

429th meeting of the Accounts Commission for Scotland

**Thursday 11 August 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 11 to 13 in private (* see note).
4. **Minutes of meeting of 9 June 2016.**
5. **Minutes of meeting of Audit Scotland Board of 3 May 2016.**
6. **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.
7. **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.
8. **Annual Audit Scotland Transparency and Quality report:** The Commission will consider a report by the Assistant Auditor General.
9. **Commission meeting arrangements 2017:** The Commission will consider a report by the Secretary to the Commission.
10. **Audit of Best Value: Angus Council:** The Commission will consider a report by the Controller of Audit.

*The following items are proposed to be considered in private:**
11. **Audit of Best Value: Angus Council:** The Commission will consider the action that it wishes to take.
12. **Performance Audit: draft report – Social Work:** The Commission will consider a report by the Director of Performance Audit and Best Value.
13. **Commission business matters:** The Commission will discuss matters of interest.

* It is proposed that items 11 to 13 be considered in private because:

- Item 11 requires the Commission to consider actions in relation to a report by the Controller of Audit. The Commission is then obliged by statute to inform the council in question of its decision, which the Commission does before making the decision public.
- Item 12 proposes a draft audit report, which the Commission is to consider and consult appropriately with stakeholders if necessary before publishing.
- Item 13 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:

Agenda Item	Paper number
Agenda Item 4: Minutes of meeting of the Commission of 9 June 2016	AC.2016.7.1
Agenda Item 5: Minutes of meeting of Audit Scotland Board of 3 May 2016	AC.2016.7.2
Agenda Item 6: Report by Secretary to the Commission	AC.2016.7.3
Agenda Item 8: Report by the Assistant Auditor General	AC.2016.7.4
Agenda Item 9: Report by the Secretary to the Commission	AC.2016.7.5
Agenda Item 10: Report by the Controller of Audit	AC.2016.7.6
Agenda Item 12: Report by the Director of Performance Audit and Best Value	AC.2016.7.7

MEETING: 11 AUGUST 2016

MINUTES OF PREVIOUS MEETING

Minutes of the 428th meeting of the Accounts Commission held in the offices of Audit Scotland at 102 West Port, Edinburgh, on Thursday, 9 June 2016, at 10.15am

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

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, Benefits (Technical) [Items 8 and 12]
Gemma Diamond, Senior Manager, PABV [Items 10 and 11]
Russell Frith, Assistant Auditor General, [Items 8, 12, 13]
Lorraine Gillies, Senior Manager, PABV [Item 15]
Fiona Mitchell-Knight, Assistant Director, ASG [Items 10 and 11]
Ronnie Nicol, Assistant Director, PABV [Items 9, 10, 11, 14]
Dave Richardson, Senior Manager, ASG [Items 10 and 11]
Kathrine Sibbald, Senior Manager, PABV [Items 9 and 14]
Owen Smith, Senior Manager, Audit Strategy [Item 13]

Item No Subject

1. Apologies for absence
2. Declarations of interest
3. Decisions on taking business in private
4. Minutes of meeting of 12 May 2016
5. Minutes of meeting of Audit Scotland Board of 24 March
6. Update report by the Secretary to the Accounts Commission
7. Update report by the Controller of Audit
8. Housing Benefit Audit Annual Report
9. The New Approach to Auditing Best Value
10. Audit of Best Value: Follow Up: South Ayrshire Council
11. Audit of Best Value: Follow Up: South Ayrshire Council
12. Draft report: Housing benefit audit – initiatives which deliver continuous improvement
13. National Fraud Initiative
14. Auditing Best Value: Year 1 Programme
15. Community Empowerment Act: consultation response
16. Review of Commission Code of Conduct and Appointment of Standards Officer
17. Commission business matters

1. Apologies for absence

It was noted that apologies for absence had been received from Ronnie Hinds and Sophie Flemig.

2. Declarations of interest

The following declarations of interest were made:

- Sheila Gunn, in items 8 and 12, as a non-executive Director of the Wheatley Group, in relation to its relationship with Glasgow Housing Association
- Christine May, in item 16, as Vice-Chair of Fife Cultural Trust, in relation to references to arm's length external organisations
- Stephen Moore, in item 7, as a former Director of Social Work and Interim Director of Health and Social Care Integration in Fife Council, in relation to a recent criminal case involving the Council.
- Geraldine Wooley, in item 8, as a close family member of someone who writes and comments on benefits issues, and in item 13, as a member of Fife Valuation Appeal Committee, in relation to its assessment work.

3. Decisions on taking business in private

It was agreed that items 11 to 16 should be taken in private for the following reasons:

- Item 11 requires the Commission to consider actions in relation to a report by the Controller of Audit. The Commission is then obliged by statute to inform the council in question of its decision, which the Commission does before making the decision public.
- Item 12 proposes a draft audit report, which the Commission is to consider and consult appropriately with stakeholders if necessary before publishing.
- Item 13 presents a draft report, which requires further stakeholder consultation by Audit Scotland before publishing.
- Item 14 proposes a programme of Best Value auditing activity, on which the Commission would wish to consult with affected stakeholders before publishing.
- Item 15 presents a draft response to a Scottish Government consultation exercise, which may have aspects of business in relation to Commission policy which the Commission wishes to discuss in private before publishing.
- Item 16 presents issues in relation to the Commission's Code of Conduct and thus affecting the conduct of Commission members, which the Commission wishes to discuss in private before publishing.

4. Minutes of meeting of 12 May 2016

The minutes of the meeting of 12 May 2016 were approved, subject to:

- In relation to item 14, adding a fifth bullet point: "welcomed the new section of the Commission website allowing interactive analysis of council accounts information".
- In relation to item 15, adding a second bullet point: "that final sign-off of the report be delegated to the sponsors of the report in conjunction with the Auditor General".

5. Minutes of meeting of Audit Scotland Board 24 March 2016

The minutes of the meeting of the Audit Scotland Board of 24 March 2016 were submitted and noted.

Arising therefrom, in relation to item 14 of the minutes, the Commission agreed that the Secretary apply to the Commission an evaluation of board effectiveness exercise like that undertaken by the Audit Scotland Board.

Action: Secretary

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.

Following discussion, the Commission agreed to note advice from the Secretary:

- In relation to paragraph 25, on the make-up of the Scottish Parliament's Local Government and Communities Committee.
- In relation to paragraph 28, in response to a query from Sandy Cumming, that he would circulate a briefing paper produced by the Director of PABV on the councils not currently involved in City Deals in Scotland.
- In relation to paragraph 38, that the PricewaterhouseCooper report *The State We're In 2016* was available on the members' extranet.

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. Housing Benefit Audit Annual Report

The Commission considered a report by the Assistant Auditor General seeking its endorsement of the outcome of Audit Scotland's housing benefit audit work 2015/16.

Following discussion, it was agreed:

- To endorse the report of the outcomes of the 2015/16 benefit performance audit work, subject to noting:
 - In paragraph 3, to name councils appropriately
 - In paragraph 7, removal of "eligible"
 - In paragraph 9, in the final sentence, the addition of "benefit" after "abolished".
 - In paragraph 21, to add reference to the availability of information on good practice in the report 'Review of activity to reduce fraud and error in housing benefit 2014/15.
- That the Chair write to council leaders, copied to chairs of audit and scrutiny committees and chief executives, promoting the report.

Action: Secretary and Assistant Auditor General

9. The New Approach to Auditing Best Value

The Commission considered a report by the Director of PABV providing an update on the development of the new approach to auditing Best Value and seeking its approval of the overall framework for the new approach.

Following discussion, the Commission:

- Noted the progress made on the new approach to auditing Best Value since the Commission meeting in April
- Noted an update from the Secretary on a meeting held on 3 June with the Scottish Government and the Convention of Scottish Local Authorities to discuss refreshing statutory guidance in relation to Best Value
- Agreed, subject to further refinement, the overall framework for the new approach as shown in the Appendix to report as a basis for formal engagement and communications and for future continued development of the audit, including the following:
 - In Exhibit 1, a better representation of the cyclical nature of the audit planning framework
 - A higher profile in the document to the importance of the role of self-evaluation covering all council services.
- Agreed that the Commission's Working Group on the new approach should meet over the next few months and consider issues identified at the workshop for Commission members on 11 May, including agreement on engagement activities with stakeholders over the Autumn, with reports being provided to the full Commission as appropriate.

Actions: Secretary and Director of PABV

10. Audit of Best Value: South Ayrshire 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 South Ayrshire 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.

11. Audit of Best Value: South Ayrshire 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 South Ayrshire Council.

Following discussion, the Commission agreed:

- To make findings, to be published on 29 June 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

12. Draft report: Housing benefit audit – initiatives which deliver continuous improvement
[in private]

The Commission considered a report by the Assistant Auditor General seeking its approval of the draft audit report *Housing benefit good practice guide: initiatives which deliver continuous improvement*.

Following discussion, the Commission:

- Approved the draft report, subject to including a more prominent reference to Best Value and continuous improvement.
- Agreed the recommendation of the Financial Audit and Assurance Committee that the Chair write to council leaders, copied to chairs of audit and scrutiny committees and chief executives, promoting the report

Actions: Secretary and Assistant Auditor General

13. National Fraud Initiative [in private]

The Commission considered a report by the Assistant Auditor General presenting the outcomes of the 2014/15 National Fraud Initiative.

Following discussion, the Commission:

- Noted the draft report, subject to the inclusion of some revisions raised in discussion.
- Agreed that the final report be shared with members.
- That further thought be given by the Assistant Auditor General to the implications for the initiative of the existence of arm's length external organisations.

Actions: Assistant Auditor General

14. Auditing Best Value: Year 1 Programme [in private]

The Commission considered a report by the Director of PABV seeking consideration of arrangements for submission of Best Value Assurance Reports by the Controller of Audit during the first year of implementation of the new approach to auditing Best Value.

Following discussion, the Commission agreed the proposed arrangements.

Actions: Secretary and Director of PABV

15. Community Empowerment Act [in private]

The Commission considered a report by the Secretary to the Commission proposing a response, made jointly with the Auditor General, to various consultation exercises undertaken by the Scottish Government in relation to different aspects of the Community Empowerment Act.

Following discussion, the Commission agreed the proposed responses, subject to agreement with the Auditor General, and subject to revisions raised in discussion.

Action: Secretary to the Commission

16. Review of Commission Code of Conduct and Appointment of Standards Officer [in private]

The Commission considered a report by the Secretary to the Commission on his review of the Commission Members' Code of Conduct and proposing the appointment of the Secretary to the Commission as Standards Officer.

Following discussion, the Commission:

- Noted and endorsed the updated Ethical Standard framework published by the Financial Reporting Council
- Agreed the consequential proposed revisions to the Commission Members' Code of Conduct, subject to Ministerial approval.
- Agree to designate the Secretary to the Commission as the Standards Officer for the Commission.

Actions: Secretary to the Commission

17. Commission business matters

There being no further business, the meeting was closed.

Minutes of Meeting of **Audit Scotland Board**
held on 3 May 2016 in the offices of Audit
Scotland at 102 West Port, Edinburgh

PRESENT: I Leitch (Chair)
C Gardner
H Logan
D Sinclair
R Griggs

APOLOGIES: None

IN ATTENDANCE: D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
A Devlin, Corporate Governance Manager

<u>Item No</u>	<u>Subject</u>
1.	Apologies
2.	Declarations of Interest
3.	Chair's Report
4.	Accountable Officer's Report
5.	Accounts Commission Chair's Report
6.	Minutes of the meeting dated 24 March 2016
7.	Minutes of the Audit Committee meeting dated 26 February 2016
8.	Minutes of the Remuneration and Human Resources Committee meeting dated 26 February 2016
9.	Review of the Actions Tracker
10.	2015/16 Annual Report on Freedom of Information and Environmental Information
11.	2015/16 Annual Report on Complaints Handling
12.	Securing World Class Audit: Funding and Fees – Draft Consultation
13.	Corporate Plan Update 2016/17
14.	Review of Risk Management Framework
15.	Draft Information Security Management Policy
16.	Publication of Board Papers
17.	AOB
18.	Date of next meeting

1. Apologies

There were no apologies.

2. Declarations of Interest

Ian Leitch declared his membership of the Scottish Legal Complaints Commission. Heather Logan declared her membership of the Audit and Advisory Committee of the Scottish Public Services Ombudsman (SPSO).

3. Chair's Report

Ian Leitch advised that, since the previous meeting of the Board, he had held regular meetings with Caroline Gardner, Auditor General for Scotland and Diane McGiffen, Chief Operating Officer, to discuss Board matters and had met with Russell Frith, Assistant Auditor General, to discuss the progress of work on fees and funding.

The Chair advised that planning was underway for the Board development event. Following a brief discussion about dates it was agreed that the Chief Operating Officer would liaise with Board members to secure a date in August. The Chair suggested that discussion of the SCPA legacy paper, which had been circulated, should be scheduled for that event.

The Chair further advised that, following discussions with Caroline Gardner, Auditor General and Douglas Sinclair, Chair of the Accounts Commission about the quorum requirements in the Board's Standing Orders, he proposed that the Standing Orders would remain in the meantime, as currently drafted. However, while recognising the rationale for the existing quorum arrangements, the Chair pointed out that, in the event of the absence by either the Auditor General or the Chair of the Accounts Commission, the Audit Scotland Board could not competently meet and no business could be undertaken. Therefore, the Chair requested that there be further discussion on possible options to handle such circumstances at the development event.

Action:

- **The date for the Board development event to be finalised and the Chief Operating Officer would schedule the SCPA legacy paper for discussion together with quorum options at the event. (May – August 2016)**

4. Accountable Officer's Report

Caroline Gardner provided an update on her activity since the previous board meeting, including ongoing development of ways to support the new Parliament, including members' orientation and continuing development.

Caroline advised of the forthcoming publication of a report on 'Common Agricultural Policy Futures programme, an update' on 19 May 2016, in the period between the Holyrood election publication embargo and the European Referendum publication embargo.

Caroline also provided an update on key internal business issues, including the ballot in favour of the pay offer that had been made to the Principal and Civil Service Union at Audit Scotland, who had balloted their members at Audit Scotland on the pay offer for 2016 and had recommended acceptance of the offer. Caroline also advised that a post project review was underway about the West Port office relocation, as was work to secure new accommodation in Inverness and potential work on the Glasgow office. Finally, she

advised that a full programme of internal and external audit work was ongoing to support the presentation of the final accounts to the next Audit Committee and Board meetings.

Douglas Sinclair commented that he had been impressed by the new secondees that he and the Accounts Commission had met at their most recent meeting. Diane McGiffen advised that there had been a recent welcome increase in the number of secondment opportunities and that currently there were four secondees, one each from the Scottish Parliament, UK Statistics Authority, West Lothian Council and Scotland's Rural College.

5. Accounts Commission Chair's Report

Douglas Sinclair provided an update on the work of the Accounts Commission since the previous meeting of the Board. He advised that there had been recent consideration of the best value follow up work on Edinburgh City Council, which had included the transformation plan for the council and its approach to decentralisation.

Douglas advised that the Accounts Commission was paying close attention to discussions about the future shape of local government and health services that were forming part of the election campaign.

6. Minutes of the meeting dated 24 March 2016

The Board considered the note of the meeting of Board members on 24 March 2016, which had been previously circulated. The Board members confirmed the note was an accurate record of the meeting.

7. Minutes of the Audit Committee meeting dated 26 February 2016

The Board considered the note of the meeting of the Audit Committee 26 February 2016, and adopted the minute subject to the minor changes made at the earlier Audit Committee meeting.

8. Minutes of the Remuneration and Human Resources meeting dated 26 February 2016

The Board considered the note of the Remuneration and Human Resources meeting of 26 February 2016, which had been previously circulated. The Board noted that the minutes of the meeting on 24 March 2016 were still to be circulated.

9. Review of the Actions Tracker

The members noted the update provided by the Action Tracker, which had been previously circulated.

