration joint boards under the Local Government (Scotland) Act 1973.
  - Following up issues of concern highlighted through the audit, to ensure satisfactory resolutions.
  - Carrying out or promoting national performance audits to improve the economy, efficiency and effectiveness of local government.
  - Issuing directions to local authorities which set out the range of performance information that they are required to publish.
  - To co-ordinate the scrutiny of local government in Scotland.
11. The Accounts Commission has the power to report and make recommendations to Scottish Ministers and audited bodies, and it can hold hearings. If it considers that there has been illegality or financial loss due to negligence or misconduct, the Accounts Commission may impose sanctions including censure, suspension or disqualification of members from office.
12. The Controller of Audit post is established by statute with functions involving reporting to the Accounts Commission on the accounts of local authorities and the performance by a local authority of their duties under Best Value and Community Planning. The Controller of Audit acts independently from the Accounts Commission when making judgments in reports.

### **Audit Scotland and firms**

13. Audit Scotland provides services to the Accounts Commission and the Auditor General, including carrying out audit work and supporting them in appointing auditors. It is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair and two non-executive members who are appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament. Audit Scotland also

provides guidance and support to appointed auditors and, on behalf of the Auditor General and the Accounts Commission, monitors their performance through a rigorous quality appraisal process. Once appointed, auditors act independently in carrying out their responsibilities and in exercising professional judgement.

14. Audits of financial statements are carried out by appointed auditors, who are either Audit Scotland staff or firms appointed by the Auditor General or the Accounts Commission. Performance audits and best value audits are typically led by Audit Scotland staff working with, and drawing on the work of, appointed auditors where appropriate.

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# Framework for public audit

## Principles of public audit

15. The principles of public audit are shared across the UK and are based on:
    - The independence of auditors from the bodies that they audit.
    - A wider scope which reaches beyond financial statements into judgements on governance and performance.
    - Public reporting of audit findings and recommendations.
  16. This Code provides a framework for auditors to make a difference and support improvement in public services. This framework defines the scope of public audit and explains how audit work and audit outputs are to be delivered and help stakeholders understand the value of audit.
  17. Exhibit 3 sets out examples of how public audit makes a difference.
- 

### Exhibit 3

#### How public audit makes a difference



## Responsibilities of audited bodies

18. The audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and to establish effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

### Corporate governance

19. Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements.

Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.

### **Financial statements and related reports**

20. Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation
  - maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures
  - ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority
  - maintaining proper accounting records
  - preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer term financial sustainability of the body.
21. Further, it is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.
22. Audited bodies are responsible for developing and implementing effective systems of internal control, financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk management functions.

### **Standards of conduct - prevention and detection of fraud and error**

23. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.



## Financial position

24. Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:
- such financial monitoring and reporting arrangements as may be specified
  - compliance with any statutory financial requirements and achievement of financial targets
  - balances and reserves, including strategies about levels and their future use
  - how they plan to deal with uncertainty in the medium and longer term
  - the impact of planned future policies and foreseeable developments on their financial position.

## Best Value

25. Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions. In securing best value, local authorities must maintain a balance of quality and cost considerations and have regard, among other things, to economy, efficiency and effectiveness (or 'value for money') and the need to meet equal opportunity requirements and contribute to the achievement of sustainable development. The Community Empowerment (Scotland) Act 2015 will have implications for the audit of best value. This Act is designed to help empower community bodies through the ownership or control of land and buildings, and by strengthening their voices in decisions about public services. Specified audited bodies also have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
26. The Police and Fire Reform (Scotland) Act 2012 also places a statutory duty to make arrangements to secure best value in carrying out their functions on the Scottish Police Authority; the Chief Constable of the Police Service of Scotland; and the Scottish Fire and Rescue Service.
27. For other sectors, the Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

## Appointed auditor responsibilities

28. Auditor responsibilities are derived from statute, this Code, International Standards on Auditing (UK and Ireland), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities. These are to:
- Undertake statutory duties, and comply with professional engagement and ethical standards.

- Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions.
- Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns.
- Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.<sup>3</sup>
- Participate in arrangements to cooperate and coordinate with other scrutiny bodies (local government sector only).
- Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':
  - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets
  - suitability and effectiveness of corporate governance arrangements
  - financial position and arrangements for securing financial sustainability

and additionally for local authority auditors:

- effectiveness of arrangements to achieve best value
- suitability of arrangements for preparing and publishing statutory performance information.

29. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

## General principles

30. Exhibit 4 summarises the general principles that underpin all the audit work carried out by all auditors under this Code.

<sup>3</sup> Appendices 1, 3 and 4 provide more detail on the statutory reporting arrangements for public audit in Scotland.

## Exhibit 4 - General principles



31. This Code is designed such that adherence to it will result in an audit that exhibits these principles.

### **Independent**

32. When undertaking audit work all auditors should be, and should be seen to be, independent. This means auditors should be objective, impartial and comply fully with the Financial Reporting Council's (FRC) ethical standards and any relevant professional or statutory guidance. Auditors will report in public and make recommendations on what they find without being influenced by fear or favour.

### **Proportionate and risk based**

33. Audit work should be proportionate and risk based. Auditors need to exercise professional scepticism and demonstrate that they understand the environment in which public policy and services operate. Work undertaken should be tailored to the circumstances of the audit and the audit risks identified. Audit findings and judgements made must be supported by appropriate levels of evidence and explanations. Auditors will draw on public bodies' self-assessment and self-evaluation evidence when assessing and identifying audit risk.

### **Quality focused**

34. Auditors should ensure that audits are conducted in a manner that will demonstrate that the relevant ethical and professional standards are complied with and that there are appropriate quality control arrangements in place as required by statute and professional standards.

### **Coordinated and integrated**

35. It is important that auditors coordinate their work with internal audit<sup>4</sup>, Audit Scotland, other external auditors and relevant scrutiny bodies to recognise the increasing integration of

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<sup>4</sup> It should be noted that audits undertaken in compliance with ISAs (UK and Ireland) do not allow direct assistance from internal audit.

service delivery and partnership working within the public sector. This would help secure value for money by removing unnecessary duplication and also provide a clear programme of scrutiny activity for audited bodies.

### **Public focused**

36. The work undertaken by external audit is carried out for the public, including their elected representatives, and in its interest. The use of public money means that public audit must be planned and undertaken from a wider perspective than in the private sector and include aspects of public stewardship and best value. It will also recognise that public bodies may operate and deliver services through partnerships, arm's length organisations (ALEOs) or other forms of joint working with other public, private or third sector bodies. The Accounts Commission has recently updated its auditor guidance on its Following the Public Pound Code (FtPP) to reflect its ongoing interest in this area. Compliance with the FtPP Code will be considered as part of the new approach to auditing best value. Auditors have a right to information held by audited bodies, group entities and others to ensure that they are able to follow, review and assess how public money is being spent and to report on this in the public interest.

### **Transparent**

37. Auditors, when planning and reporting their work, should be clear about what, why and how they audit. To support transparency the main audit outputs should be of relevance to the public and focus on the significant issues arising from the audit.