Diane McGiffen advised that, in line with the changes agreed for the Audit Committee action tracker, unique identifiers would be added to each item.

10. 2015/16 Annual Report on Freedom of Information and Environmental Information

Alex Devlin, Corporate Governance Manager, joined the meeting.

Alex Devlin, Corporate Governance Manager, introduced the 2015/16 Annual Report on Freedom of Information and Environmental Information report, which had been previously circulated.

Alex invited members to consider the assurance provided on our Freedom of Information (FOI) and Environmental Information Regulations (EIRs) arrangements, requests and performance.

Following discussion, members noted that the assurances provided and that the FOI/EIR arrangements were working well.

11. 2015/16 Annual Report on Complaints Handling

Alex Devlin, Corporate Governance Manager, introduced the 2015/16 Annual Report on Complaints Handling, a copy of which had been previously circulated.

Alex invited members to note the reduction in the number of complaints received and assurance that there are no significant issues to report.

Following discussion, members noted the assurance provided on the handling of complaints during the year and that the process for handling complaints was working well.

Alex Devlin, Corporate Governance Manager, left the meeting.

12. Securing World Class Audit: Funding and Fees – Draft Consultation

Russell Frith, Assistant Auditor General, introduced the report on Funding and Fees – Draft Consultation, a copy of which had been previously circulated.

Russell advised the Board that a lot of work had been completed since the previous Board meeting to develop the underlying models to support greater transparency of fees and had used data from the 2016/17 budget to populate the model. He advised that there was still analysis and discussion required to make a recommendation on where the level of fees should be fixed. He advised that following discussion with Management Team last week, colleagues thought it would be better to complete further analysis on fees and Audit Scotland's efficiency target before providing more detailed information of the content of the planned consultation. He advised that this would result in a delayed but more effective consultation.

The report that the Board was being invited to consider looked at the potential impact of the procurement exercise and identified some of the considerations in setting fees for 2016/17 audits on which early guidance from the Board would be useful. Russell also advised that the final part of the report dealt with the presentation of hourly rates, in response to a previous request from the SCPA.

The Board discussed the contribution that the procurement results make to the overall cost of the public audit model and the contribution that Audit Scotland will make. Diane McGiffen advised that the Management Team would be considering options for the next five years. She outlined the actions that had been taken to reduce the cost of audit by around 25% over the previous five years, including reducing the number of staff employed, by deploying voluntary early release arrangements and recruitment freezes, as well as implementing long term plans to reduce property costs significantly. She also advised that cost reductions had taken place consistently across all business groups.

The Board discussed the decisions which had been taken earlier in the procurement exercise to determine the size and scale of the work to be undertaken by the in-house

team and the firms, and Russell Frith reminded the Board of the range of factors taken into account, including the need for an in-house practice to have a critical mass of work to provide effective competition to the firms, and the views of the Auditor General and the Chair of the Accounts Commission on the additional value offered by the in-house team. The Board also discussed the importance of being able to quantify and cost the added value of the in-house team and of demonstrating value for money and efficiency over the lifetime of the appointments.

The Chair and Heather Logan expressed their concern to understand the implications for the Audit Services Group of the procurement exercise. The Board agreed that the challenge for Audit Scotland was to secure and demonstrate efficiency and reduced costs without sacrificing quality. Caroline Gardner reminded the Board of the importance of the work already undertaken and planned on the costing model which underpins fee setting and of the ability to demonstrate transparency in costing and the apportionment of costs. She advised that, as planned, Russell Frith would bring further reports to the Board on these topics in June, August and September 2016, as set out in the action tracker. It was agreed to consider how the work on Audit Services delivery of best value, which the Board had previously considered, and the added value provided by public audit model could be developed to include costing.

Diane McGiffen advised that the Management Team would be considering the next phase of Audit Scotland's efficiency strategy and the options for setting targets at its next meeting, and that this was central to the preparation of the 2017/18 budget submission.

During discussion, members agreed that it would be helpful to summarise in one place the key decisions taken on the procurement strategy and fees and funding, including the benefits of having an in-house practice.

Caroline suggested, and the Board agreed, that the longer term financial strategy should be modelled over a five year period including fee reductions at various levels above and below 10 per cent alongside the efficiency targets to be set for Audit Scotland's work.

It was agreed that the financial strategy had to balance a number of imperatives including providing assurance to Parliament and the public that audit was providing high levels of assurance and audit quality alongside value for money.

Action(s):

- **Russell Frith to prepare for the next Board meeting:**
 - (a) **a report on fee setting options, including Audit Scotland's efficiency plans**
 - (b) **a summary of all the decisions taken on procurement**
 - (c) **a draft consultation paper on fees and transparency.**

(June 2016)

- **Russell Frith to prepare proposals for developing the work on demonstrating best value in the delivery of audit and the added value provided by the public audit model to be progressed.**

(September 2016)

13. Corporate Plan Update 2016/17

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Corporate Plan Update 2016/17 report, which had been previously circulated. Martin invited members to consider and approve the Corporate Plan update for 2016/17.

During discussion, members commended Martin on the clarity of the report and drafting.

Following further discussion, members approved the plan subject to final amendments and a further conversation between Douglas Sinclair and Martin Walker about links with the Accounts Commission strategy.

Action(s):

- **The Assistant Director, Corporate Performance and Risk to arrange for publication of the draft Corporate plan following final discussion and amendment. (May 2016)**

14. Review of Risk Management Framework

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the report on Review of Risk Management Framework, which had been previously circulated.

Martin invited members to approve the revised risk management framework, subject to any amendments recommended by the Audit Committee.

Members noted the earlier discussion at the Audit Committee and approved the revised risk management framework.

Action(s):

- **The Assistant Director, Corporate Performance and Risk to publish the Review of Risk Management Framework. (May 2016)**

15. Draft Information Security Management Policy

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Draft Information Security Management Policy, a copy of which had been previously circulated.

Martin invited members to approve the revised Information Security Management Policy which sets out the overarching principles of information security and the associated roles and responsibilities.

Members noted and approved the updated policy.

Actions:

- **The Assistant Director, Corporate Performance and Risk to publish the Information Security Management Policy. (May 2016)**

16. Publication of Board Papers

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the report on Publication of Board Papers, which had been previously circulated.

Martin invited members to consider the report together with the guidance on the publication of Board papers to agree the reports to be published on the Audit Scotland website following this meeting.

Members discussed and agreed the reports to be published alongside the approved minute of the meeting.

The reports not for publication were:

- Item 8 Minutes of Remuneration Committee (statutory/security/legal - personal information).
- Item 12 Fees and Funding (effective conduct of business - free and frank provision of advice/exchange of views for the purposes of deliberation/conduct of public affairs).
- Item 13 Corporate Plan (effective conduct of business - information intended for future publication).

Actions:

- **The Assistant Director, Corporate Performance and Risk to arrange to publish the reports on the Audit Scotland website alongside the approved minute.
(June 2016)**

17. AOB

There was no further business.

18. Date of Next Meeting

It was noted that the next Audit Scotland Board meeting had been scheduled for **2 June 2016** in the offices of Audit Scotland, 102 West Port, Edinburgh.

MEETING: 11 AUGUST 2016

REPORT BY: SECRETARY TO THE ACCOUNTS COMMISSION

UPDATE REPORT

Introduction

1. The purpose of this report is to provide a regular update to the Commission on significant recent activity relating to local government, as well as issues of relevance or interest across the wider public sector.
2. 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 receives a more detailed update on issues relating to local government. This report also complements the weekly briefing provided by Audit Scotland's Communication Team made available on the 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.

Accounts Commission business

Publications:

4. On 29 June, the Commission published its [Best Value audit report](#) on South Ayrshire Council. The Council has made progress in responding to a critical audit in February 2014 when the Commission voiced concerns about significant weaknesses in the management of the Council which limited its ability to meet its statutory Best Value duty to deliver continuous improvement. In its findings, the Commission welcomes the strong culture of improvement at the Council and its efforts to learn from other organisations in finding new ideas and fresh thinking. It is imperative that the Council maintains its positive momentum in the light of difficult decisions that lie ahead in reshaping services in response to reducing resources. The audit received a variety of local and national coverage and South Ayrshire Council Leader, Councillor Bill McIntosh, [welcomed](#) the report, stating:

“The Council has been on an incredible journey over the last couple of years and it's testament to the efforts of our employees and elected members that this has been recognised in such a positive way by the Accounts Commission.”

5. Commission members Douglas Sinclair, Tim McKay, Pauline Weetman and Geraldine Wooley will follow up this work in a visit to South Ayrshire Council on 17 August.
6. On 4 August, the Commission published its report, jointly with the Auditor General for Scotland, on [Roads maintenance](#). The report states that proper maintenance of the roads network is vital for economic prosperity and for people to get around safely. However, roads authorities, locally and nationally, urgently need to be more innovative, develop robust ways to compare relative efficiency, and engage better with road users. Progress in developing shared roads maintenance services on a regional basis has been slow and there is still no clear plan or timetable to deliver it in practice. The report received strong coverage: including national television and radio broadcasting

and many local radio stations, and in print, good coverage in Scotsman, Herald (including a leader comment) and Courier, and also in the Mail, Times, Telegraph, Express and Star.

7. COSLA has commented that “at a time of austerity and rising demand for services the fact that (the) report has shown that the quality of local roads has been maintained should be seen as a success”. COSLA’s Councillor Stephen Hagan stated:

“overall this report contains some good information and analysis but you have to work to find it. The overall conclusions gloss over a complex picture and imply that councils are not prioritising roads. We reject this inference utterly. The truth of the matter is that local government faces huge challenges on maintaining or improving road quality, but there are no easy solutions.”

8. The download statistics (with the increase from last month in brackets) for the reports published by the Commission over the last 12 months are shown below.

Report	Date	Report downloads	Report podcasts
South Ayrshire Council: Audit of Best Value and Community Planning	29 June 2016	267	-
Accounts Commission annual report 2015/16	26 May 2016	249	-
Accounts Commission engagement strategy and engagement plan 2016/17	26 May 2016	128	-
Accounts Commission Strategy and annual action plan 2016-21	26 May 2016	108	-
Accounts Commission Engagement plan 2015/16: Progress report	26 May 2016	85	-
Accounts Commission Action plan 2015/16: Progress report	26 May 2016	101	-
Code of audit practice 2016	26 May 2016	123	-
Reshaping Care for Older People – Impact Report	10 May 2016	367 (+178)	-
National Scrutiny Plan	31 Mar 2016	283 (+153)	-
Local Government Overview 2016	17 Mar 2016	1,492 (+125)	253 (0)
Changing Models of Health and Social Care	10 Mar 2016	4,577 (+984)	872(0)
Community Planning update	3 Mar 2016	2,135 (+580)	88(0)
City of Edinburgh Council Best Value	25 Feb 2016	599 (+147)	165(0)
Procurement in Councils – impact report	8 Feb 2016	871 (+186)	0(0)
Major Capital Investment in Councils - Follow Up	14 Jan 2016	1506 (+225)	167(0)
Argyll and Bute Best Value Audit	17 Dec 2015	882 (+160)	0(0)
Health and Social Care Integration	3 Dec 2015	6,898 (+1,025)	453(0)

Report	Date	Report downloads	Report podcasts
South Ayrshire Council: Audit of Best Value and Community Planning	29 June 2016	267	-
Accounts Commission annual report 2015/16	26 May 2016	249	-
Accounts Commission engagement strategy and engagement plan 2016/17	26 May 2016	128	-
Accounts Commission Strategy and annual action plan 2016-21	26 May 2016	108	-
The Moray Council: Audit of Best Value and Community Planning Follow Up	29 Oct 2015	1,120 (+100)	189(0)
Falkirk Council: Audit of Best Value and Community Planning	27 Aug 2015	1,376 (+105)	243(0)

Other business:

9. On 29 June, Douglas Sinclair, Ronnie Hinds, Paul Reilly and Fraser McKinlay met with Kevin Stewart, Minister for Local Government and Housing. The Commission representatives advised the Minister of our work programme and current issues of interest to the Commission. The Minister in turn advised us of his current areas of interest. It was agreed by both sides that we would meet quarterly over the year.
10. On 23 June, Commission Chair Douglas Sinclair made the keynote presentation at Holyrood's '[Making the most of ALEOs](#)' event. The event was attended by members and officers from across Scottish local government. The presentation is available on members' extranet site.
11. Douglas Sinclair will meet Bob Doris, the Convener of the Scottish Parliament's Local Government and Communities Committee, on 18 August to discuss matters of mutual interest. He and Ronnie Hinds will present evidence on the Local Government Overview report to the Committee on 14 September. It is also anticipated that they will also present evidence on the Overview report to the Public Audit Committee on a date to be confirmed.

Auditor General for Scotland

12. On 7 July, the Auditor General published her first [Audit of higher education in Scottish universities report](#). The report examined how higher education is funded and delivered in Scotland, how universities contribute to national objectives, and what future challenges the sector and the Scottish Government are likely to face. It found that Scotland's higher education sector is currently financially healthy but faces future challenges, and tough choices are likely to lie ahead if public funding is to deliver Scottish Government policy ambitions. The report received strong media coverage in the national press and on social media.
13. On 14 July, the Auditor General published [Supporting Scotland's Economic Growth: the role of the Scottish Government and its enterprise agencies](#). The report examined how economic growth in Scotland is supported by the public sector, focusing on the roles of the two national economic development agencies – Scottish Enterprise and Highlands and Islands Enterprise - both of which have a specific remit to support economic growth.

The report concluded that the enterprise bodies are performing well and are having a positive impact on their customers but that more needs to be done to understand how their work specifically contributes to the Scottish Government's economic growth targets. Its findings emphasised the need for the Scottish Government to regularly review progress to ensure that its strategy is relevant and fit for purpose. The report received a variety of media coverage.

14. On 27 June, the Auditor General gave a keynote speech at a conference on [the Scottish Parliament's New Powers: Understanding what it means for public services, businesses and people in Scotland](#). Her presentation focused on opportunities and risks around Scotland's new financial powers.
15. On 20 June, *Public Finance* journal published an [interview](#) with the Auditor General who discusses working with the Public Audit Committee, the named person scheme and the implications for Holyrood's new financial powers for government and for her role.

Audit Scotland

16. On 28 July, Audit Scotland responded to a request for further information regarding the [Edinburgh Tram Inquiry](#), following the submission of a formal response on behalf of the Commission and the Auditor General in August 2015. The response provides details of Audit Scotland's involvement in the project and outlines aims and objectives, preparation and methodology behind the 2007 and 2011 reviews. Members can read the [full response](#) on the Commission members' portal.
17. On 22 July, Audit Scotland began a series of engagement sessions with [Young Scot](#). The aim over the coming weeks is to learn more about young people's experiences of education, training and employability, with a view to shaping our audit work in this area.
18. Audit Scotland is inviting feedback on its [revised funding and fee setting arrangements](#), being proposed to coincide with the new audit appointments. Stakeholders have until 8 August to submit their feedback.

Issues affecting local government

UK referendum on leaving the European Union

19. On 23 July 2016 the UK electorate voted by 52per cent to 48per cent to leave the European Union (EU). In Scotland the electorate voted by 62per cent to 38per cent to remain in the EU, with a majority in favour of remain in all Scottish council areas. There is significant uncertainty about how events will proceed from here. Until the UK Government opts to trigger Article 50 (the official notification of the intention to withdraw and the point at which the clock starts on a two year negotiating period) nothing changes formally, with the UK retaining the full rights and obligations of a member of the EU. The result has however immediately created significant uncertainty. The result raises the prospect of further change to the constitutional arrangements in Scotland and associated implications for the Scottish public finances. The initial fiscal position, and the funding consequences for the Scottish Budget, will not become clearer until the UK Government's Autumn Statement. The Scottish Government has announced that it will delay the Scottish budget until this information is available and that it will not publish a three year spending review at this point given the prevailing uncertainties. The specific timing of announcements is uncertain, but the draft Scottish budget is may not be available until early 2017.
20. An initial estimate is that around £620 million (2.2per cent) of the Scottish budget for 2016/17 is directly supported by EU funding (this does not include direct EU funding to

Scottish institutions such as research funding to universities). This is concentrated in specific policy areas, where the impact is likely to be significant. The main components is support payments to farmers and other rural businesses through the Common Agricultural Policy (£488 million per year) and financial support to projects that encourage economic growth , improve skills and tackle poverty through the European Structural Funds (ESF) - £100 million per year. Local authorities are significant recipients of ESF funding.