### **Adds value**

38. It is important that auditors recognise the implications of their audit work, including their wider scope responsibilities, and that they clearly demonstrate that they add value in the work that they do. This means that public audit should provide clear judgements and conclusions on how well the audited body has discharged its responsibilities and how well they have demonstrated the effectiveness of their arrangements. Auditors should make appropriate and proportionate recommendations for improvement where significant risks are identified.

# Scope of public audit

## Background

39. Public audit as described in this Code is a combination of specific legal requirements, professional requirements, best practices as applied to public interest entities in the private sector and the requirements arising from this Code that are designed to ensure that public audit adds value for audited bodies, the public and their elected representatives.

### Exhibit 5 - Bases of public audit

Requirements	Examples
Statutory	<ul style="list-style-type: none"> <li>Opinions on the financial statements and regularity</li> <li>National performance audits and Best Value audits</li> </ul>
Best practice	<ul style="list-style-type: none"> <li>Opinions on management commentaries, remuneration reports and governance statements</li> </ul>
Adds value	<ul style="list-style-type: none"> <li>Public reporting of audit findings</li> <li>Wider scope reporting</li> </ul>

40. Audit work is carried out in an integrated way with work undertaken to provide evidence for one objective being used to inform others.

## Responsibility for audit

41. On behalf of the Auditor General and the Accounts Commission, Audit Scotland leads and coordinates the delivery of public audit in Scotland in consultation with key stakeholders to ensure that it is focussed, integrated and proportionate.
42. Auditors appointed by the Auditor General for Scotland or the Accounts Commission are responsible for giving an opinion on the financial statements and reporting on other related matters. Audit Scotland provides technical support to appointed auditors in respect of these responsibilities to inform their professional judgement.
43. Appointed auditors will work in partnership with Audit Scotland performance audit and best value audit staff in discharging their wider scope responsibilities. These teams have a key role in developing and delivering national performance and best value audit work.
44. For all sectors, except local government, performance audit reports are approved by the Auditor General and many of them are considered by the Scottish Parliament, particularly the Public Audit Committee. The Accounts Commission receives reports prepared by the

Controller of Audit on the audit and performance of local authorities. These reports are usually published together with the stated findings of the Accounts Commission.

45. The appointed auditors for each audit will report annually to those charged with governance on the results of their work covering both the financial statements and the wider scope audit.
46. Within each five year audit appointment period there will be at least one report on best value for each council concluding on their performance relating to best value characteristics and improvements. These reports will be informed by the work carried out by the appointed auditors in the intervening years.

## Audit of financial statements and related matters

47. For the purposes of the Code the scope of the financial statements audit work is set by International Standards on Auditing (UK and Ireland) and Ethical Standards for Auditors as issued by the FRC. All appointed auditors are required to comply with these standards.
48. Appointed auditors are required to give an opinion on the financial statements as to:
  - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
  - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
  - the regularity of the expenditure and income (not required for local government).
49. In some areas the application of the International Standards on Auditing (ISA's) have been interpreted to meet the additional requirements of public sector audit. The relevant ISA's are referred to in this Code and summarised in the glossary.
50. ISA include certain requirements relating to the auditor's consideration of fraud. The nature of public sector organisations means that there are specific fraud risks that are relevant to a public sector audit which should be considered when applying ISA 240. These include taxation receipts, welfare benefits, grants and other claims made by individuals and organisations on the public purse.
51. Appointed auditors should consider the risks and the arrangements put in place by audited bodies to ensure that all material revenue is identified and collected and that material payments are made correctly. Appointed auditors should use their professional judgement when assessing all the risks within individual audited bodies and whether they are significant, relevant or rebuttable.
52. In line with the Companies Act 2006 requirements that apply in the private sector, appointed auditors are also required to give opinions on remuneration reports, annual governance statements, and whether the management commentaries are consistent with the disclosures in the accounts.

## Wider scope audit

53. Legislation creates further responsibilities for the audit of the public sector in Scotland which form the basis for the wider scope of public audit in Scotland. These are:
- The Public Finance and Accountability (Scotland) Act 2000 gives the Auditor General the right to initiate examinations into the economy, efficiency and effectiveness with which audited bodies and certain other bodies have used their resources to discharge their functions. The results of such examinations may be presented to the Scottish Parliament and considered by its Public Audit Committee.
  - The Police and Fire Reform (Scotland) Act 2012 gives the Auditor General the right to initiate examinations into the arrangements made by the Scottish Police Authority; the Chief Constable of Police Service of Scotland; and the Scottish Fire and Rescue Service to secure best value.
  - The Local Government (Scotland) Act 1973 requires the Accounts Commission to undertake or promote comparative and other studies designed to make recommendations for:
    - the securing by local authorities of best value
    - improving economy, efficiency and effectiveness in the provision of services by local authorities
    - improving the financial or other management of such authorities.
  - The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing best value and complying with responsibilities relating to community planning.
  - The Local Government Act 1992 requires auditors of local government bodies to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
54. This Code recognises the increasingly high expectations the public has about the role of audit in the stewardship of public funds. It defines the wider scope of public audit as going beyond the financial statements to include work that contributes to audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.
55. The planned audit work should, however, be risk based and proportionate to the nature and size of an audited body. Where the application of the full wider scope is judged by auditors not to be appropriate to an audited body then annual audit work on the wider scope should be undertaken that enables conclusions to be made on the:
- appropriateness of the disclosures in the governance statement
  - financial sustainability of the body and the services that it delivers over the medium to longer term.

56. Audit Scotland will include guidance on the application of the wider scope audit requirements in its annual guidance to auditors.
57. If, in the case of a small body, an appointed auditor identifies that there is particular risk or public interest in a wider scope issue beyond these areas then the auditor must contact Audit Scotland to discuss the issue and agree an appropriate response.

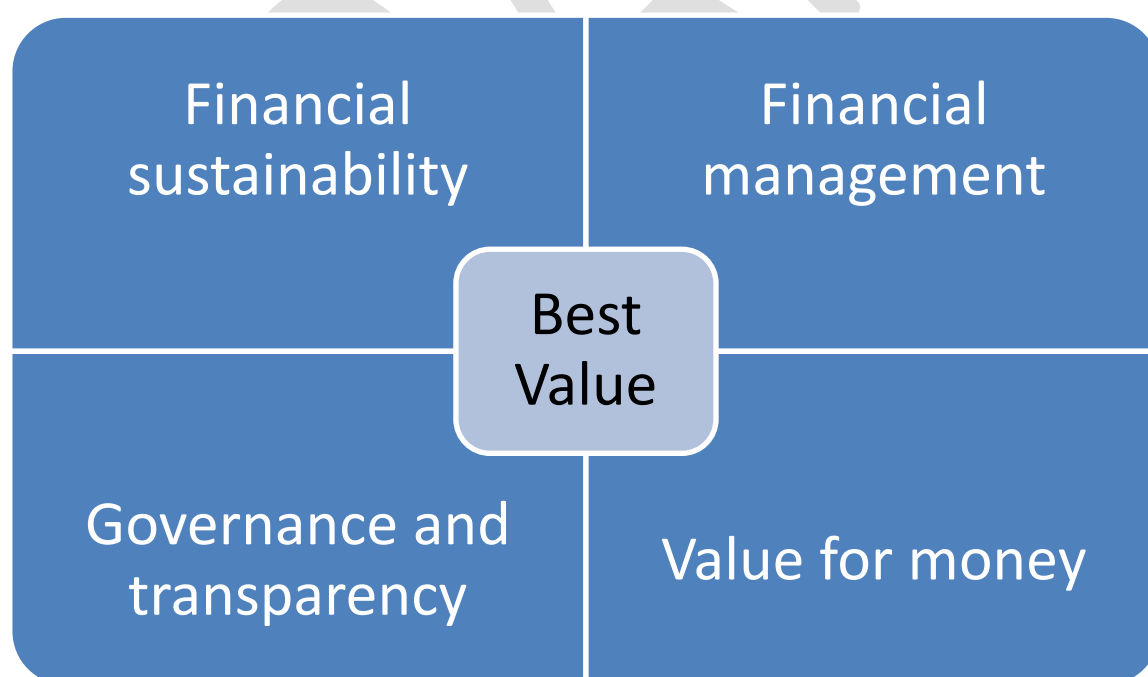
## Audit dimensions and Best Value

58. The Auditor General, the Accounts Commission and Audit Scotland have agreed four audit dimensions that frame the wider scope audit work into identifiable audit areas. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support the judgements and conclusions made by appointed auditors on these dimensions.
59. All appointed auditors must consider these audit dimensions when scoping, planning, performing, and reporting their work. These are provided at Exhibit 6:

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### Exhibit 6

Four audit dimensions to be used when planning and reporting the audit.



60. In the local government sector, the appointed auditor's annual conclusions on these four audit dimensions will contribute to an overall assessment and assurance on best value. Across the five year audit appointment these conclusions will provide an indication of whether the audited body is demonstrating that it is securing best value through the continuous improvement in the performance of its functions. Supplementary guidance will provide further details on this.



61. The following section describes each dimension and the high level audit work to be considered by appointed auditors when undertaking their annual audit.

### Financial sustainability

62. Appointed auditors consider ISA 570, including that auditors consider the appropriateness of the use of the going concern basis of accounting, as part of their annual audit of the financial statements. In particular auditors would consider that if the period to which those charged with governance have paid particular attention in assessing going concern is less than one year from the date of approval of the financial statements, and those charged with governance have not disclosed that fact, the auditor is required to do so within the auditor's report.
63. Going concern is a relatively short term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets this requirement and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.
64. Audit work would include reviewing, concluding and reporting on areas such as:
- the effectiveness of the financial planning systems in identifying and addressing risks to financial sustainability across the shorter and longer terms
  - the appropriateness of the arrangements put in place to address any identified funding gaps and whether the body can demonstrate that these arrangements are working
  - can the body demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### Financial management

65. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
66. Audit work would include reviewing, concluding and reporting on areas such as:
- whether the audited body has arrangements to ensure systems of internal control are operating effectively
  - can the body demonstrate the effectiveness of the budgetary control system in communicating accurate and timely financial performance
  - how the audited body has assured itself that its financial capacity and skills are appropriate
  - whether the body has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

## Governance and transparency

67. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.
68. Audit work would include reviewing, concluding and reporting on areas such as:
  - can the body demonstrate that the governance arrangements are appropriate and operating effectively (including services delivered by, or in partnership with, others such as ALEOs)
  - whether there is effective scrutiny, challenge and transparency on decision making and financial and performance reports
  - the quality and timeliness of financial and performance reporting.

## Value for money

69. Value for money is concerned with using resources effectively and continually improving services.
70. Audit work would include reviewing, concluding and reporting on areas such as whether:
  - the body can provide evidence that it is demonstrating value for money in the use of resources
  - the body can demonstrate that there is a clear link between money spent, outputs and the outcomes delivered
  - the body can demonstrate that outcomes are improving
  - there is a sufficient focus on improvement and the pace of it.

## Integration of the audit dimensions into the annual audit

71. The audit dimensions should be considered by appointed auditors when:
  - identifying significant audit risks at the risk assessment and audit planning stage
  - reporting the work done on obtaining assurances over these risks and dimensions
  - making recommendations for improvement.
72. Where appointed auditors have identified significant wider scope risks during the planning process these should be included in a plan, having regard to the appropriate audit dimensions, together with the audit work that will be undertaken to address these risks.
73. All annual audit reports should include a summary on each dimension that states any work done in the year by the appointed auditor and the assurances, risks and any good practice that they have identified. A simple description of the arrangements in place is not sufficient. Appointed auditors should provide clear judgements and conclusions on the effectiveness and appropriateness of the arrangements in place based on any work that they have done. If there are still significant risks, appointed auditors should make recommendations for improvement.

74. By reporting against the dimensions in their annual audit reports, auditors will have discharged their wider scope responsibilities under this Code.
75. Audit Scotland will use the audit outputs to support the development of performance audits; to inform further work; to report to the Parliament and the Accounts Commission; and to share good practice.

# Planning and performing the annual audit

## Introduction

76. Auditors should plan and perform their audit work in accordance with ISA's, this Code and additional guidance prepared by Audit Scotland. This guidance will be informed, as appropriate, by the following:
- Accounts Commission Strategy
  - Auditor General priorities
  - Audit Scotland's Corporate Plan.

## Planning

77. Audit planning is an on-going process which evolves in response to changes in audit risk and emerging audit findings, as well as the context in which audited bodies are operating.
78. As part of the annual audit planning process appointed auditors should prepare an annual audit plan that documents how they intend to meet their responsibilities, in the light of their assessment of risks and wider scope responsibilities. These plans should be communicated to those charged with governance.

## Annual audit plans and the wider scope

79. The principles of ISA 330 are extended to meet the expectations of public audit when planning the audit and must be applied to the appointed auditors assessed risk of bodies not having appropriate arrangements in place in respect of the wider scope requirements.
80. Auditors should coordinate their planned audit work with internal audit, performance and Best Value programmes to ensure that it is effective and proportionate. Auditors should consider completing audit work covering elements of the four audit dimensions on an annual basis.
81. For local government auditors there is also a requirement to participate in the Shared Risk Assessment process. This involves contributing to a joint local scrutiny plan for a council each year, in partnership with other scrutiny bodies.
82. Annual audit plans should categorise auditor judgements over significant risks, by reference to the wider scope dimensions, and clearly demonstrate that the wider scope responsibilities have been considered at the planning stage of the audit.
83. Where significant risks to financial statements and audit dimensions are identified at the planning stage, auditors must indicate the work planned in the year to address these risks in the audit plan.