21. Any significant economic downturn as a result of the referendum result may increase demand-led spending in relation to social security over time. More generally demand for public services that are linked to economic performance could be expected to rise in such circumstances, increasing pressure on the public bodies concerned.
22. The vote to leave the EU creates uncertainties for our work that are likely to continue for an extended period of time. These include the immediate and longer term implications for the Scottish public finances and the affect on audit work. This is in addition to the new financial powers arising from the 2012 and 2016 Scotland Acts. Arrangements have been established to consider the implications of new financial powers for the Accounts Commission and Audit Scotland's work, being led by Audit Scotland's New Financial Powers Steering Group. The scope of this work is being extended to incorporate issues associated with the referendum result. Audit Scotland will continue to monitor issues arising from the referendum result, and will report to the Commission as appropriate. The Commission will be considering in October a report from the Steering Group.

Scottish Government:

23. On 28 July, the [Supreme Court ruled in favour](#) of a challenge to the Scottish Government's Named Person scheme. The ruling states that some proposals breach rights to privacy and a family life under the European Convention on Human Rights. The court said that the aim of the Act, which is intended to promote and safeguard the rights and wellbeing of children and young people, was "unquestionably legitimate and benign". However, judges said specific proposals about information-sharing "are not within the legislative competence of the Scottish Parliament". The Scottish Government has 42 days to respond to the ruling and provide greater clarity about the basis on which health visitors, teachers and other professionals supporting families will share and receive information in their named person role. Deputy First Minister and Education Secretary John Swinney, has now entered talks to ensure that the named person service is implemented. The Scottish Government has now pledged to amend the legislation in line with the Supreme Court's recent judgment.
24. The Scottish Government's [Annual planning statistics](#), published on 21 July, show that the average time taken for major planning decisions has fallen by nearly 17 per cent from last year. Planning Minister Kevin Stewart welcomed these findings, describing the statistics as "very encouraging, particularly at a time when we are looking at the best ways to reform and improve our planning system."
25. On 11 July, Scottish Ministers published their [response](#) to the [report of the independent planning review panel](#), which had been published on 31 May. Ministers welcomed crucial actions to be taken as part of planning sector reform to help deliver more homes and speed up the planning process. Planning Minister Kevin Stewart said:

"It is clear from the recommendations of the independent panel, and the feedback from local authorities, developers and communities, that our planning system can do more for Scotland."

The Scottish Government plans to work with local authorities, developers and community groups to develop more detailed proposals for reform, which will be fully consulted on later this year. This will pave the way for a new Planning Bill to be brought forward to the Scottish Parliament in 2017.

26. On 28 June, the Scottish Government published its plans to reform the education system - [Delivering Excellence and Equity in Scottish Education](#). The plan sets out how the government will work with partners to deliver excellence in Scottish education. It focuses on addressing three key priorities:
- closing the attainment gap;
 - ensuring we have a curriculum which delivers for our children and teachers; and
 - empowering teachers, schools and communities to deliver for children and young people.

Following this, the Scottish Government announced on 15 July the make-up of its new International Council of Education Advisers. As part of the announcement, the Scottish Government advised that The Deputy First Minister is also in the process of appointing a panel of teachers whose experience will help shape the programme to reduce teacher workload and monitor its impact. Teacher panel members have been nominated by Education Scotland and the Scottish College for Education Leadership and are drawn from 14 local authority areas. Among the teacher panel's first tasks will be to consider ideas the Scottish Government has invited from teaching unions to improve teacher workloads. Both panels will meet for the first time next month.

27. On 22 June, the Scottish Government launched a public [consultation](#) on new Strategic Police Priorities, covering the themes of localism, prevention, response, collaborative working, accountability and adaptability.
28. On 29 July, the Scottish Government launched a 13 week [consultation](#) on the welfare benefits being devolved to Scotland, as well as how they are delivered. The Scottish Government is bringing forward its own social security legislation, to implement these changes over a number of years. Once fully devolved, these social security powers will account for around £2.7 billion, or 15per cent of the total Scottish benefit bill. The remainder of benefit spending in Scotland will remain under control of the UK Government.
29. At the [29 June meeting of the Parliament's Finance Committee](#), the Cabinet Secretary for Finance and the Constitution advised of the risk that the 2017/18 budget for Scotland, cited as being the most important budget since devolution, could receive the least scrutiny because of changes in Westminster's timetable. The budget will include unprecedented tax, spending and welfare but the Scottish Parliament may only have a few weeks to consider the budget instead of the usual five months. The changes would have significant implications for councils and health boards.

Scottish Parliament

General:

30. Following the UK's decision to leave the European Union, the Scottish Parliament's European and External Relations Committee has been working through the summer recess to examine the [implications of the decision](#) on Scotland. The Committee has held two evidence sessions so far and recently decided to extend its inquiry into the implications of leaving the EU, issuing a formal [call for evidence](#) for businesses, organisations and individuals. Respondents have been asked to consider a range of

questions, including alternatives to EU membership and the implications for the devolution settlement. The Committee plan to publish in August an interim report of the evidence it has heard so far.

31. On 25 July, the First Minister outlined her plans to secure Scotland's future in Europe. In a [speech](#) to members of the Institute of Public Policy Research, she set out five key interests she believes must be protected following the EU Referendum - democratic, economic, social protection, solidarity and having influence.
32. In response to Andy Wightman MSP's parliamentary question about [funding arrangements](#) for local authorities, Cabinet Secretary for Finance and the Constitution, Derek Mackay responded on 12 July outlining the Government's plans to formally consult councils on devolving a "share of income tax to councils in due course and will engage with HMRC as appropriate to support this process."
33. A number of [written answers](#) were lodged in Parliament on issues pertaining to local government. These included subsidies to local bus services, road and rail investment in the North-East and whether or not the Scottish Government provides financial assistance to local authorities to deal with declining road condition.

Parliamentary Committees

Local Government and Communities Committee:

34. The Committee met for the first time on [15 June](#), choosing Bob Doris as its Convener and Elaine Smith as Deputy Convener. Members are: Mairi Evans, Kenneth Gibson, Graham Simpson, Alexander Stewart and Andy Wightman.
35. At its [meeting](#) on 29 June, the Committee took evidence from Kevin Stewart, Minister for Local Government and Housing on key areas of his portfolio, and John McNairney, Chief Planner, and Caroline Dicks, More Homes Division, Scottish Government on community engagement in the planning system.
36. The Committee has subsequently published a [letter](#) from the Minister on his remit, community planning partnerships and EU funding. He states:

"North Ayrshire has applied a particularly systematic approach to embedding locality planning arrangements, which the Accounts Commission and Auditor General's latest community planning audit report in March 2016 highlighted. The report recognised that many CPPs are introducing or refreshing locality-based planning arrangements."

Public Audit Committee:

37. The Committee met for the first time on [16 June](#),. Members include: Colin Beattie; Jenny Gilruth; Alison Harris; Liam Kerr; Monica Lennon; Jenny Marra and Alex Neil, choosing Jenny Marra as its Convener and Alison Harris as its Deputy Convener.
38. At its [meeting](#) on 30 June, the Committee took evidence from the Auditor General, Mark Taylor (Assistant Director, Audit Scotland), Gemma Diamond (Senior Manager, Audit Scotland) and Morag Campsie (Audit Manager, Audit Scotland) on the recent [CAP Futures update](#). They also heard evidence from Antony Clark (Assistant Director, PABV) and Jillian Matthew (Audit Manager) on the joint Commission and Auditor General report [Changing models of health and social care](#).

Finance Committee:

39. The Committee met for the first time on [15 June](#). The Committee chose Michael Russell as its Convener and Alex Johnstone as its Deputy Convener. Members include: Neil Bibby; Willie Coffey; Ash Denham; Kate Forbes; Murdo Fraser; Patrick Harvie; Alex Johnstone; James Kelly; Ivan McKee; Michael Russell and Adam Tomkins.
40. At its [meeting](#) on 29 June, the Committee took evidence from Derek Mackay MSP, Cabinet Secretary for Finance and the Constitution; and Alistair Brown, Acting Director of Financial Strategy, Scott MacKay, Deputy Director for Financial Programme Management, and Andrew Watson, Deputy Director for Financial Strategy, Scottish Government, on financial and constitutional arrangements.

European and External Relations Committee:

41. The Committee met for the first time on [16 June](#). The Committee chose Joan McAlpine as Convener and Lewis Macdonald as Deputy Convener. Members include: Jackson Carlaw Bruce Crawford; Ross Greer; Rachael Hamilton; Richard Lochhead; Lewis Macdonald and Joan McAlpine..
42. At its [meeting](#) on 30th July, the Committee took evidence on the subject of implications of the EU referendum for Scotland from Fiona Hyslop, Cabinet Secretary for Culture, Tourism and External Affairs, and Karen Watt, Director for Culture, Tourism and External Affairs, Scottish Government; Professor Sir David Edward, Chair of the Europa Institute, University of Edinburgh, and Former Judge of the European Court of Justice; Professor Sionaidh Douglas-Scott, Anniversary Chair in Law, co-director, Centre for Law and Society in a Global Context, Queen Mary School of Law, University of London Dr Kirsty Hughes, Associate Fellow, Friends of Europe, Brussels; Professor Andrew Scott, European Union Studies and Co-Director of Europa Institute, School of Law and Dean International for Europe, University of Edinburgh.
43. On 28 July, the Committee held a further [evidence session](#) on the implications of Brexit for Scotland, this time focussing particularly on the economic implications. The committee welcomed evidence from a number of businesses and institutions including Bertie Armstrong, Scottish Fishermen’s Federation; Colin Borland, Federation of Small Business Scotland; Stephen Boyd, Scottish Trades Union Congress; Hugh Chater, Virgin Money; Gordon Dewar, Edinburgh Airport Ltd; David Frost, Scotch Whisky Association; Kenny Richmond, Scottish Enterprise; Dr Graeme Roy, Fraser of Allander Institute; Mike Rumbles, North East Scotland, LD; Alastair Sim, Universities Scotland; Clare Slipper, NFU Scotland and James Withers, Scotland Food and Drink.

COSLA

44. Commenting on the result of the EU Referendum, COSLA President Councillor David O’Neill said:

“The result of the EU Referendum vote is clearly a significant one. COSLA backed Remain on a cross – party basis and as an organisation we have a leading role and strong influence in Europe so we are clearly disappointed with the outcome. We now need to consider the implications going forward. There is no doubt that it will take time for the detail of what impact the decision to leave the EU will have on us – but in the meantime, as always, COSLA will continue to provide advice, information and support for our member Councils in the best interests of both local government and our communities.”

Society of Local Authority Chief Executives

45. On 13 July, SOLACE UK sent a [letter](#) to the new Prime Minister Rt Hon Theresa May MP, offering support in transforming public services.
46. On 24 June, SOLACE UK gave its [response](#) to the EU referendum result. Mark Rogers, Chief Executive at Birmingham City Council and SOLACE President said:

“This means local government should be redoubling its devolution pressure and taking this opportunity to make our cities and regions the catalysts of change in our country. There is a clear risk that renegotiations with the EU replace the current devolution focus, and an enormous opportunity is missed to place local communities at the centre of decision making... We need to ensure the money sent to Brussels is now better spent in our local communities. This means ensuring EU funded projects both continue and flourish by making decisions at a local level more closely with the people it impacts.”

Improvement Service:

47. 25 councils in Scotland are joining forces to [drive digital transformation](#) in local services by establishing a Digital Transformation partnership and they are currently recruiting a Chief Digital Officer and team to work across the sector. A digital transformation strategy for local government was developed in late 2015/early 2016 and now councils are working together to pool resources to fund a digital team for three years. The Chief Digital Officer will collaborate with partners to exchange best practice, develop wider public sector strategic direction and develop new shared services and capacities.
48. The Improvement Service has launched the [Spatial Hub](#), a single point of access to Scottish local authority data. Spatial Hub takes datasets submitted by individual councils, standardises the format and publishes the information as a national dataset. This will provide a number of benefits for councils including reducing the amount of resources needed for answering Freedom of Information requests. The Commission’s own Local Government Overview [interactive graphic](#) illustrates how individual councils spend across different service areas compared to the rest of Scotland.
49. Aberdeenshire Council has launched a new Alerts Service using [myaccount](#) which enables subscribers to receive real-time notifications on their mobile or tablet about bin collection dates, school closures, job vacancies, nearest recycling centres, local councillors and more in a move to encourage the takeup of online services.
50. The Improvement Service has also [launched](#) a new web portal signposting the support available for Community Planning Partnerships (CPPs). The portal includes links to online tools and information as well as contact details for staff in national improvement agencies.

Current activity and news in Scottish local government:

Individual councils:

51. Argyll and Bute Council has been [recognised](#) by Digital Scotland as one of the leading public sector organisations in Scotland for cost-effective electronic data storage.
52. East Dunbartonshire, West Dunbartonshire and Inverclyde councils have [agreed](#) to consider jointly running a number of services, including roads and transportation; fleet management and maintenance; grounds maintenance and environmental services. A joint committee will now take considerations forward with a view to reporting to, and

seeking the approval of, the councils by no later than June 2016, to achieve a shared service implementation date of April 2017. Thereafter, an implementation team will be established and an action plan finalised to meet the timescale."

53. 16 councils have signed up to the voluntary [Scottish Household Recycling Charter](#). The Charter is designed to simplify and improve the quality of recycling by adopting a variety of principles, including limiting the collection of non-recyclable waste, not collecting waste that contains recyclables, better communication with residents about recycling and a consistent definition of the different sorts of recyclable materials.
54. Scottish Borders Council has published a new [sustainable procurement charter](#) to underline support for small and medium sized businesses. The council said the charter has been developed to embed social, economic and environmental best practice into its procurement processes.
55. The second annual Islands Summit [took place](#) in Kirkwall on 27 June. Discussion focused on the effect that the UK leaving the EU would have on funding for projects in Scotland's islands. Discussions also covered boosting internet and mobile phone connections, as well as funding for renewable energy projects.

Scrutiny, inspection, regulatory and related bodies

Scottish Public Sector Ombudsman:

56. The newsletter [SPSO News – July](#) summarises June 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:

57. Since the previous meeting of the Commission, eight decisions on complaints relating to councillors have been published by the [Commissioner](#). The Commissioner decided that in seven cases individuals did not contravene the Councillors' Code of Conduct and in one case the Code was breached and will progress to hearing stage at the Standards Commission for Scotland in September. The complaints were against:

- [Councillor Paul Mack](#), Renfrewshire Council
- [Provost Una Walker](#), East Dunbartonshire Council
- [Councillor Stephen Grant](#), North Lanarkshire Council
- [Councillor Iain Gaul](#), Angus Council
- [Councillor Moira Ingleby](#), Aberdeenshire Council
- [Councillors John Cox, Michael Roy, Ross Cassie, Ian Gray, Hamish Partridge and Mark Findlater](#), Aberdeenshire Council
- [Councillor Gordon Munro](#), Edinburgh City Council

58. In one case, [Councillor Michael Breslin](#) of Argyll and Bute Council was found to be in breach of the Code, (Section 3 (General Conduct) and Annex C (Protocol for Relations between Councillors and Employees)). The case has been referred to the Standards Commission.