84. Local government auditors are also required to satisfy themselves that the local authority has made proper arrangements for securing best value and also the suitability of the arrangements for preparing and publishing statutory performance information.
85. To support appointed auditors to discharge their wider scope responsibilities, supplementary guidance will be provided by Audit Scotland.

## The auditor's opinion on the financial statements and related matters

86. Appointed auditors are required to provide an opinion on the audited body's financial statements. These opinions will cover:
  - whether the financial statements give a true and fair view of the state of affairs of the audited body and its expenditure and income for the period audited
  - whether the financial statements have been prepared properly in accordance with the applicable financial reporting framework and relevant legislation.
87. Opinion on regularity:
  - In sectors other than local government, the regularity of expenditure and income.
88. Opinion on other matters:
  - whether a specified part of the remuneration report has been properly prepared
  - whether the management commentary (or equivalent report) is consistent with the financial statements
  - whether the information given in the governance statement complies with regulations or Scottish Ministers' guidance.
89. Reporting by exception:
  - if other information accompanying the financial statements is materially inconsistent with the financial statements or apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by auditors in the course of performing the audit
  - if adequate accounting records have not been kept
  - if the financial statements and the part of the remuneration report to be audited are not in agreement with the accounting records
  - if the auditor has not received all the information and explanations required for the audit
  - if there is a failure to achieve a financial objective prescribed by Scottish Ministers'.

# Reporting the annual audit

## Introduction

90. Audit reporting is the visible end result of the audit process. Public audits are reported in public, and are for both the audited body and the Controller of Audit or the Auditor General for Scotland.
91. Audit plans, the principal audit outputs arising from audit plans and any other outputs on matters of public interest will be published on Audit Scotland's website.

## Outputs from the audit to those charged with governance

92. The following outputs are to be produced annually for each audit appointment:
  - Annual audit plan
  - Independent auditor's report(s)
  - Annual audit report.
93. The Independent auditors report and annual audit reports are required by the Code to be communicated to those charged with governance and to also be addressed to the Controller of Audit in the case of local authorities and the Auditor General for Scotland in all other cases.

## Annual audit plan

94. The annual audit plan will contain an overview of the planned scope and timing of the audit to be carried out in accordance with ISA's, this Code, and guidance from Audit Scotland.
95. It will clearly identify the audit work that is planned to be done to meet the wider code requirements of public sector audit as well as the audit of the financial statements and other related matters. It should include the respective responsibilities of audited bodies and appointed auditors.
96. Audit plans are addressed to the audited body and should be presented to those charged with governance. The plan should contain information relating to the appointed auditor's approach to significant risks and internal control and refer to the concept of materiality<sup>5</sup> and the materiality figures used. The annual audit plan will include the name of the engagement lead and confirm the independence of the appointed auditor. Plans should be reviewed throughout the audit and the audit approach updated as necessary.

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<sup>5</sup> Auditors should follow and apply the concept of materiality as laid out in ISA 320 Materiality in Planning and Performing an Audit.

## Independent auditor's report

97. The independent auditor's report must set out the results of the appointed auditor's work on the financial statements in accordance with the Technical Guidance Note on model independent auditor's reports that is prepared annually by Audit Scotland.
98. The auditor's report must be signed with the name of the engagement lead. Where the appointed auditor is a firm, it should be signed for and on behalf of the firm.

## Annual audit report

99. The annual audit report will include the content to be reported to those charged with governance at the completion of an audit, the conclusions on work carried out to provide assurance on the wider scope dimensions, and recommendations for improvement where there are still risks. The annual ISA 260 report to those charged with governance may be included in the annual audit report or be separately reported.
100. The annual audit reports that are prepared under this Code will include both opinions and conclusions which are retrospective in nature and also prospective views which will necessarily be based on assumptions about the future.
101. Appointed auditors will discharge their responsibilities in this area by providing clear conclusions in the annual audit report on the wider scope audit work, as framed by the four audit dimensions.
102. These conclusions should provide clear narrative that explains to the reader what the appointed auditor found in respect of the effectiveness and appropriateness of the arrangements that audited bodies have in place around the four audit dimensions, including best value characteristics where applicable. Simply describing the arrangements that are in place at an audited body would not meet this responsibility.
103. The enhancements made to auditor reporting for listed companies, and entities who have voluntarily adopted UK Corporate Governance Code, in the private sector by ISA 700 are extended to apply to all annual audit reports prepared under this Code.

## Other outputs

104. The following other outputs may require to be produced in the course of audits:
  - Certification of grant claims prepared by audited bodies.
  - Assurance statements for whole of government account returns or other consolidation schedules.
  - Reports on summary financial information.
105. These other outputs are to be prepared in accordance with the appropriate Technical Guidance Notes produced by Audit Scotland.
106. Auditors may also produce management reports, where relevant.

## Principles of reporting

- 107.** It is important that audit reports are clear and can be understood by those charged with governance and members of the public who have an interest. All reports produced are to be:
- written in plain language, minimising jargon and technical terms
  - relevant to the needs of the audited body and users
  - focussed on drawing clear conclusions and making recommendations for improvement, where appropriate
  - issued promptly at the appropriate point in the audit process.
- 108.** All reports should be written so that the reader understands the:
- nature and scope of the work
  - significant issues arising
  - nature and reasons for any weaknesses identified
  - actions that are recommended to secure improvement.
- 109.** Recommendations arising from audit work should:
- be useful, specific and practicable and focused on the public interest
  - be proportionate and take account of the expected costs and challenges of implementation
  - include management responses including target dates and responsibility for action where appropriate
  - be followed up at appropriate intervals.

## Quality arrangements

- 110.** The audit work completed under this Code will be subject to robust and appropriate quality arrangements to ensure that auditors are meeting their responsibilities. These arrangements provide assurance to the Auditor General for Scotland and the Accounts Commission on the quality of the audit work that they have procured. The quality review results will be used to promote improvements in the quality of public audit.



# Other matters/activities

## Guidance

111. Audit Scotland will issue guidance in support of this Code and appointed auditors must have regard to it. On an annual basis planning guidance will be issued covering the expected audit outputs for each audit year. Supplementary guidance will be issued as appropriate to support appointed auditors to fulfil their responsibilities.

## Technical support

112. Audit Scotland provides technical support and guidance to all appointed auditors. While appointed auditors act independently, and are responsible for their own conclusions and opinions, Audit Scotland has a role in ensuring that those conclusions and opinions are reached on the basis of informed judgement. Audit Scotland will consult with appointed auditors and other interested parties on the preparation of technical guidance and appointed auditors are expected to contribute. Consistency in similar circumstances is important and therefore appointed auditors should consider such guidance. However, appointed auditors must advise and discuss with Audit Scotland promptly of any intended significant departures from the technical guidance.

## Information returns

113. Audit Scotland requires appointed auditors to complete information returns during the audit appointment. These returns are used for a number of purposes including benchmarking, risk assessment and performance audit work and programme development.

## Fraud returns

114. Appointed auditors are required to report information on cases of fraud and irregularities in accordance with guidance from Audit Scotland. Appointed auditors should also review information about frauds disseminated by Audit Scotland and consider whether any action is required in relation to their own audit appointments.

## Correspondence – Issues of concern

115. People or organisations write to Audit Scotland because they have concerns about an issue within a public body that falls under the remit of the Auditor General for Scotland or the Accounts Commission. An issue of concern may be something such as a breakdown in financial management or governance arrangements.

116. The key factor in determining whether Audit Scotland examines an issue is the relevance of the issue to Audit Scotland's role and functions. Audit Scotland and appointed auditors will make this judgement using their professional and technical knowledge. They will also take into consideration the costs of carrying out such work to ensure that they use resources efficiently.

117. All correspondence relating to issues of concern should be directed to and managed by the Audit Scotland Correspondence Team in the first instance, who will liaise with auditors as appropriate. In investigating issues of concern, auditors should have regard to any guidance issued by Audit Scotland.
118. If the issue of concern does not fall within our remit we may redirect the correspondent to a more appropriate body.

## Whistleblowing

119. The Auditor General; the Accounts Commission; Audit Scotland; and appointed auditors are prescribed persons under the Public Interest Disclosure Act. These bodies can consider any relevant concerns from whistle blowers and may investigate further.

## Data matching

120. Audit Scotland may conduct data matching for the purposes of preventing and detecting fraud. Scottish public bodies are supported in their counter fraud activities through participation in the National Fraud Initiative. This is a data matching exercise which matches data within and between other public bodies to identify potentially fraudulent transactions or claims and errors.

## Requests for auditors' views

121. Audited bodies often seek appointed auditors' views on the regularity, accounting treatment or performance management implications of transactions, or proposed courses of action, before embarking upon them. Appointed auditors should be as helpful as possible, but should bear in mind that:
- their independence must not be prejudiced by being involved in audited bodies' decision making
  - they must comply with professional standards
  - they are not financial or legal advisers to audited bodies
  - they should not act in any way that might compromise their ability to report on a matter, or to exercise the powers conferred by statute on them, the Auditor General, the Controller of Audit, the Accounts Commission or Audit Scotland.
122. Audited bodies and their management are responsible for deciding whether to embark on transactions or courses of action. Responses made by appointed auditors should not be taken by audited bodies as suggesting that proposed transactions or courses of action will be exempt from challenge in future, whether by auditors or others entitled to object to them.

## Responsibilities to third parties

123. While the results of audits will be made available to the public, the appointed auditors' duty of care in respect of the audit of the bodies covered by this Code extends only to:

- *for local government bodies* - the audited body, the Accounts Commission, the Controller of Audit and Audit Scotland
  - *for all other bodies* - the audited body, the Auditor General, Audit Scotland and the Scottish Parliament (under statute, most audited financial statements require to be laid before the Parliament).
124. Although reports may be addressed to members or managers, they are prepared solely for the use of the bodies referred to above. Appointed auditors do not undertake to have responsibilities to members, directors, accountable officers, managers or the Scottish Ministers in their individual capacities, or to third parties.

# Appendix 1

## Appointed Auditors' statutory duties and reporting

### For bodies falling within the Auditor General's remit

Appointed auditors' statutory duties are derived from appointment by the Auditor General under the Public Finance and Accountability (Scotland) Act 2000. Appointed auditors' reports (ie, the auditor's independent report in relation to the financial statements) must set out the auditor's findings on:

- whether the expenditure and receipts<sup>6</sup> shown in the financial statements were incurred or applied in accordance with:
  - any enactment by virtue of which the expenditure was incurred or the income received
  - the Budget Act(s) for the financial year, or any part of the financial year, to which the financial statements relate
  - Sections 4 to 7 of the 2000 Act, relating to the Scottish Consolidated Fund (the Fund)
- where sums have been paid out of the Fund for the purpose of meeting such expenditure, whether the sums were applied in accordance with Section 65 of the Scotland Act 1998
- whether the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable guidance (whether as to propriety or otherwise) issued by the Scottish ministers
- whether the financial statements comply with any applicable direction by virtue of any enactment.

Appointed auditors must send the financial statements, including the auditor's report, to the Auditor General who may prepare a report on the financial statements under Section 22 of the 2000 Act. Further details on section 22 reporting are summarised at Appendix 4.

### For local government bodies

Appointed auditors' statutory duties for local government bodies are contained principally within Part VII of the Local Government (Scotland) Act 1973. These are to:

- audit the financial statements and place a certificate (i.e., independent auditor's report) on the statements stating that the audit has been conducted in accordance with Part VII of the Act
- satisfy themselves that:

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<sup>6</sup> The relevant accounting frameworks require most audited bodies under the Auditor General's remit to prepare financial statements on an accruals basis and the independent auditors' report usually refers to income rather than receipts.

- financial statements have been prepared in accordance with all applicable statutory requirements
- proper accounting practices have been observed in the preparation of the financial statements
- the body has made proper arrangements for securing best value and is complying with its community planning duties <sup>7</sup>
- a local authority has made adequate arrangements for collecting, recording and publishing prescribed performance information
- hear any objection to the financial statements lodged by an interested person.

Appointed auditors should also be familiar with the responsibilities in Section 102 of the Local Government (Scotland) Act 1973, summarised in Appendix 3 including those relating to the audit of the accounts of a local authority.

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<sup>7</sup> The Accounts Commission has approved arrangements under Section 53 of the Local Government in Scotland Act 2003 so that appointed auditors work alongside performance audit and best value audit staff in Audit Scotland to discharge auditor responsibilities in this area and in providing overall conclusions on a local government body's arrangements in a public report by the Controller of Audit. A new more integrated approach is developing in this regard and supplementary guidance will be issued in due course.

# Appendix 2

## Public right of inspection and objection under the Local Government (Scotland) Act 1973.

The wider public interest dimension to the audit of public money is explained throughout the Code. For the audit of the financial statements of local government bodies, appointed auditors are required to have regard to the right of citizens to:

- inspect a local authority's accounts, books and records and take copies or extracts thereof
- lodge with the auditor a written objection to those accounts, together with a statement of the grounds thereof
- appear before and be heard by the auditor with respect to that objection.

Written objections require to be lodged directly with the local auditor.<sup>8</sup> Appointed auditors should advise the Controller of Audit promptly of any objections or submissions received directly. If requested by the objector, the local authority or any officer of the authority who may be concerned, the appointed auditor must give the relevant party an opportunity to appear before, and be heard by, the appointed auditor with respect to the objection.

Appointed auditors should have regard to any additional guidance issued by Audit Scotland when dealing with objections to the accounts of a local authority.

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<sup>8</sup> Audit Scotland may also consider correspondence received at any time about the finances of an audited body or an issue which is relevant to auditors' functions. See the Other Matters section

# Appendix 3

## Statutory reports under Section 102 of the Local Government (Scotland) Act 1973 and auditor rights of access.

### Section 102(1)

Under Section 102(1) of the Local Government (Scotland) Act 1973 the Controller of Audit may, and if required by the Accounts Commission must, submit reports to the Commission about:

- the accounts of local authorities
- any matters arising from the accounts or the audit of local authorities that the Controller considers should be considered by a local authority or brought to the attention of the public
- the performance of a local authority of their duties relating to best value and accountability and community planning as set out in the Local Government in Scotland Act 2003.