Standards Commission for Scotland:

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

60. The Standards Commission intends to produce an Advice Note containing [guidance](#) for Councillors who are nominated or appointed to sit on arm's length external organisations (ALEOs). The Advice note will contain a variety of information including suggestions on how councillors can enhance their understanding of their different roles, as well as guidance to help them identify risks and potential conflicts of interest, registering interests and making declarations of interest.
61. The Commission has sought the views of stakeholders on the guidance. I have issued a response to the Commission, a copy of which can be found on the Commission members' portal.

Care Inspectorate:

62. From 1 July, the Care Inspectorate will implement [changes](#) detailed in the *Excellence in Care 2* leaflet. The Inspectorate will now look more closely at outcomes for people who use care services, and so will only report and grade on the quality themes: individual quality statements will no longer be assessed. And, following a public consultation, the Inspectorate plans to introduce a new-style of inspection report to help give the public the information they need in order to choose services for themselves.

Other UK Audit Bodies

National Audit Office:

63. On 14 July, NAO published its report into the collapse of the Uniting Care Partnership contract with Cambridgeshire and Peterborough clinical commissioning group (the CCG) to provide its older people's and adult community services. The five-year contract, which had a total budget of about £0.8 billion, started in April 2015 but collapsed after only eight months because it ran into financial difficulties. According to the Chief Executive of NAO, Sir Amyas Morse:

“This contract was innovative and ambitious but ultimately an unsuccessful venture, which failed for financial reasons which could, and should, have been foreseen. It had the strong potential to join together all bodies in the local health economy and to deliver better patient care. However, limited oversight and a lack of commercial expertise led to problems that quickly became insurmountable.”

64. On 29 June, NAO published its [Annual Report and Accounts for 2015-16](#). During 2015-16, the NAO certified 368 accounts, published 65 reports on public expenditure issues, supported 47 evidence sessions of the Committee of Public Accounts and met its efficiency targets. The NAO reports that its work has led to “audited savings of £1.21 billion in 2015.”
65. On 15 June, NAO [reported](#) on the financial sustainability of local authorities in England. Key findings showed that local authorities in England have maintained their overall capital spending levels, but face increasing pressure to meet debt servicing costs and to maintain investment levels. Sir Amyas Morse said:

“Local authorities have acted prudently and maintained overall capital spending levels, but the cost of servicing debts accounts for a significant share of revenue spending and this is likely to increase. The Department therefore needs a deeper understanding of the capital issues local authorities face. Without an understanding of broader trends it will not be well-placed to anticipate risks to value for money as authorities come under greater financial pressure.”

UK Parliament

66. The overall EU referendum result was a vote for leave, but a breakdown of the vote shows that in Scotland a clear majority of people voted to remain. Subsequently, the Scottish Affairs Select Committee launched an inquiry into Scotland's relationship with the European Union. The inquiry will look at how Scotland can retain its membership of the EU and how Scotland can best be represented in future negotiations. All submissions received by 31 August will help to inform the Committee's work in October.

Public Accounts Committee

67. On 1 July, the Public Accounts Committee published its sixth report on [Cities and Local Growth](#). The report found that over the last six years have seen the creation of 39 Local Enterprise Partnerships and the agreement of 28 City Deals, 39 Growth Deals and ten devolution deals which have resulted in rapid change in the local government landscape. However, the Public Accounts Committee are concerned some devolution deals in England are not coherent: "they lack clear objectives; and are not aligned geographically with other policies or local bodies." It claims there has been "insufficient consideration by central government of local scrutiny arrangements, of accountability to the taxpayer and of the capacity and capability needs of local and central government as a result of devolution." The Committee have subsequently called for greater clarity from government about what they are hoping to achieve and stronger consideration of the issues highlighted in their report.

Wales Audit Office

68. Around £4.4m of fraud and overpayments have been identified by the Wales Audit Office through the latest [National Fraud Initiative](#). The Auditor General for Wales reported that the NFI had uncovered and prevented fraud and overpayments worth £2.14m in Council Tax Single Person Discount and £1.6m in Housing Benefit.
69. These figures sit alongside Audit Scotland's latest [National Fraud Initiative](#), considered by the Commission at its last meeting and published on 30 June, which reported that since 2014, a total of £16.8million worth of outcomes has been recorded. This brings the total cumulative outcomes since NFI began to £110.6million in Scotland, and £1.39billion across the UK.

Northern Ireland Audit Office

70. On 7 July, the Northern Ireland Audit Office published its [National Fraud Initiative](#). The report finds that Between 1 April 2014 and 31 March 2016, local participation in the NFI resulted in outcomes of £3.1 million, including: almost £1.5 million of pensions fraud and overpayments; over £1.2 million of housing benefit fraud and overpayments; and over £330,000 of rates evasion.

Other general

71. The Financial Reporting Council (FRC) has [published](#) a revised version of the UK Audit Firm Governance Codes (AFGC), applicable from 1 September. The FRC has introduced two new concepts – 1) the appointment of independent non-executives within the governance structures of the firms and 2) dialogue between the firms and investors in listed companies. The review is intended to further promote good governance of audit, align more with the UK Corporate Governance Code, enhance transparency and improve engagement between firms, investors and Independent Non-Executives. More information will be reported to the Financial Audit and Assurance Committee in due course.

72. A [survey](#) of the UK's 100 largest councils has found that almost half (44 per cent) do not have a strategy for cloud use. Of the 44 per cent of councils that had no cloud adoption policy, the survey found that just 15 per cent were considering one. In addition to this, 27 per cent of councils said they didn't know or couldn't give a figure on where their data was held. Jos Creese, principal analyst on Eduserv's Local Government Executive Briefing Programme said that "resistance to cloud adoption is currently holding back councils from achieving optimum digital service performance." He stressed that organisations need to acknowledge that some form of cloud adoption is inevitable and urged them to create an effective IT policy to manage it.
73. The Local Government Association published on 12 July new research on [affordable housing demand](#), showing that four million people will require access to affordable housing by 2024. It states that the UK requires 250,000 houses to be built every year and calls for councils to be given the means to build more affordable homes to help those in crisis and to support an ageing population.

Conclusion

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

Paul Reilly
Secretary to the Accounts Commission
5 August 2016

MEETING: 11 AUGUST 2016**REPORT BY: ASSISTANT AUDITOR GENERAL****AUDIT SCOTLAND TRANSPARENCY AND QUALITY REPORT 2015/16**

Purpose

1. This report presents Audit Scotland's Transparency and Quality Report 2015/16 to the Commission for information.

Background

2. Audit Scotland's Corporate Quality Framework requires the annual publication of a Transparency and Quality report which forms part of the overall framework of assurances provided annually by management to those charged with governance. The report is also intended to provide assurance to the Accounts Commission and Auditor General on the quality of audit work commissioned by them.

Report

3. Audit Scotland's Transparency and Quality Report 2015/16 is attached. The report outlines Audit Scotland's governance structures, quality arrangements and developments in them and summarises the quality assurance work undertaken across Audit Scotland during 2015/16.
4. The transparency section of the report outlines Audit Scotland's vision, governance and structure, and finance. This is closely matched to the Corporate Plan and Annual Report for consistency across our suite of reports. Most of this information is available elsewhere but the Transparency section of the report draws it together in one place.
5. The quality section of the report describes the quality arrangements in place and the quality assurance activity undertaken. Reviews concluded that work was carried out to an appropriate standard, but there are always learning points which are taken into account in future audits.
6. The report also refers to a review of our quality arrangements. This is now being started and will look at all aspects of our quality control and monitoring arrangements including how we obtain feedback from audited bodies and the Accounts Commission and Auditor General. The Secretary of the Commission will be involved in this review, and the Commission will consider outputs from the review as appropriate.

Conclusion

7. Overall we are able to provide assurance to the Commission that we have robust arrangements in place to ensure the quality of audit work and that nothing has arisen from the quality assurance work carried out that would require any disclosures of weaknesses or failures in the governance statement in the Audit Scotland Annual Report and Accounts.
8. The Commission is invited to note the positive assurance provided by Audit Scotland's Transparency and Quality Report 2015/16.

Russell Frith
Assistant Auditor General
3 August 2016

Transparency and quality

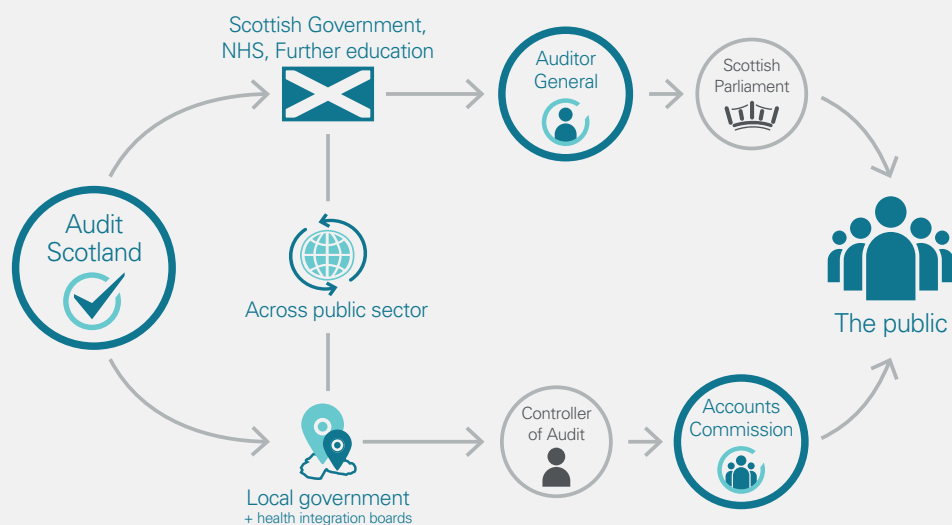
Annual report 2015/16



Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- **Audit Scotland** 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 appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.
- The **Auditor General** is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The **Accounts Commission** is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

1. Audit Scotland's Corporate Plan guiding principles include operating to the highest ethical and professional standards and maximising the value of audit. Our Quality Framework continues to provide an effective principle-led structure for our quality control and quality monitoring activities. We revised the framework last year to reflect international initiatives on the quality of audit.

2. Overall, the arrangements in place and activity for the year provide assurance that Audit Scotland and the appointed firms continue to provide the Auditor General and the Accounts Commission with quality work in accordance with their expectations.

3. In particular, the quality appraisal work carried out by Audit Strategy on the work of the firms and Audit Services Group has confirmed that each auditor:

- understands and complies with the ethical standards in force during the course of the audit and is independent of the audited body
- has the required professional competence to carry out the audit in accordance with relevant standards and the Code of audit practice
- operates in a regulatory environment that actively oversees auditors
- has delivered audit opinions that can be relied upon
- delivered reports on time and that have met the needs of most of their intended readers.

4. We are satisfied that the audit work performed by Audit Services Group, Performance Audit and Best Value and the firms satisfy the International Audit and Assurance Standards Board (IAASB) definition of a quality audit ([paragraph 27](#)).

5. The new Code of audit practice, issued in May 2016, applies from the 2016/17 audits. It raises the expectations on auditors, in particular to provide conclusions on the wider scope areas of public sector audit and a changing approach to Best Value audit. We have secured the appointment of high-quality audit firms at a reduced cost through a competitive tendering exercise.

6. The quality control arrangements in place across Audit Scotland continue to develop and help us attain our vision of being a world-class audit organisation. We are revising all aspects of these arrangements in the context of greater expectations and reduced cost to:

- ensure we can provide appropriate assurance to the Accounts Commission and Auditor General
- improve the quality of public audit.

7. The report demonstrates that arrangements across Audit Scotland's business groups are continuing to develop, with the aim of ensuring that the quality monitoring framework remains effective.



Corporate plan
2016/17 update

May 2016



Code of audit
practice 2016

May 2016

Introduction

Public bodies audited



77



Central government bodies and Scottish Parliament
(including police, fire, Scottish Water)

23



NHS bodies

32



Councils

74



Joint boards and committees
(including 30 health integration boards)

21



Further education colleges

227 Public bodies audited

8. 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. We do this by carrying out financial, performance and Best Value audits across the public sector in Scotland. In carrying out this work we seek to be transparent in our governance and operations and to produce consistent, high-quality audits.

9. The Auditor General audits or appoints the external auditor of most public bodies in Scotland, except for local authorities and integration joint boards where the Accounts Commission is responsible for securing audits. Public audit in Scotland covers 227 public organisations and includes the Scottish Government, the NHS in Scotland and local councils. These organisations spend over £40 billion of public money every year.

10. Our Quality Framework sets out the high-level principles we apply to our work to ensure its quality. We updated it in 2015 to take account of a number of national and international initiatives and publications. These include the IAASB [*A Framework for Audit Quality*](#) (February 2014) and the Financial Reporting Council's [*Professional Scepticism*](#) (March 2012). This Transparency and Quality Report meets the Framework's requirement to report annually in line with best practice.

11. This report combines information on:

- the overall structure and governance of Audit Scotland (transparency)
- the arrangements in place for producing high quality work by Audit Scotland and the appointed firms, in the services provided to the Auditor General and the Accounts Commission (quality).



Transparency

How we work

Our vision and the principles that guide our work

12. Our Corporate Plan sets out our vision to be a world-class audit organisation that improves the use of public money. It sets out that we exist to provide independent assurance to the people of Scotland that public money is spent properly and provides value for money.



Corporate plan
2016/17 update

May 2016

The principles that guide our work

13. Audit is at the heart of the work carried out by Audit Scotland staff. The principles that guide our current work are set out in the 2011 *Code of audit practice*:



Code of audit
practice

May 2011

- Auditors are independent of the organisations that they audit.
- Public audit is wide in scope to reflect the accountabilities attached to the use of public money.
- Audits are based on comprehensive risk assessment.
- Reports are made public.
- Auditors work in partnership with each other.
- Auditors work collaboratively with other scrutiny bodies.
- Auditors work as catalysts to help public bodies improve their performance.
- Audits are carried out to a high standard using skilled and experienced staff.
- Audits are informed by assessment of costs and benefits and achievement of Best Value or value for money.
- Auditors balance confidentiality and information security with public accountability and freedom of information.

14. We published a new Code of audit practice that will apply the financial audits of 2016/17 to 2020/21. This report covers work on the 2014/15 audits, so the existing Code applies to the work described in this report.



Code of audit
practice 2016

May 2016

Our governance arrangements and operational structure

Governance

15. Governance is about the processes for making and implementing decisions. We expect high standards of governance from the organisations we audit and we set high standards for our own governance. We believe that a world-class organisation requires world-class governance arrangements.

16. The Audit Scotland Board is responsible for all Audit Scotland's functions. It exercises its powers and authorities through a Scheme of Delegation, which it determines and approves. The board consists of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit (SCPA), a commission of the Scottish Parliament.



17. The board has two standing committees:

- **The Audit Committee** oversees the arrangements for internal control, risk and corporate governance, internal and external audit, the annual accounts and the Standing Orders, Financial Regulations and Scheme of Delegation.

- **The Remuneration and Human Resources Committee** oversees the arrangements for salaries and terms and conditions of staff and other HR matters.

18. The board members during 2015/16 were as follows:

- An independent chair, Ian Leitch from October 2015. John Maclean was our independent chair until September 2015. Two independent non-executive members, Heather Logan and Russel Griggs (from October 2015).
- The Auditor General, Caroline Gardner who is also the Accountable Officer for Audit Scotland. She was appointed by the Crown for a single fixed-term of eight years from 1 July 2012.
- The chair of the Accounts Commission, Douglas Sinclair. The Accounts Commission is responsible for securing local authority audits and is independent of local government. Scottish Ministers appoint the chair and Commission members.

19. Our governance arrangements provide effective governance of Audit Scotland while preserving the independence of the Auditor General and the Accounts Commission in their statutory roles. All the audit judgements in the reports we publish for the Auditor General, the Accounts Commission, the Controller of Audit and appointed auditors are independent.