Section 102(2) requires any report under Section 102(1) to be copied to any local authority named in the report and to any other persons that the Controller thinks fit.

### Section 102(3)

Having considered any matter arising out of the audit of the accounts of a local authority, and having made such enquiries as the Controller sees fit, in certain circumstances the Controller may, under Section 102(3), make a special report to the Accounts Commission. A report may be made where the Controller is of the opinion that:

- an item of account is contrary to law
- there has been a failure on someone's part to bring into account a sum which ought to have been brought into account
- a loss has been incurred or deficiency caused by the negligence or misconduct of a person, or by the failure of an authority to carry out a duty imposed on them by any enactment
- a sum which ought to have been credited or debited to one account of an authority has been credited or debited to another account and the authority has not taken, or is not taking, steps to remedy the matter.

A fundamental feature of the process which might give rise to a report to the Accounts Commission is the role which auditors play in bringing circumstances which could give rise to a report for the attention of the Controller. For example, should the auditors of a local government body identify a matter which could potentially lead to a report under Section 102(3), immediate contact should be made with Audit Scotland. The need to draw early

attention to the matter takes priority over the need to have prepared a detailed report or for the auditor to have formed a definitive view on the matter.

Immediate notification to Audit Scotland should normally be followed by the submission of a detailed report.

### **Section 100 Auditor's right of access to documents.**

Section 100 covers auditor's rights of access to documents in the local government sector.

An auditor shall have a right of access at all reasonable times to all such documents relating to the accounts of a local authority that they judge necessary to examine for the purpose of auditing those accounts.

Auditors shall be entitled to require from any officer of that authority or any other person holding or accountable for any such document such information and explanation as they think necessary.

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# Appendix 4

## **Statutory reports of the Auditor General under the Public Finance and Accountability (Scotland) Act 2000 and auditor rights of access.**

### **Section 22 Reports**

Under Section 22 of this Act, the Auditor General can prepare a report on matters arising from the audit of the accounts of a public body for which they are responsible for auditing. This type of report is known as a Section 22 report.

### **Reasons for the Auditor General preparing a Section 22 report.**

Reporting under Section 22 of this Act enables the Auditor General to bring to the attention of the Scottish Parliament and the public, matters of public interest arising from the audit of the wide range of public bodies for which they have audit responsibility. These matters of public interest are generally focused on specific issues or concerns that have been raised by the appointed auditor and highlighted in their annual audit report on a public body. The Auditor General may also decide to prepare a Section 22 report so that progress with issues raised in a previous Section 22 report can be publicly reported.

### **Examples of issues that may be highlighted in Section 22 reports.**

The issues highlighted in Section 22 reports can vary and a range of factors are considered when deciding whether to prepare a Section 22 report including:

- the auditor's opinion on the accounts, eg the auditor may have highlighted particular issues by qualifying their opinion on the financial statements or adding an 'emphasis of matter' paragraph
- materiality, ie the significance of the issue in terms of its value or its impact
- relevance, eg whether the issue is relevant elsewhere within the public body or across public bodies, whether the issue is of future relevance in that other public bodies may have similar problems or may pursue a similar course of action
- timing, eg how long it has been since the matter arose or whether the issue is a continuing concern
- reporting, eg whether the issue has been reported in public before.

### **Arrangements for preparing a Section 22 report.**

During the annual audit of a public body, the appointed auditor will draw any significant issues arising to the attention of the public body concerned as well as to the Auditor General. The auditor will also comment on significant issues in their annual audit report which is submitted to the Auditor General once the audit is complete. Working closely with the auditor, the Auditor General will make a judgement on whether Audit Scotland should prepare a Section 22 report.

The appointed auditor and Audit Scotland work together in drafting the Section 22 report. The appointed auditor will check with the public body that the content of the draft report is factually accurate and the Auditor General signs off the final draft. The accounts and the final Section 22 report are then laid before the Scottish Parliament.

The Auditor General briefs the Scottish Parliament's Public Audit Committee on the Section 22 report. The Committee may decide to take evidence from the relevant Accountable Officer.

### **Section 23 - Economy, efficiency and effectiveness examinations**

Under this section of the Act the Auditor General may initiate examinations into the economy, efficiency and effectiveness with which bodies and office-holders have used their resources in discharging their functions.

The range of bodies where the Auditor General can carry out such examinations includes all those where they have responsibility for the annual audit but can also include bodies or office holders, specified in an order, where in a financial year:

- more than a quarter of the income was received from public funds or
- the amount of the income received from public funds exceeded £500,000.

In determining whether an examination under this section is to be carried out, the Auditor General must take into account any proposals made by the Parliament. However, it is for the Auditor General personally to initiate an examination under this section and to decide who is to carry out the examination.

### **Section 24 - Access to documents and information**

Section 24 of the act ensures that the auditor, under sections 21 and 22, or examiner, under section 23, has the necessary rights of access to documents and information to enable them to discharge their responsibilities.

# Glossary

<b>Audit</b>	Work carried out by auditors to meet any of the requirements of the Code.
<b>ALEOs</b>	<p>Arm's-length external organisations.</p> <p>Companies, trusts and other bodies that are separate from a local authority but are controlled or influenced by them. The local authority could do this, for example:</p> <ul style="list-style-type: none"> <li>• by having a representative on the organisation's board</li> <li>• by the council being the organisation's main funder or shareholder</li> <li>• in both these ways.</li> </ul> <p>ALEOs can take many forms. They include:</p> <ul style="list-style-type: none"> <li>• companies limited by guarantee or shares</li> <li>• community enterprises, such as industrial and provident societies trusts</li> <li>• Scottish Charitable Incorporated Organisations.</li> </ul> <p>Examples of the services they deliver include leisure, transportation, property development, and more recently, care services. ALEOs are often set up as non-profit making organisations such as charities to benefit the public in areas such as health, education, recreation and equal opportunities.</p>
<b>Appointed auditors</b>	External auditors of public bodies appointed by the Accounts Commission under Section 97 of the Local Government (Scotland) Act 1973 or the Auditor General under Section 21 of the Public Finance and Accountability (Scotland) Act 2000. These include appointed auditors in Audit Scotland's Audit Services Group and appointed private firms.
<b>Audited body (or body)</b>	A body (or account) for which the Auditor General or the Accounts Commission is responsible for appointing an auditor, comprising the members of the body (eg, elected members of a local authority or executive and non-executive directors of NHS bodies), an accountable officer, management and other officers, as appropriate.
<b>Auditors</b>	Appointed auditors and performance audit and best value audit staff collectively.

<b>Best value</b>	<p>Local authorities' duty to secure best value:</p> <p>(1) It is the duty of a local authority to make arrangements which secure best value.</p> <p>(2) Best value is continuous improvement in the performance of the authority's functions.</p> <p>(3) In securing best value, the local authority shall maintain an appropriate balance among:</p> <ul style="list-style-type: none"> <li>(a ) the quality of its performance of its functions;</li> <li>(b) the cost to the authority of that performance; and</li> <li>(c) the cost to persons of any service provided by it for them on a wholly or partly rechargeable basis.</li> </ul> <p>(4) In maintaining that balance, the local authority shall have regard to:</p> <ul style="list-style-type: none"> <li>(a) efficiency;</li> <li>(b) effectiveness;</li> <li>(c) economy; and</li> <li>(d) the need to meet the equal opportunity requirements.</li> </ul> <p>(5) The local authority shall discharge its duties under this section in a way which contributes to the achievement of sustainable development.</p> <p>(6) In measuring the improvement of the performance of a local authority's functions for the purposes of this section, regard shall be had to the extent to which the outcomes of that performance have improved.</p>
<b>Best value audit</b>	<p>Auditors have responsibility under legislation to provide public assurance on the extent to which local government bodies are meeting their statutory duties. New audit approach is detailed in the relevant supplementary guidance.</p>
<b>Code (the)</b>	<p>The Code of Audit Practice issued by Audit Scotland and approved by the Auditor General and the Accounts Commission.</p>
<b>Controller of Audit</b>	<p>The officer appointed by the Accounts Commission under Section 97(4) of the Local Government (Scotland) Act 1973. The Controller of Audit has statutory reporting functions, in particular those referred to in Appendix 3 of the Code.</p>
<b>Ethical Standards</b>	<p>Ethical Standards issued by the FRC.</p>

<b>Financial Reporting Council (FRC)</b>	The body responsible in the UK for issuing auditing and ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.
<b>Financial statements</b>	Annual or periodic financial statements, abstract(s) of accounts or the account in the prescribed form on which the auditor expresses an opinion.
<b>Following the Public Pound Code</b>	In 1996 the Accounts Commission and COSLA published a joint Code of Guidance on Funding External Bodies and Following the Public Pound'. This Code is still relevant and local government auditors are required to review the guidance for auditors when carrying out their work in this area.
<b>FReM</b>	Government Financial Reporting Manual published by HM Treasury
<b>Fraud</b>	Intentional distortion of financial statements and accounting records and/or misappropriation of assets involving deception to obtain an unjust and illegal financial advantage.
<b>ISAs</b>	International Standards on Auditing (UK and Ireland). The following ISAs are referenced in this Code: <ul style="list-style-type: none"> <li>• 240 - The auditor's responsibilities relating to fraud in an audit of financial statements</li> <li>• 260 - Communication with those charged with governance</li> <li>• 320 - Materiality in planning and performing an audit</li> <li>• 330 - The auditors responses to assessed risk</li> <li>• 570 - Going concern</li> <li>• 700 - The auditors report on financial statements</li> </ul>
<b>Local government bodies</b>	Councils, joint boards, committees, integration joint boards and other associated bodies, established under the Local Government (Scotland) Act 1973, as amended or replaced by the Local Government (Scotland) Act 1994.
<b>Other (joint) scrutiny bodies</b>	Inspectorates and other public sector organisations that have a role in assessing aspects of organisational performance, compliance with professional standards and the competence of professional staff. <p>In local government, the relevant organisations are listed in Schedule 14 of the Public Services Reform (Scotland) Act 2010 alongside the Accounts Commission. They have a duty to cooperate with each other and, where appropriate, with the Scottish ministers, under the Act.</p>
<b>Regularity (of</b>	Whether, subject to the concept of materiality, expenditure and income has

<b>expenditure and income)</b>	<p>been incurred or applied in accordance with (i) any applicable enactment by virtue of which the expenditure was incurred or the income received and guidance issued by the Scottish ministers; (ii) the Budget Act or Acts for the financial year, or any part of the financial year, to which the financial statements relate, and (iii) Sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000. Strictly, the legislation refers to receipts rather than income. Where the accounting framework requires audited bodies to account for income this is the term more commonly used in independent auditors' reports.</p>
<b>Shared risk assessment (SRA)</b> <b>Local government auditors only</b>	<p>A process involving a joint approach using key information about a body to plan scrutiny activity that is proportionate and based on risk. SRA is undertaken by a joint scrutiny network and leads to the preparation of an assurance and improvement plan, part of which may be the conduct of a Best Value audit.</p>
<b>Those charged with governance</b>	<p>Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'. In most cases, for example, this might be a full council or board of management, an audit committee (where established) or another committee with delegated responsibility for receiving the financial statements.</p>
<b>Whole of Government Accounts (WGA)</b>	<p>The WGA initiative is to produce a set of consolidated financial statements for the entire UK public sector on commercial accounting principles. The larger public sector bodies in Scotland are required to submit a consolidation pack to the relevant Scottish Government directorate which is based on, but separate from, their statutory accounts.</p>

MEETING: 10 MARCH 2016

REPORT BY: MARK ROBERTS, SENIOR MANAGER, PERFORMANCE AUDIT AND BEST VALUE GROUP

**COMMUNITY JUSTICE (SCOTLAND) ACT 2016**

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**Purpose**

1. This briefing:
  - provides the Accounts Commission with a brief summary of the changes to the community justice system that have been introduced by the recently passed Community Justice (Scotland) Act 2016 (paragraphs 2 to 8);
  - highlights three key issues arising from the changes (paragraphs 9 to 15);
  - notes the current proposal to conduct a performance audit into community justice during 2018/19 (paragraph 16).<sup>1</sup>

**Background**

2. At its December 2015 meeting, the Commission agreed that a briefing be presented on the forthcoming Community Justice Act. At its subsequent January meeting, the Commission noted that information on the Act was part of the draft report *Community planning: an update*, which the Commission approved, and was published on 3 March.
3. This briefing provides fuller detail on the legislation.

**Current arrangements**

4. Community justice covers a range of services, including the provision of community sentences (eg community payback orders) and support for released prisoners/ supervision of (eg alcohol treatment requirement or electronic monitoring). A range of organisations deliver these services including local authorities through criminal justice social workers, third sector organisations, the Scottish Prison Service and Police Scotland. Since 2007, delivery of community justice has been overseen by eight Community Justice Authorities spanning Scotland's 32 local authorities.
5. Under the current arrangements, Community Justice Authorities must:
  - prepare, in consultation with other relevant bodies, a plan for reducing reoffending in their areas
  - monitor the performance of constituent local authorities and Scottish Ministers in taking forward that plan
  - promote good practice in reducing reoffending and supporting the sharing of information
  - distribute Scottish Government funding to local authority criminal justice social work services
  - report to Scottish Ministers on the delivery of services.

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<sup>1</sup> The Scottish Parliament passed the [Community Justice \(Scotland\) Act 2016](#) on 11 February 2016.