20. A management team oversees our day-to-day operations. The members at 31 March 2016 were as follows:

- Caroline Gardner, Auditor General for Scotland and Accountable Officer.
- Diane McGiffen, Chief Operating Officer, chairs management team meetings and is responsible for our internal operations and business performance.
- Russell Frith, Assistant Auditor General, is responsible for the external strategic and development work of financial audit, auditing and accounting standards, technical support and quality assurance. He acts as Audit Scotland's Ethics Partner.
- Fraser McKinlay, Director of Performance Audit and Best Value and Controller of Audit, manages a team that is responsible for carrying out performance and Best Value audits.
- Fiona Kordiak, Director of Audit Services, is responsible for the in-house audit services we provide to the health service, central and local government. She acts as our Ethical Compliance Partner.

Our operational structure

21. Our operational structure is based around four main business groups:



Audit Services

Audit Services Group (ASG) is responsible for carrying out audits of public bodies falling within the remit of the Auditor General and the Accounts Commission on a five-year appointment cycle.



Performance audit and Best Value

Performance audit and Best Value is responsible for providing a range of audits to the Auditor General and the Accounts Commission. These include a programme of performance audits, Best Value (BV) audits of local authorities, audits of Community Planning Partnership (CPP), preparing statutory reports (S102 or S22), sector overview reports and scrutiny improvement activity (including shared risk assessments).




Audit Strategy


Audit Strategy is responsible for audit procurement, technical guidance and support, reviewing and reporting on audit quality, coordinating the National Fraud Initiative exercise in Scotland and conducting benefits performance audits of local government.



Corporate Services

Corporate Services is responsible for supporting Audit Scotland's principal functions with communications and media, finance, information services, human resources and organisational development, facilities management and business support.

22. The Auditor General and the Accounts Commission appoint the external auditors of public bodies in Scotland for periods of five years. The current appointments end when the 2015/16 audits are completed. Appointments to carry out annual audits are split between ASG staff and seven private firms. The private firms carry out just over a third of these audits by value. You can find the appointments and annual audit reports on our [website](#) .

23. Performance and Best Value audits are generally carried out by our staff with assistance from appointed auditors or external experts, where appropriate. These audits are [published on our website](#) .

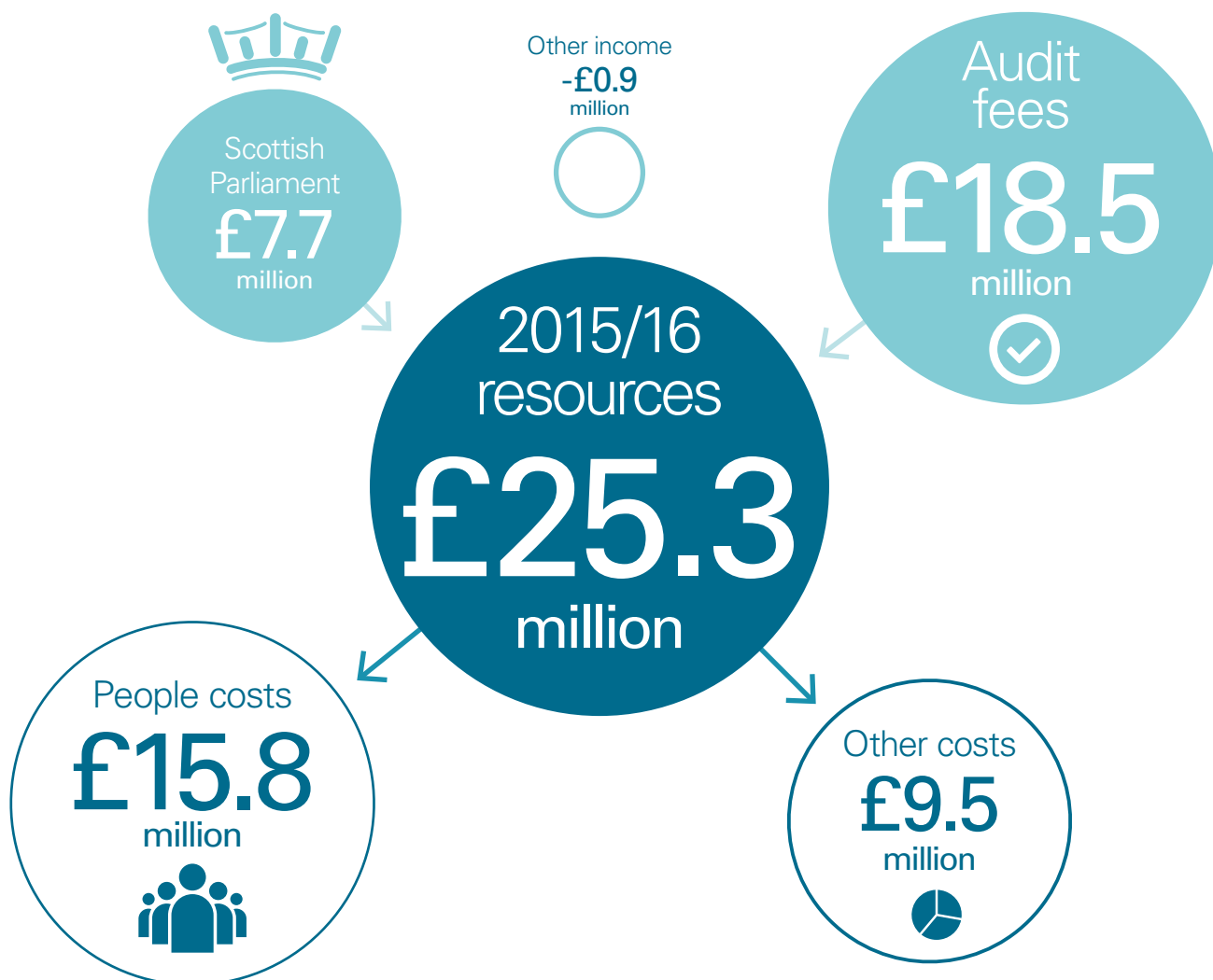
24. We have a workforce of 273 whole-time equivalent staff, over half of whom are in ASG. Staff are mostly based at offices in Edinburgh, Glasgow and Inverness.

Our finances

25. We meet our costs from a combination of audit charges to public bodies and funding from the Scottish Parliament through the annual Budget Act. We set audit fees to recover the costs of local audit work and, where appropriate, a contribution to other audit and support costs. We are reviewing our approach to funding and fee setting to ensure that it meets our business needs and is clear and understandable to audited bodies and stakeholders.



26. Our spending and use of resources are examined by the SCPA. This is a statutory body comprising five MSPs that reports to Parliament and appoints external auditors for Audit Scotland.

Income and expenditure 2015/16 (£ millions)





Quality


The components of a quality audit


27. The [International Audit and Assurance Standards Board \(IAASB\)](#)  sets out five elements of a quality audit. In keeping with our vision to be a world-class audit organisation, our Quality Framework takes account of these five elements. These are listed in the IAASB's [A Framework for Audit Quality](#) . It states that:


A quality audit is likely to have been achieved by an engagement team that:

-  exhibited appropriate values, ethics and attitudes

-  was sufficiently knowledgeable, skilled, and experienced and had sufficient time allocated to perform the audit work

-  applied a rigorous audit process and quality control procedures that complied with law, regulation and applicable standards

-  provided useful and timely reports

-  interacted appropriately with relevant stakeholders.

28. Our Quality Framework sets out how these important components are relevant to Audit Scotland's work. Our quality appraisal activities include sending audit quality surveys to audited bodies for feedback every other year. They include internal or peer reviews of our work. These activities provide assurance on the quality audit criteria. The rest of this report describes how we demonstrate these elements across our business groups through:

- the quality control arrangements we have put in place
- the results of quality assurance activities during the year.


Quality arrangements

29. Our Corporate Plan confirms our commitment to operate to the highest ethical and professional standards and our aim to maximise the value of the audit and support improvement. This commitment is central to our Quality Framework, which sets out the following principles:

- Quality is the responsibility of everyone in Audit Scotland.
- Our approach to quality will drive continuous improvement across Audit Scotland.
- Quality will be assessed in terms of outputs, outcomes and impact, as well as inputs and processes.



30. Getting it right first time is fundamental to Audit Scotland being a high-quality, efficient and effective audit organisation. It requires us to make quality central to all our thinking, our processes and our activities. All our staff have a responsibility to get it right first time, and need to demonstrate a commitment to quality in everything they do.

31. Auditors' independence from the bodies they audit is an essential element of high quality audit. We have a rigorous process to ensure that our auditors comply with the Financial Reporting Council's [Ethical Standards](#)  to avoid any actual or perceived conflicts of interest. We consider potential conflicts of interest when making recommendations for appointment, and also when approving non-audit work as described in [paragraph 53](#).

32. All staff are personally responsible for declaring any potential conflicts by completing annual Fit and Proper forms. As part of this process they must confirm they have read relevant policy documents and are up to date with their professional training. As an organisation we use their responses to put in place any necessary safeguards, such as removing someone from an audit.

33. Quality control refers to quality management during an audit. It may involve peer review and in some cases external input. Quality control has four principal characteristics:

- Regular internal review of work by more senior staff.
- Regular internal challenge sessions.
- Formally assessing how auditing complies with local quality processes.
- Proportionate quality control activities to both maximise the quality and efficiency of work and make sure staff retain a sense of ownership.

34. Quality monitoring ensures that systems of quality control are operating well and that all audit work is reviewed and lessons are learned and used to improve processes. The sections below, on quality arrangements and results of quality control, describe our quality control and quality monitoring activities.

35. All parts of Audit Scotland have distinct responsibilities for the main strands of audit quality.

Audit quality



Board

Setting the tone at the top
Quality framework



Audit Strategy

Oversight of quality arrangements
Surveys of audited bodies
Monitoring of firms' arrangements



Business groups and firms

Quality control arrangements
Quality monitoring of audits



Audit leads

Quality control of individual audits

36. The Audit Strategy Group is independent of auditors. It is responsible for overseeing quality assurance arrangements of all audit work and providing assurance to the Auditor General for Scotland and the Accounts Commission in accordance with the framework approved by the Board.

37. Business groups are responsible for establishing the quality arrangements for their activities, including the processes for getting it right first time, quality control and quality monitoring. Relevant documents are available to staff on our intranet.

38. The Corporate Quality Group, with representatives from each business group, helps to maintain the Quality Framework and to prepare this Transparency and Quality Report. It coordinates and shares best practice in quality monitoring and supports each business group's quality control and monitoring procedures, for example by offering advice or sharing best practice. The appendix to this report details these arrangements.

39. The following sections of the report outline the results of quality control and monitoring activity during 2015/16 and developments in audit quality arrangements taking place in each business group. We are satisfied that the internal quality control systems described in more detail in the appendix are operating effectively.

Sources of quality assurance

40. Information from various sources is combined to provide reasonable assurance on the quality of audit work. The sources include internal arrangements, and both internal and external checks. These are set out below on the basis of the Quality Framework. Assurance arrangements are set out for the two principal business groups [ASG \(page 24\)](#) and [PABV \(page 29\)](#). The [Appendix: Quality arrangements \(page 34\)](#) provides further details.



Getting it right first time

- Audit methodology manuals
- Audit management frameworks (AMFs)
- Audit software and standard documentation
- Training for auditors



Quality control

- Management review of all audit work
- Internal peer reviews of sample audits before the audits are completed



Internal quality monitoring

- Internal inspection of compliance on a sample of completed audits (cold reviews)
- Examinations of high-risk themes
- Lessons learned from internal reviews



External quality monitoring

- External inspection on a sample of completed audits or reports
- Independent external evaluations of new audit approaches and audit outputs (for example SRA, BV2, Police and Fire BV audit work)
- Feedback from audit recipients
- Professional institute regulation

Results of quality assurance activity

41. This section of the report covers the quality appraisal work undertaken by the Audit Strategy Group across appointed auditors. The subsequent sections cover the work of the Audit Services Group and Performance Audit and Best Value Group in a similar way to that for a private sector audit firm.

Audit Strategy work on appointed auditors

42. Audit Strategy's principal quality appraisal work covers all appointed auditors and focuses on the public sector audits to which they are appointed. The same level of scrutiny is applied to Audit Services Group and the firms. This provides the assurance specific to the appointed audits, and also provides assurance on the wider scope of public sector audit carried out in accordance with the Code of audit practice.

43. The work on the appointed firms also relies on the system of statutory regulation and oversight that is in place for the audit profession. This consists primarily of the activities of the Financial Reporting Council, and the professional bodies of accountants that audit firms are registered with. Examples are the [Institute of Chartered Accountants of England and Wales](#) and the [Institute of Chartered Accountants of Scotland \(ICAS\)](#). This provides a good level of assurance about the firm-wide arrangements that our appointed firms have for ISA compliance.

Output monitoring

44. Audit Strategy monitors the delivery of principal outputs by auditors to confirm that the year's work is complete. Auditors' performance in meeting the deadlines for 2014/15 audits is set out below.

	Local government	Health	Central government	Further education
Audit opinion on time	77/77 (100%) 30 Sept 15	23/23 (100%) 30 June 15	71/74 (96%) 31 Oct 15	19/21 (90%) 31 Dec 15
Annual audit report on time	77/77 (100%) 31 Oct 15	23/23 (100%) 31 July 15	71/74 (96%) 30 Nov 15	19/21 (90%) 31 Dec 15
Accounts sent for laying on time	N/A	23/23 (100%) 31 Dec 15	74/74 (100%) 31 Dec 15	21/21 (100%) 30 April 16

45. Under central government, annual audit reports that auditors issued late were caused by delays in clearing the final report. Delays in further education were related to work by the auditor in support of Section 22 reports. These are reports that the Auditor General makes to parliament if concerns or issues have been raised in the audit of a public body she is responsible for.

Review of audit outputs

46. A sample of 71 annual audit reports from 2014/15 (compared to 62 the previous year) were reviewed for compliance with the Code of audit practice and the quality of their reporting. The review covered all sectors and all audit providers.

47. The reviews found that reports complied with the Code on the whole and all auditors had increased the quality of their reporting after the issue of a compliance checklist last year. Examples of good practice and areas for improvement were reported to auditors in March 2015.

Audit service quality surveys

48. Audit Strategy issued audit service quality surveys to 34 local government bodies and 59 central government bodies asking for feedback on the 2014/15 audits. Response rates were 82 per cent and 56 per cent respectively.

49. The key indicators are:

- what audited bodies thought of the quality of service provided by the auditors
- whether the audit had made an impact on the bodies in the four areas defined in Audit Scotland's corporate impact framework
- whether relevant national performance reports had an impact on the body.

50. A summary of their responses is shown on [page 19](#). The feedback was positive in terms of the quality of audit service delivered and the overall impact of audit work. The impact of national performance reports is reported in more detail in [paragraphs 97–99](#).

		Local government % positive responses	Central government % positive responses
Overall quality of service		95	100
Overall audit impact	(Finance directors)	100	97
	(Audit Committee chairs)	100	94
Impact of audit on:			
Financial sustainability		81	60
Transparent reporting of financial and other performance		86	80
Value for money		62	62
Governance and financial management		86	80

Auditors' own quality control results

51. Firms carried out six quality control inspections relating to public sector audits procured for the Auditor General or Accounts Commission. Audit Services Group carried out quality control inspections as detailed in [paragraph 76](#). All reports concluded that the audits inspected complied with ISAs in all material respects and identified areas for improvement.

Thematic work

52. Auditors' opinions of 2014/15 audits were reviewed to follow up the review of the previous year. Auditors' compliance with the model auditor's opinions had improved, but auditors were shown where they could better tailor the wording to reflect the body being audited.

Oversight of acceptance of non-audit work

53. A small number of requests for non-audit work during 2015/16 were approved. Non-audit work can create actual or perceived threats to the independence of the auditor, and the FRC's Ethical Standards set out the principles that auditors must follow to avoid such threats. The requests were assessed against current Ethical Standards to ensure that the work would not compromise the external auditors' independence. The firms' designated Ethics teams reviewed all proposals and confirmed they did not consider them to pose any threats to the auditor's independence.

Respond proportionately to complaints about auditors and audit work

54. We operate a complaints handling process that conforms to the complaint-handling procedures set out by the Scottish Public Services Ombudsman. We systematically analyse and investigate complaints and report to our management team and the board. We received no complaints by audited bodies about the quality of auditors' work this year. One external complaint about an auditor's work was received. This was independently reviewed and found to be of an appropriate quality. The complaint was therefore not upheld. This is an important element of the overall assurance on the quality of auditors' work.

How we considered conflicting audit judgements between auditors

55. One conflicting judgement between auditors this year led to different audit opinions being given. This difference related to local government charities with missing governing documents. One firm modified their conclusion on accounting records. A meeting of auditors from this sector was held to discuss how to treat local government charities with missing governing documents. The aim was to reach a consensus on whether these circumstances warrant a modified opinion.

56. The Technical Services Unit (TSU) issues guidance on technical matters to help auditors in reaching judgements. In addition, Audit Scotland has hosted regular sectorial meetings and technical forums during the year involving auditors from each of the four sectors. At these, emerging or contentious technical issues were discussed. With the forthcoming change of most audit appointments for 2016/17 the TSU will be paying particular attention to the risk of inconsistent judgements being made.

Financial Reporting Council Audit Quality Review Reports

57. The Financial Reporting Council's Audit Quality Review team (AQR) issued one public report in February 2015 and three in May 2015 on firms that perform audits for the Accounts Commission and the Auditor General:

[!\[\]\(de95854c7ee024cfadc48187bbb781b2_img.jpg\) PricewaterhouseCoopers](#)

[!\[\]\(3211b5d1d968fc1665909b34f9f16010_img.jpg\) Deloitte](#)

[!\[\]\(6059a5aa8b4ca7bb793408023d6c6e42_img.jpg\) KPMG](#)

[!\[\]\(c50c8b7b2cc2cf9ff925edec0ee94c0d_img.jpg\) Grant Thornton](#)

58. The reports cover the firm-wide systems, policies and processes for ensuring audit quality, and a sample of their audits of public interest entities. This is to monitor firms' compliance with Auditing Standards, Ethical Standards and Quality Control Standards. The FRC also produced an annual report summarising all of its inspection work, bringing together common findings and examples of good practice.


59. The four firms' public reports show a better combined performance when compared to the sample of firms inspected by the AQR team:

- 70 per cent of the audits sampled were assessed as good with limited improvements required (compared to 60 per cent for all those sampled by the FRC)
- 21 per cent were acceptable overall with improvements required (29 per cent)
- 9 per cent required significant improvement (11 per cent).

60. The results are broadly consistent with the previous year.

61. Audit Strategy reviews the annual transparency reports published by the five largest firms that provide external audit work for the Auditor General and the Accounts Commission. This is to ensure the information in them is consistent with our understanding of quality arrangements within these firms. The FRC's AQR team also reviews the firms' transparency reports during its audit inspections. The transparency reports and the FRC's findings do not identify any areas for concern.

ICAS Audit Monitoring

62. Three appointed firms outwith the AQR inspection scope are registered by ICAS to carry out audit work and are within its audit monitoring responsibilities. They are Scott-Moncrieff, Wylie & Bisset and Henderson Loggie. ICAS's [*Annual Audit Monitoring Report for 2014*](#)  provides indirect assurance about compliance by these firms with auditing standards.

Developments in audit quality

63. Audit Strategy has developed quality reporting to auditors by increasingly issuing draft findings to confirm factual accuracy, where appropriate, to ensure findings are robust. Firms bidding for the tender for 2016/17 to 2020/21 audits were invited to share ideas for how they would demonstrate the difference that their audit work makes. The quality appraisal framework will be further developed during the coming year to maximise improvements in audit quality.

64. The new Code of audit practice, issued in May 2016, applies to the 2016/17 audits. It raises the expectations on auditors, in particular to provide conclusions on the wider scope areas of public sector audit and a changing approach to Best Value audit. The appointments of high-quality audit firms have been secured at a reduced cost through a competitive tendering exercise.

65. The quality control arrangements in place across Audit Scotland continue to develop and help us attain our vision of being a world-class audit organisation. We are revising all aspects of these arrangements in the context of greater expectations and reduced cost to:

- ensure we can provide appropriate assurance to the Accounts Commission and Auditor General
- improve the quality of public audit.

66. The revision will include considering and revising the:

- extent of external review of auditors' work (in-house teams and private firms)
- approach to monitoring wider scope audit work
- approach to obtaining audited body and other stakeholder feedback on quality of audit work
- reporting of quality monitoring work within Audit Scotland and to the Auditor General and Accounts Commission.


Audit Services Group

Our approach and development of audit quality

67. Becoming World Class. At the heart of our ambition to demonstrate we are a world-class provider of audit services is an emphasis on audit quality. We are committed to continuous improvement and treat external review as an important source of improvement. Last year ASG integrated professional standards development and quality work by creating the Professional Standards and Quality Improvement group (PSQI). The audit approach, quality reviews and training are now interdependent.

68. ASG recognises the need to continue to achieve further audit efficiency and the risk this might pose to audit quality. This places further emphasis on the quality processes and assurance procedures that exist in ASG.

69. A more extensive programme of quality reviews was performed this year than in previous years. Ten audits went through internal reviews and six went through external ICAS review. One audit went through both processes. This has resulted in better understanding than ever before of the challenges and how to overcome them.

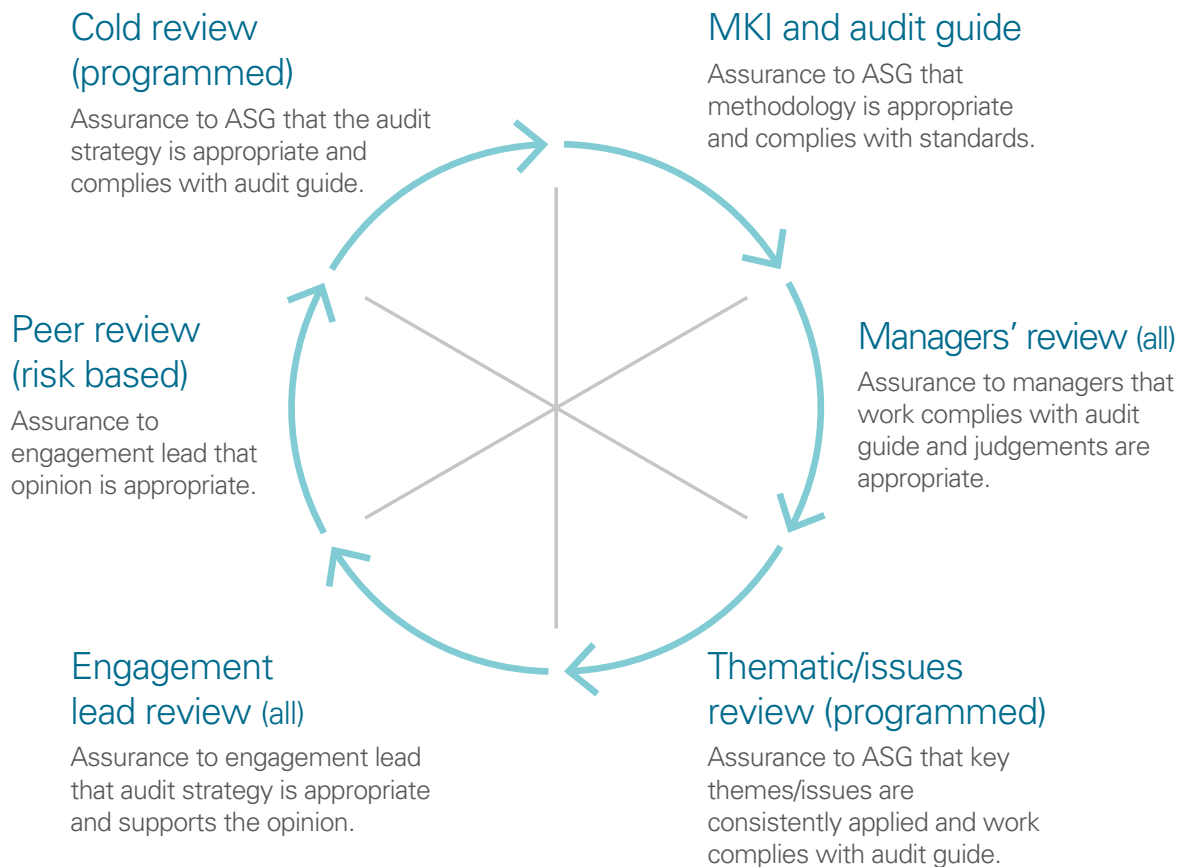
70. ASG's audit approach is closely aligned with [International Standards on Auditing \(ISA\)](#)  and reflects the structure and terminology of this framework: a key aspect of getting it right first time. This was an important objective of the streamlining activity and the work of the PSQI group in Audit Services in recent years. This can be seen in feedback from the ICAS review, which makes fewer recommendations about the audit approach than in previous years.

71. However, the challenge is now to consistently apply the methodology to achieve a high quality in audit work across Audit Services. This concerns behaviours and attitudes and will continue the programme, which started last year, of staff training and development of auditing knowledge. This included additional training events for all staff in smaller groups on specific areas of concern

72. The quality management processes are fully documented in the audit guide in the electronic working papers package, MKI, which is used for all audits. The appendix expands on these arrangements



Audit Services Group



Thematic reviews

73. ASG responded to Audit Strategy's thematic review of auditors' opinions and will address the points highlighted by Audit Strategy about individual audits. The lack of systemic issues identified provided assurance about the methodology.

Engagement lead reviews

74. All audits received engagement lead reviews, which confirmed that the audits had been carried out in accordance with the audit guide and quality arrangements.

Peer reviews

75. Eight peer reviews of 2014/15 audits were completed as part of the planned coverage. These confirmed that identified risks, judgements and audit opinions were appropriate.

Number of peer reviews planned or delivered each audit year

	2012/13	2013/14	2014/15	2015/16
	10	9	8	9

Cold reviews

76. Ten cold reviews of 2014/15 audits were completed, using the revised cold review programme.

Number of cold reviews planned or delivered each year (audit years)

	2011/12	2012/13	2013/14	2014/15	2015/16
ASG reviews	8	4	8	10	10 planned
ICAS reviews	-	6	-	6	-

77. Two of the reviews were performed by the Northern Ireland Audit Office and Wales Audit Office. This includes a reciprocal arrangement where ASG provide quality reviews for those organisations.

78. The reviews confirmed compliance with auditing standards and identified areas for improvement including that we should:

- be clearer at the planning stage of each audit about the proposed audit approach, including being clearer about the extent and focus of how we test financial controls and the importance of this work to our audit of the financial statements
- be clearer about how we intend to use internal audit's work on financial controls in each audit
- better explain our justification for selecting samples and identify what our testing covers
- ensure we record sufficient audit evidence in our electronic working papers package to back-up all audit judgements

- ensure that the file review processes that lead auditors and managers perform is thorough, prompt and challenges shortcomings in evidence, justification and judgements.

79. The ICAS quality monitoring team is currently completing its third twice-yearly assessment, covering the 2014/15 audit year. The scope of their work was to:

- inspect a sample of six completed audits to assess the quality of audit work and compliance with the ISAs and Ethical Standards
- review progress against the findings contained within the report issued in relation to the outcomes from their second assessment of 2012/13 audits.

80. The work of ICAS provided positive assurance on many aspects of ASG's audits including:

- a well-documented knowledge and understanding of audited bodies
- well-performed and recorded assessment of systems and controls
- consideration of [ISA 240](#) (The auditor's responsibilities relating to fraud in an audit of financial statements) risks of revenue recognition and management override
- evidence of planning meeting and team briefings
- good reporting to committee, including planning and annual audit reporting with evidence of two-way communication
- substantive testing of income and expenditure transactions at interim and year end
- well-performed substantive testing of staff costs
- well-evidenced non-current asset testing, including testing of title to properties and valuation and impairment
- good assessment of trade receivables accuracy and recoverability
- consideration of work of an expert on valuer and actuary in compliance with [ISA 500](#) (Audit evidence)
- well-recorded review of financial statements disclosures, governance statement, remuneration report.

81. The ICAS review identified that there is “a reasonable level of compliance with the Auditing Standards, (but)... there were varying standards of audit quality across the files reviewed.”

82. The ICAS review made a number of recommendations that will be put in place ([paragraphs 86–87](#)). Many are about how existing audit procedures are applied and the adequacy of recording. Consistency in applying audit procedures will improve by establishing an even greater focus on staff training this year.

Developments in audit quality

83. The main area of development in the year was designing and introducing an approach to relying on auditors’ work where bodies used shared services. This was developed as a direct result of the introduction of Integrated Joint Board (IJB) audits and addresses one of the findings from current and previous ICAS reviews. In IJBs, the council and health board host all the IJB’s systems including general ledger, payroll and other payments systems (including care provision, general supplies, prescribing and Family Health Services). The approach and related audit programme has much wider application across the audits of public sector bodies.

84. An important development in ASG in 2015/16 was revising the audit training provided to teams. This included designing and introducing an additional two half-day training sessions to all audit staff to supplement the annual one-day training. The one-day event was delivered in January 2016 to almost all ASG staff and around 40 other staff drawn from across Audit Scotland. The additional events were delivered at superteam level. This involved groups of 25-45 staff at two rounds of six separate team meetings in November and April. Topics covered included:

- how to meet [ISA 230](#) (Audit documentation) requirements within MKI
- introduction and audit approach to the audit of state aid
- our audit approach in our key planning file
- how we record and deal with matters arising from audit work
- the findings from our quality reviews
- final accounts issues
- how we evaluate audit errors.

85. During 2015/16, the Professional Standards and Quality Improvement (PSQI) Group revised the programme used to review audits. PSQI increased the number and coverage of reviews to reflect ICAS recommendations that all certifying auditors (28) should be reviewed over a three-year period and to ensure coverage of all sectors.

86. Following the internal and ICAS reviews ASG is committed to improving the following over-arching issues:

- More timely and evident review of key planning and completion files by the certifying auditor before important stages of the audit.
- Better standards of review by managers or lead senior auditors in files where proper evidence or documentation is lacking.
- Better recording of audit evidence by individuals in compliance with [ISA 230](#) (Audit documentation) and better recording of justifications for selecting samples and sizes.

87. ASG has established procedures to help ensure continuous quality during the transition to the new audit appointments in 2016/17. This includes:

- applying additional audit programmes in compliance with [ISA 510](#) (Initial audit engagements – opening balances)
- considering staff continuity on audits that are being retained by ASG (subject to the Ethical Standards' rotation principles)
- earlier formation of teams and responsibilities for the new audits
- developing wider handover procedures.

Performance Audit and Best Value

88. The Audit Management Framework applies to all types of audit work and is consistent with relevant INTOSAI standards. The Audit Management Framework has a three-stage structure of scoping, evidence gathering and reporting with a range of quality controls within each stage. Feedback on our work continues to be positive, but we continue to look for improvement.

89. The focus in the last year has been on maintaining the Audit Management Framework on an ongoing basis. The development of standards, cold review arrangements and further training will make sure that all staff can seamlessly move around the different types of audits.



Performance audit and Best Value

Lessons learned review and impact analysis (all)

Assurance to PABV that opportunities to improve audit processes, implement more effective methodologies and better understand how our work can make a difference are being identified.

Peer review (risk based)

Independent review and challenge on the appropriateness of selected performance audit topics, audit methodologies and the quality of audit reports.

Assistant director review (engagement lead) (All)

Assurance to engagement lead that the audit scope, approach and proposed reporting format is appropriate and reflects identified audit risks.