6. These arrangements will end in March 2017. The eight Community Justice Authorities will be abolished and will be replaced by the new system and structures introduced by the Community Justice (Scotland) Act 2016. In the run-up to the introduction of this legislation, the Scottish Government cited the reports into *Reducing Reoffending in Scotland* and the report of the Commission on Women Offenders as providing a rationale for change.<sup>2</sup>

7. The *Reducing Reoffending* report noted that Community Justice Authorities:

*“[...] have had little impact on reducing reoffending. The way they were set up has significantly limited their effectiveness, and there are no nationally-agreed measures to assess their performance. The range of bodies involved and the structure of the public sector in Scotland creates a complex landscape. There is limited alignment between the priorities of CJAs and those of other local partnerships such as Community Planning Partnerships and Alcohol and Drug Partnerships. Stronger leadership is required if reoffending is to be significantly reduced.”*

### **Future arrangements**

8. From 1 April 2017, a new national central government body, Community Justice Scotland (with a proposed budget of around £2.2 million), will oversee the delivery of community justice across Scotland.<sup>3</sup> The Scottish Government plan for Community Justice Scotland to operate in shadow form for six months prior to 1 April 2017. Community Justice Scotland will be accountable to Scottish Ministers and will:

- promote the national strategy for community justice which will be prepared by the Scottish Ministers
- oversee and keep the Scottish Ministers informed about performance in the provision of community justice
- promote and support improvement in the provision of community justice and in making best use of resources
- promote public awareness of the benefits of community justice.

9. Funding will flow directly from the Scottish Government to local authorities for the delivery of community justice services rather than through the CJAs at present. There will not be a role for Community Justice Scotland in this.

10. During the passage of the bill through the Scottish Parliament and in response to comments from stakeholders, the Scottish Government amended the bill to make it clear that Community Justice Scotland will be able to make recommendations to both to community justice partners at a local level (see paragraph 10 below) and to Scottish Ministers at the national level.

### **Key issues**

11. Three key issues arising from the changes to the community justice system relate to:

- how community justice activities will be integrated into the already broad role of community planning partnerships;
- the complexity of the system of governance and accountability that the new arrangements introduce; and

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<sup>2</sup> [Reducing Reoffending in Scotland](#), Accounts Commission and Auditor General for Scotland, November 2012. [Commission on Women Offenders](#), Scottish Government, April 2012.

<sup>3</sup> Community Justice Scotland will be a non-departmental public body subject to audit by the Auditor General.



- discussions about potential changes in the balance between custodial and community sentencing

### *Community justice partners and community planning partnerships*

12. During the initial consultation on the proposed community justice legislation, the focus was on the transfer of responsibilities for community justice to community planning partnerships (CPPs). The final legislation does not transfer responsibility to CPPs, instead it identifies a number of local and national community justice partners, including all local authorities, some of whom are also community planning partners.<sup>4</sup> These partners will have a duty “[...] to co-operate with each other in carrying out planning activities, delivering and reporting on outcomes for community justice in their local area.”<sup>5</sup>

13. In its Stage 1 report on the Community Justice (Scotland) Bill, the Scottish Parliament’s Justice Committee challenged the Scottish Government on the justification for the shift from community planning partnerships to community justice partners. The Scottish Government’s responded that community planning partnerships:

*“[...] are not statutory entities for accountability purposes – rather they are the sum of their partners and then only when carrying out community planning under the Community Empowerment (Scotland) Act 2005. Scottish Ministers cannot, therefore, assign duties direct to them. The new model confers the planning, monitoring and accountability functions instead on designated community justice partners – they can be held to account for their contribution to community justice outcomes in ways that CPPs cannot, since CPPs have no formal lines of accountability other than to local communities.”<sup>6</sup>*

14. The Scottish Government anticipates that the community justice partners approach to planning will mirror those of community planning partnerships.<sup>7</sup> Given that not all community justice partners are community planning partners, it remains to be seen how, in detail, the duties of community justice partners will be integrated into wider community planning systems and structures. As noted in the recently published (3 March 2016) report on community planning partnerships:

*“The Scottish Government and COSLA will draft guidance setting out how the planning and delivery community justice services should be set within the community planning context.”<sup>8</sup>*

### *Governance and accountability*

15. The establishment of Community Justice Scotland results in a set of governance and accountability arrangements for community justice that are not necessarily less complex than the existing CJA-based model. As a single national body accountable to Scottish Ministers, Community Justice Scotland will be required to oversee, engage with and support all community justice partners at both a national and local level, some of which are accountable to Scottish Ministers, some of which are not. It will also need to engage with all 32 community planning partnerships.

<sup>4</sup> The other community justice partners identified in the Act are: health boards, Police Scotland, the Scottish Fire and Rescue Service, Skills Development Scotland, health and social care integration joint boards, the Scottish Courts and Tribunals Service and the Scottish Prisons Service (identified as the Scottish Ministers).

<sup>5</sup> [Community Justice \(Scotland\) Bill, Policy Memorandum](#), Scottish Parliament, May 2015.

<sup>6</sup> [Community Justice \(Scotland\) Bill – Scottish Government’s Response to the Committee’s Stage 1 Report](#), Scottish Parliament, January 2016.

<sup>7</sup> [Community Justice \(Scotland\) Bill, Policy Memorandum](#), Scottish Parliament, May 2015

<sup>8</sup> Community planning: an update. Accounts Commission and Auditor General for Scotland, March 2016.

16. The establishment of Community Justice Scotland as a national body accountable to Scottish Ministers provides an opportunity for there to be a focal point for leadership in delivering community justice and a more strategic approach to the planning, designing and delivery of community justice services. Whether this opportunity is realised will be dependent on Community Justice Scotland's ability and capacity to:
- support, influence and challenge community justice partners across Scotland, including all local authorities, which are not accountable to it;
  - influence individual community justice partners who, may or may not, be directly accountable to Scottish Ministers; and
  - ensure that community justice is given sufficient profile and attention in the context of community justice partners' other priorities and responsibilities, their own governance arrangements and the continuing challenge presented by pressures on public sector finances and increasing demand for public services.

*Future balance between custodial and community sentencing*

17. The changing organisational arrangements for community justice come at a time when wider developments in the criminal justice system may place greater emphasis on it. The Cabinet Secretary for Justice has repeatedly noted that the Scottish prison population is disproportionately high relative to other countries and expressed a wish to see it fall. In connection with this, there has been wide discussion and consultation about the need to reduce the number of short custodial sentences, as these are seen as ineffective in reducing reoffending.<sup>9</sup> Ultimately, this may shift the overall balance between custodial sentences and community sentences and increase demand for community justice services.

**Potential future audit work**

18. The current performance audit forward work programme notes the possibility of conducting a performance audit in 2018/19 to assess the process of establishing the new arrangements for the delivery of community justice and to provide an early benchmark against which they can be judged.

**Conclusion**

19. The Accounts Commission is invited to note:
- this briefing; and
  - the current proposal to assess community justice through a performance audit in 2018/19.

**Fraser McKinlay**  
**Director of Performance Audit and Best Value**  
**2 March 2016**

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<sup>9</sup> [Consultation on Proposals to Strengthen the Presumption against Short Periods of Imprisonment](#), Scottish Government, September 2015.