PABV Audit Management Framework

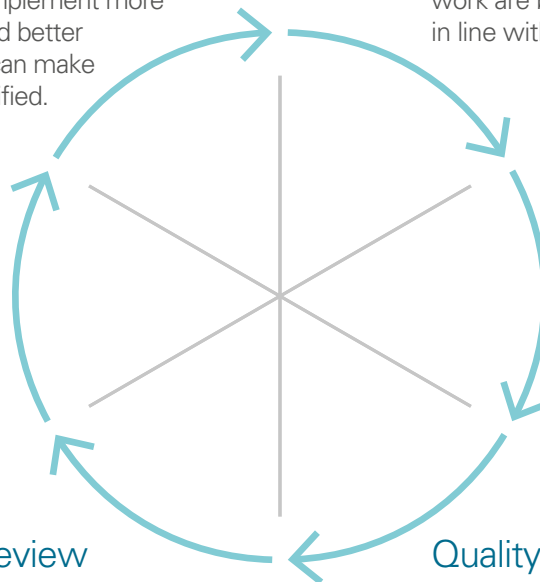
Assurance to PABV that all pieces of audit work are being managed consistently and in line with agreed QA and QC processes.

Senior managers' review (all)

Assurance to director/assistant director that work complies with audit guide and judgements are appropriate.

Quality and Consistency Review (QCRP) (Risk based for BV and CPP work) or audit advisory group (performance audit)

Assurance to PABV that work is proportionate, and risk based; audit judgements are consistent and recommendations will add value.




Senior manager and assistant director review

90. Senior managers and assistant directors reviewed the audit work for all the reports published in 2015/16. The reviews confirmed that the work had been done in accordance with the Audit Management Framework and quality arrangements and met their audit objectives.

Peer review

91. The Audit Management Framework contains requirements for internal and external peer reviews. Groups of staff from outside the immediate audit team comment on draft scoping documents and draft reports. This is a critical element in ensuring quality.

92. Performance Audit and Best Value (PABV) continues to participate in external peer review of performance audit reports with UK partner audit agencies. The report on [The Scottish Fire and Rescue Service](#)  was peer reviewed in 2015/16 by the Welsh and Northern Ireland Audit Offices. The findings were positive, with particular emphasis on the clarity of audit judgements, use of plain English, and the strength of the evidence base to support audit recommendations.

93. PABV provided peer review feedback on the Wales Audit Office audit reports on elective waiting times, managing the impact of welfare reform, and regional education consortia. A similar service was provided to the Northern Ireland Audit Office reports on the cross-border broadband initiative Bytel project, primary care prescribing and the Northern Ireland Events Company.

Lessons learned reviews and impact analysis

94. A few weeks after the completion of the majority of audits conducted by PABV (in 2015/16, three overview reports, eight performance audits, six Best Value audits), audit teams and senior management (including the director) conducted lessons learned reviews to assess how the audits were carried out and the short-term impact of the audits. These reviews include consideration of any divergence from the Audit Management Framework or whether there are any proposals for changes to it. These are then considered by the Quality Group.

Accounts Commission sponsor and Auditor General reviews

95. Where the Accounts Commission are report sponsors and reports are published by the Auditor General, the Accounts Commission obtain assurance directly through the report sponsors and the Auditor General as part of their arrangements to review planned work and final drafts of the reports. The Accounts Commission and Auditor General are integral to the quality processes in performance audits and overview reports. They sign off the scope, emerging messages and the final report. Learning points from these reviews are fed into the lessons learned reviews.

96. Members of the Accounts Commission met with representatives of six audited bodies following the publication of audit reports during 2015/16. The meetings focused on audit findings, the audited bodies' response to issues raised and feedback from the audited bodies on the audit process itself. That feedback has been positive and constructive.

Audit service quality survey results for local and central government

97. The audit service quality surveys that were issued to local government and central government bodies following the 2014/15 audits included questions on the value and impact of performance audit reports. The table below summarises their responses.

Did the report help with... (% agreeing with statement)	better understanding of financial sustainability	more transparent reporting of financial and other performance	our body providing better value for money	improved governance and financial management
Local government overview	100	91	95	100
Borrowing and treasury management	86	90	57	95
Community planning (local government)	80	75	74	95
School education	91	95	90	95
Self-directed support	85	81	81	90
Procurement in councils	95	89	90	95
Managing ICT contracts: follow-up	54	57	69	81
Community planning (central government)	60	60	60	60
Court efficiency	100	50	100	50

98. The service quality surveys also include free text comments from respondents. A sample of representative quotes is set out on [page 32](#).

A sample of representative quotes



"The report gives a very useful set of comparators against other local authorities in Scotland and is a very useful point of reference for how this council is performing"

An overview of local government in Scotland 2015, March 2015



"The overview report is an interesting report, however often the issues identified are well known to councils and are recurring issues"

An overview of local government in Scotland 2015, March 2015



"The report served the purpose of highlighting an area of finance where members required further assistance to understand and scrutinise Treasury Management decisions and information"

Borrowing and treasury management in councils, March 2015



"The report made general comments around how treasury management was operated within councils which didn't always reflect the good practice and professionalism that is in place"

Borrowing and treasury management in councils, March 2015



"The report has contributed to the ongoing educational approach to ensure that pupils get as good an education as possible and attain as much as they can in an appropriate educational setting"

School education, June 2014



"The report informed the council's revised raising attainment strategy"

School education, June 2014



"The report served to enhance members' awareness of the rationale for, and implications of, SDS in councils"

Self-directed support, June 2014



"The report was informative and provided some clarity around the issues of SDS which were particularly timely"

Self-directed support, June 2014



"The overview was helpful in placing the critical importance of improved procurement practices in its wider context"

Procurement in councils, April 2014



"The report allowed procurement to establish where the council had improved and helped confirm the direction for future improvement"

Procurement in councils, April 2014

99. Overall the results of the surveys suggest that satisfaction with performance audit reports is high.

Quality feedback from the Scottish Parliament's Public Audit Committee

100. The feedback received from the Public Audit Committee on the quality of Audit Scotland work has been consistently positive, as is shown by the following recent quotes from committee members:



"I want to thank, on the committee's behalf, Audit Scotland and the Auditor General for their hard work and professionalism over the past five years. Their reports and the evidence and the support that they have provided to us have, as I am sure that all members will agree, been invaluable. I am sure that our successors will be as grateful as we are for their good work"

Paul Martin, Public Audit Committee.



"The role of Audit Scotland has been phenomenally important in every committee that I have sat on throughout my 13 years in the Parliament – mainly on health committees, although I was on the Finance Committee at the beginning. Without Audit Scotland's reports, we could not provide the sort of scrutiny that we have been able to provide"

Dr Richard Simpson, Public Audit Committee.

Developments in audit quality

101. The PABV quality group separated from the impact group this year to reinforce the focus on maintaining the Audit Management Framework on an ongoing basis and better align the measurement of impact with the corporate focus on making a difference. During the year the quality group also:

- developed new arrangements for cold reviews of audit compliance with the Audit Management Framework
- considered how to integrate equalities more effectively within the Audit Management Framework
- began work to develop a set of standards applicable to all PABV-led audit work.

102. The focus during 2016/17 will remain primarily on maintaining the Audit Management Framework. This will be supported by:

- delivering training to all staff on using the Audit Management Framework, and the documentation of evidence and judgements
- completing the set of standards applicable to all PABV-led audit work
- finalising the cold review arrangements and begin using it as a core part of quality control arrangements.

Appendix: Quality arrangements

Quality arrangements for Audit Strategy

Audit Strategy carries out a quality appraisal function for all financial audits conducted under appointment by the Auditor General and the Accounts Commission by the firms and ASG. This work is described in detail in the Quality Appraisal Framework, which was approved in May 2012.


The principal objectives of the quality appraisal work are to:

- provide assurance to the Auditor General and the Accounts Commission on the quality of audit work undertaken
- promote improvements and good practices in auditing.

Audit Strategy carries out a number of activities in its monitoring role, for example:

- Review firms' and ASG's quality arrangements, including transparency reporting by firms.
- Review external assurance, in particular reports issued by the Financial Reporting Council on professional firms and monitor reports produced by The Institute of Chartered Accountants in Scotland.
- Review and assess the reports issued by auditors, giving feedback to auditors on examples of good practice and areas for improvement.
- Issue audit quality surveys to audited bodies in each sector every two years to ask them for their views and report these findings to auditors and our management team.
- Monitor that auditors completed all their audit work on time.
- Oversee acceptance by firms of non-audit work.
- Respond proportionately to complaints about auditors.
- Consider the impact of conflicting audit judgements by auditors.
- Independently review audits.

The results of these activities are reported in the 'Results of Quality Assurance Activity' section in the main body of this report.

The IAASB [A Framework for Audit Quality](#)  highlights the importance of access to high-quality technical support. Auditing requires knowledge of a considerable number of technical areas, including financial reporting, auditing standards, and legislation. The Technical Services Unit is a small team of technical specialists who keep financial auditors up to date with developments. The team also provides guidance and assistance on complex areas to inform auditors' judgements and support the exercise of professional scepticism.

None of the measures in place provides absolute assurance for any of the elements of the quality appraisal framework. However, we can never get absolute assurance and it is not the framework's aim to do this.

Appointed firms

All the appointed audit firms completed a detailed questionnaire setting out how their quality arrangements complied with [International Standard of Quality Control 1](#) (ISQC1) at the start of the five-year audit cycle in 2011/12. The firms and ASG also submitted details of how they would monitor the quality of the audits that they would carry out under their appointment by the Auditor General and the Accounts Commission.

All firms are required to obtain permission from Audit Strategy before they do any non-audit work for the audited bodies to which they have been appointed. They must also declare that they consider such work permissible under Ethical Standards. Non-audit work is only permitted where the work is consistent with Ethical Standards in the context of public sector audit. This review enhances the independence and ethical conduct of the audits.

During 2015/16 the firms under appointment from the Auditor General and the Accounts Commission completed the following 2014/15 audits:

Firm	Central government	Local government	Health	Further education	Total
KPMG LLP	9	11	-	4	24
PWC LLP	10	8	4	-	22
Scott-Moncrieff	-	2	7	5	14
Grant Thornton UK LLP	6	3	-	3	12
Deloitte LLP	1	5	3	-	9
Henderson Loggie	-	-	-	3	3
Wylie & Bisset LLP	-	-	-	4	4
Total	26	29	14	19	88

Quality arrangements for Audit Services (ASG)

ASG's framework covers financial audit, ethical and quality standards as required by the FRC. The foundation of ASG's quality framework is the ASG audit guide. This sets out the methodology used across all ASG audits and includes:

- how to apply professional audit, quality and ethical standards
- the Code of audit practice
- guidance notes on specific issues such as audit testing.

The Professional Standards and Quality Improvement group (PSQI) consists of staff members from across ASG and reports directly to ASG's management team. It oversees the development of the audit guide and the integration of any new standards into ASG's audit approach. The audit guide is kept under review and was most recently updated in June 2014.

Auditors are required to complete audit engagements using an electronic working paper package called MK Insight (MKI). This allows them to document their work to provide evidence that they are complying with relevant auditing standards. The package also builds in appropriate levels of supervision and management.

ASG carries out peer reviews in line with ISQC1 requirements to perform engagement quality control reviews for all audits meeting certain criteria. The criteria for selection include the level of fee income (size), assessed risk and where any modification to the audit opinion is expected.

The ASG Director, or assistant directors within ASG, carry out peer reviews before an audit report and certificate is issued. These reviews focus on identified audit risks, audit responses, and whether the evidence and judgements are adequate. The certifying auditor resolves any significant issues before issuing the auditor's report. Peer reviewers are not involved with the audit in the current or recent financial years, in line with ASG's rotation policy.

ASG operates a rotation policy that complies with the FRC's Ethical Standards. The policy is designed to reinforce auditor independence by rotating key senior staff every five years. This protects against threats to independence such as over-familiarity with management at an audited body. ASG staff must complete an annual fit and proper declaration that covers time they have spent on particular audits and confirms they have complied with Audit Scotland's Code of Conduct.

ASG's programme of reviews ensures that all the auditors who take the lead on financial audits are reviewed every three years by a subgroup of experienced PSQI staff. These are supplemented by periodic external reviews.

The managers and teams responsible for individual audits reviewed are provided with reports on the findings of the review. They respond to the findings in the report and this often results in improvement actions for each team.

As part of the review process, PSQI works with other UK audit agencies to give an independent view of ASG's work. The Northern Ireland Audit Office and the Wales Audit Office carry out a small proportion of ASG's reviews. Audit Scotland's staff provide reciprocal reviews.

These reciprocal reviews provide an opportunity to identify differences in approach among the UK audit agencies and bring back examples of good practice or challenge existing practices.

PSQI considers the findings from the reviews and identifies where changes to audit methodology, audit programmes and reporting are needed. These are then implemented by revising the audit guide, MKI audit programmes and reporting templates, and through specific training events and the Annual Audit Update.

All ASG staff must attend practitioner update sessions each year, along with further half-day sessions for smaller groups of staff. These update sessions provide training on changes to the audit guide, developments in auditing and professional standards and issues identified by quality reviews.

ASG management team and PSQI consider and respond to any reviews or reporting of audit approach or quality that Audit Strategy issues.

Quality arrangements for Performance Audit and Best Value (PABV)

Arrangements for managing the quality of performance audits draw on a comprehensive audit management framework (AMF). This covers each key stage of a performance audit from project selection, audit design, fieldwork and reporting through to post-audit review and impact assessment. The AMF is supported by the in-house performance audit manual and performance audit standards that comply with [INTOSAI standards](#). Staff also have access to a comprehensive library of good practice guidance to help them in their work.

The Quality Assurance Framework covers the following:

- Performance audits
- Best Value (BV) audit work
- The Shared Risk Assessment process
- Community Planning Partnership (CPP) audits
- Statutory reports (S102 or S22)
- Local government overview reports
- Reports in the '*How councils work*' series
- Statutory performance reporting
- Dealing with correspondence from the public, including MPs and MSPs.

A range of processes, procedures and guidance, including Best Value toolkits is also available to guide and direct staff when they are doing BV work. The [BV toolkits](#) are available on our website. This is to make our audit process clear and understandable and help audited bodies improve their performance.

All PABV's audit work includes internal and external peer review and challenge, and extensively uses independent external evaluation when major new audit developments are introduced, for example audits of Integration Joint Boards (IJBs). All audit teams carry out a review to identify any lessons learned following audit work to identify potential improvements to the audit process for future work. These are supplemented with reviews of project reviews. At these, common issues in post-project reviews are identified. These common issues are discussed alongside any potential improvements and solutions that can be introduced across the systems.

The Auditor General and the Accounts Commission are the main stakeholders for PABV reports. Both are involved at the planning and reporting stages of the work to provide input to help ensure that the audits are high quality and will meet their needs.

The Public Audit Committee (PAC) of the Scottish Parliament is a key stakeholder for:

- all the work that is done on behalf of the Auditor General
- the joint work that is done on behalf of the Auditor General and the Accounts Commission.
- PABV consults the PAC on performance audit work programmes. Staff in PABV work hard to ensure that audit reports provide the committee with the evidence that it needs to properly scrutinise the spending and performance of public bodies that fall within its remit.


Transparency and quality

Annual report 2015/16

This report is available in PDF and RTF formats, along with a podcast summary at:

www.audit-scotland.gov.uk 

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MEETING: 11 AUGUST 2016

REPORT BY: SECRETARY TO THE COMMISSION

MEETING ARRANGEMENTS 2017

Purpose

1. The purpose of this report is to propose meeting arrangements for the Commission for 2017.

Background

2. The Commission has in its Strategy a commitment to continuously improve how it does its business and to consider how it can manage better its business.
3. This paper seeks the Commission's approval of a schedule of meetings for 2017. It also reviews aspects of how the Commission conducts its business.

Summary proposal

4. The Commission has in place an approach to meeting which has the following features:
 - 11 monthly Commission meetings, with a break in July.
 - Meetings generally on the second Thursday of every month.
 - Meetings start at 10.15am, preceded by an informal private business session at 9.30am.
 - Quarterly committee meetings, with two optional dates (see paragraph 8 below) in late spring and autumn.
 - Committees meet on the same day, with the Financial Audit and Assurance Committee meeting at 10.00am and the Performance Audit Committee starting at 2.00pm.
 - A guest speaker session during committee meeting days.
5. The attached Appendix proposes a schedule of meetings for 2017. This follows the same approach, but with one proposed modification. The Chair has proposed that the Commission not meet in January, meaning that it would meet ten times per year. I have sought views from Audit Scotland on this proposal, and I am advised that while this does not cause any difficulty, it may be useful to retain the January slot as an 'optional' date, to be used if business requires, in much the same fashion as is currently used for the two optional Commission committee meeting dates. The Commission's views are therefore sought on this proposal.

Conducting our business

6. At its Strategy Seminar in March, the Commission considered matters around improving its governance. I intend to report to the Commission further on the range of issues raised, but meantime, there were a number of proposals made in relation to Commission meetings arrangements that are set out thus:

- It was proposed that the Commission meet ten times per year: this is covered in paragraph 5 above.
 - It was proposed that the Commission hold an additional 'half-year' strategy event: this has been scheduled for 14 September.
 - It was felt that Commission members would benefit from a short private session at the end of each meeting reviewing the business agreed: this is now in place.
 - It was agreed that the Secretary review with Audit Scotland the physical meeting space arrangements, such as acoustics: this remains under discussion.
 - It was proposed that meeting papers make clearer the distinction between papers requiring decisions and those for noting: I seek the Commission's views about the desirability of trying this for its next meeting.
 - It was proposed that more lunchtime member development opportunities be made available: again, I seek the Commission's views about detail in this regard.
 - It was proposed that the series of lunchtime speakers at Commission committee meetings include statutory council officers: this is discussed in paragraph 11 below.
7. The Commission is asked to consider if there is anything else in its current meeting arrangements that it would like to review.

Committee days

8. The Commission's committees meet quarterly. This year, in addition, there were two optional dates identified, in June and August 2016. There were no meetings of the committees in June, but the Financial Audit and Assurance Committee will meet in August.
9. I have consulted with Audit Scotland colleagues who have indicated that they are comfortable with this arrangement for next year. I therefore propose the same arrangement for 2017.
10. This year the Commission has also continued the practice of its committees meeting on the same day. It has also continued the practice of having a guest speaker. It is proposed that this practice continue.
11. In line with Commission members' desire, expressed at the Strategy Seminar, for a series of statutory council officers, this year's speakers so far have been:
- February 2016: Mike Ash, Chair, East Lothian Health and Social Care Partnership (and a former member of the Commission) and David Williams, Chief Officer, Glasgow Health and Social Care Partnership.
 - April 2016: Derek Yule, Director of Finance, Highland Council.
12. There were no speakers in November 2015, while in September 2015, the lunchtime slot was used for a seminar for Commission members to discuss programme development.
13. The speakers for the next two committee days, in September and November 2016, will be a chief social work officer and chief education officer.
14. The Commission's views are therefore sought on a suitable schedule of speakers or activities for the lunchtime session on committee meeting days in 2017.

Strategy seminars

15. In considering the proposed schedule, the Commission should also consider the scheduling of its annual strategy seminar. Commission members will be aware of the progress made in improving the Commission's planning process, to ensure a clear feed through to other processes such as the Commission's own strategy and annual plan, work programme development, audit scheduling, and Audit Scotland's own corporate planning process. Accordingly, holding the Strategy Seminar during March of each year is the desired approach. It is therefore proposed that the annual strategy seminar take place sometime in the middle two weeks of March 2017, thus the weeks beginning Monday 13 and 20 March. If the Commission is agreeable, then detailed arrangements will be made and member availability sought.
16. Further, in line with Commission's desire for a second half-yearly event, it is proposed that this event take place in the week beginning 18 September.

Conclusion

17. The Commission is invited:
 - To consider the proposed schedule for meetings of the Commission and its committees in 2017, and in particular:
 - To retain the January meeting as an optional date; and
 - To retain the two optional committee dates.
 - To comment on any issues around meeting arrangements, as set out in paragraph 6, and any other related issues.
 - If minded to retain a speaker session during committee days, consider a schedule of speakers or activities for 2017; and
 - To consider the proposal that the annual strategy seminar take place in the middle two weeks of March 2017 and the 'half-year' seminar in (September 2017)

Paul Reilly
Secretary to the Accounts Commission
3 August 2016

APPENDIX

ACCOUNTS COMMISSION

MEETING SCHEDULE 2017

12 January	Accounts Commission (optional date –only if business requires)
9 February	Accounts Commission
23 February	Committees
9 March	Accounts Commission
13 April	Accounts Commission
27 April	Committees
11 May	Accounts Commission
8 June	Accounts Commission
15 June	Committees (optional date –only if business requires)
10 August	Accounts Commission
24 August	Committees (optional date –only if business requires)
14 September	Accounts Commission
28 September	Committees
12 October	Accounts Commission
9 November	Accounts Commission
23 November	Committees
7 December	Accounts Commission

Proposed ‘committee day’ arrangements:

10.00am – 12.00pm: Financial Audit and Assurance Committee

12.15pm – 12.45pm: Lunch

12.45pm – 1.45pm: Visiting speaker

2.00pm – 4.00pm: Performance Audit Committee

MEETING: 11 AUGUST 2016

COVER NOTE BY: SECRETARY TO THE COMMISSION

AUDIT OF BEST VALUE: ANGUS COUNCIL

Purpose

1. The purpose of this paper is to introduce the Controller of Audit's report on the Best Value audit at Angus Council. The Commission is invited to consider the report and decide how it wishes to proceed.

Background

2. The Accounts Commission last considered a Best Value audit report on Angus Council in 2010. The Commission's findings, [published on 12 May 2010](#), are attached. The report stated that the Council was making slow progress in improving its corporate processes to help it deliver Best Value. In particular, it lacked a coherent framework for monitoring service performance, making it difficult to demonstrate how it was focusing on priorities for improving services. This, together with poor relations between political groupings, meant that scrutiny and challenge were ineffective.
3. Since then, the Council's approach to addressing these issues has been monitored by its local auditors and scrutiny partners. In 2013, the Council introduced a change programme, known as 'Transforming Angus'. Initially, this led to substantial changes in its management structure. With most of its former management team retiring, a more streamlined structure was introduced. Transforming Angus then focused on a series of projects aimed at modernising the delivery of services and helping to reduce costs.
4. As a result of these significant changes, the Controller of Audit carried out an audit of Best Value that was focused on four main issues:
 - the impact of the new council management structure on how the council is delivering services
 - the effectiveness of the council's leadership including member/officer working relationships
 - whether there are effective systems of scrutiny and performance management across all services that help the council identify and prioritise areas where it needs to continue to improve
 - how the Transforming Angus programme is contributing to the Council's vision for the people of Angus and will help meet the financial pressures it faces.
5. The attached report provides the audit team's findings and conclusions on these issues. It reflects work carried out in March 2016 and the latest position in relation to financial information.

The report

6. The report is made by the Controller of Audit under section 102(1) of the Local Government (Scotland) Act 1973 (as amended by subsequent legislation including the Local Government in Scotland Act 2003).
7. The legislation enables the Controller of Audit to make reports to the Commission with respect to:
 - a) the accounts of local authorities audited under the Act;
 - b) any matters arising from the accounts of any of those authorities or from the auditing of those accounts being matters that the Controller considers should be considered by the local authority or brought to the attention of the public; and
 - c) the performance by a local authority of their statutory duties in relation to best value and community planning.
8. A copy of the report is being sent to the Council, which is obliged to supply a copy to each elected member of the Council and to make additional copies available for public inspection. Once the Controller of Audit's report is sent to the Council it is effectively in the public domain.

Procedure

9. The legislation provides that, on receipt of a Controller of Audit report, the Commission may do, in any order, all or any of the following, or none of them:
 - a) direct the Controller of Audit to carry out further investigations;
 - b) hold a hearing; or
 - c) state its findings.
10. Findings may include recommendations and the persons to whom those recommendations may be made include Scottish Ministers, who have powers to make an enforcement direction requiring an authority to take such action as is specified in the direction.
11. The Controller of Audit and members of the audit team will be present at the Commission's meeting and will be available to answer questions on the evidence presented in the report.

Conclusion

12. The Commission is invited to:
 - a) consider the report by the Controller of Audit on the audit of Best Value of Angus Council; and
 - b) decide how it wishes to proceed.

Paul Reilly
Secretary to the Commission
3 August 2016

APPENDIX: BEST VALUE AUDIT: ANGUS COUNCIL, MAY 2010:
ACCOUNTS COMMISSION FINDINGS

1. The Accounts Commission accepts this report from the Controller of Audit on Angus Council's performance of its statutory duties on Best Value and Community Planning. The Commission accepts the Controller of Audit's judgements that, in respect of these duties, the council needs to improve more quickly and that its prospects for future improvement are fair.
2. The Commission gratefully acknowledges the co-operation provided to the audit team by the elected members, chief executive and other officers of the council and its community planning partners, in particular for their constructive approach to being a pathfinder Best Value 2 area. The Commission also gratefully acknowledges that this report arises from work conducted in close co-operation with colleagues from other local government inspectorates.
3. The council's services are generally of a good quality and are well regarded by the local community. The council has stated a clear ambition for its area and is making progress with its partners towards local strategic outcomes.
4. We welcome the council's commitment to improvement. However, there is a gap between the council's improvement ambitions and its capacity to achieve them. Weaknesses in corporate processes mean that it is not able to demonstrate consistent and continuous improvement in its services. In general, progress against many of the recommendations made to the council in the 2004 Best Value audit has been disappointing. There are welcome signs that the pace is now picking up, and this now needs to progress as quickly as possible.
5. The council does not have a coherent corporate approach to identifying and prioritising improvement actions based on comprehensive performance data. This inhibits its ability to make clear decisions on service improvement and demonstrate how and where it is improving. It needs to deliver on its commitment to develop systems to give good quality service performance information, so that it can move from incremental individual service-based improvements to demonstrating and managing consistent all-round improvement.
6. We welcome evidence of consultation, but more work needs to be done by the council on community engagement. There are weaknesses in the available information on service performance and citizen and customer satisfaction. These mean that elected members lack the necessary performance management data and robust options appraisal which would allow them to ensure that the council delivers value for money for local citizens. It is essential that the council properly develops this corporate capacity if it is to be able to sustain good services under the challenge of increasing budget pressures.
7. The requirements of effective scrutiny do not appear to be sufficiently well understood. This limits the council's ability to focus leadership on delivering key priorities. The lack of progress since 2004 on establishing independent scrutiny of the authority's performance is particularly disappointing. The newly-formed Scrutiny and Audit Subcommittee is chaired by the leader of the council, which cannot be regarded as good practice.
8. Elected members also need to develop their ability to work together in a constructive way to provide strong strategic leadership, and to challenge and hold officers to account. The council's political leadership and senior management need to work together to ensure that the information systems, processes and governance structures are in place to ensure robust and transparent challenge of officers by members.
9. The issues identified in this report will inform the Assurance and Improvement Plan for scrutiny of Angus Council over the next three years. Local audit and inspection teams will continue to monitor progress

Angus Council

Best Value audit report

ACCOUNTS COMMISSION 

Prepared for the Accounts Commission by the Controller of Audit

August 2016

The Accounts Commission

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

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

Our work includes:

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

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

www.audit-scotland.gov.uk/about/ac

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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DRAFT

Controller of Audit Report

Summary

1. Overall, the council has made progress since the Accounts Commission last reported in 2010. It has set out clearly where it wants to be as an organisation and how it plans to get there. It is heading in the right direction, but it needs to increase the pace of change and the momentum of key projects.
2. Important improvements have been made in the leadership provided by senior managers and elected members, helping the council to become more ambitious in modernising its business processes.
3. Senior management restructuring has reduced the council's annual costs by an estimated £800,000. This has also helped to develop a more strategic and corporate approach by senior managers. The council is now much less insular, with managers looking to models used by other councils to help modernise business processes and service delivery. There is now greater consistency between departments, in terms of service planning and a shared vision of how the council needs to develop. A series of initiatives, such as the establishment of a Leadership Forum, have helped improve communications with middle managers and other staff and encouraged more delegation of operational decision-making.
4. There is still a need for increased transparency in the decision-making by elected members, and a greater focus on priorities for service improvements. But, overall, the role played by elected members has improved. In contrast to the antagonistic relations evident in previous years, there is now more cross-party consensus on the broad vision for Angus and for the council. A cross-party budget-setting group has helped set common priorities and, in a significant break from the past, the Scrutiny and Audit Committee is chaired by a non-administration member. There are also good working relations between elected members and senior managers, with regular briefings to help keep members informed and member-officer groups to oversee key developments.
5. This has put the council in a better position to meet future challenges. Like all councils, Angus faces increasing financial pressures. It has estimated that it needs to find savings of around £26.5 million over the next three years, and plans for some of these savings to come from efficiencies and service reductions. The council's ability to make its savings targets largely depends on the success of its Transforming Angus programme. Many of the projects in Transforming Angus reflect work already completed by other councils as their approaches to Best Value have matured. But the proposals all look to be sensible and soundly-based, including, for example, to reduce the number of council properties, improve its procurement processes, and digitalise many of its citizen and internal transactions.
6. The Transforming Angus programme has had some success, particularly in helping to change the organisational culture within the council. But the pace of change has been slow in some key projects and it is too early to assess its overall impact in modernising how the council

delivers services and reducing costs. A culture and leisure trust was established in December 2015, with the aim of saving around £2.5 million over the next five years. Adult home care services are now provided by a social enterprise company, forming part of a larger Help to Live at Home project which is planned to save £11 million by 2020. These are signs that Transforming Angus is now gathering momentum. However, some of its projects were conceived in 2012, but are not expected to deliver full year-on-year financial savings until 2017 or 2018 or, in some cases, 2020.

7. Managers and elected members will need to continue to show strong leadership to help ensure the success of Transforming Angus. The council's scrutiny panel reviewed the progress of the programme in 2015 and this has led to further measures being taken to help ensure its success. A member-officer board has been set up to oversee the programme. Regular monitoring arrangements have been established, and a 'strategic partner' has been hired to help bring in some external expertise and provide additional management capacity.
8. But there are risks that Transforming Angus may not succeed in delivering the necessary savings within the required timescales. The political and operating context for the council is complex and demanding, with financial pressures, increasing demand for services, and council elections in May 2017. There are signs that cross-party relations are fragile. For example, following recent sharp disagreements over local priorities, three non-administration members resigned from the budget strategy group. This risks an end to the recent political consensus, making it difficult for the minority administration to provide effective and consistent leadership. Elected members and senior management must work together to ensure that the council's developing approach to Best Value is sustained, despite any future political disagreements and change. If it is to meet its financial challenges over the next few years, the council will need to make some difficult decisions on service priorities and ensure that Transforming Angus delivers its anticipated savings, impact and outcomes.

Audit assessment

Background

9. The Accounts Commission last published a report about Best Value in Angus Council in May 2010. Its two overall conclusions were that:
 - That council needed to improve more quickly, and
 - Its prospects for future improvement were fair.
10. At the time, the report found that the council was making slow progress in improving its corporate processes to help it deliver Best Value. In particular, it lacked a coherent framework for monitoring service performance, making it difficult to demonstrate how it was focusing on priorities for improving services. This, together with poor relations between political groupings, meant that scrutiny and challenge were ineffective.
11. Since then, the council's approach to addressing these issues has been monitored by its local auditors and scrutiny partners. Their reports have highlighted, for example:
 - the introduction of a new approach to public performance reporting in 2011, and
 - the creation of a Scrutiny and Audit Committee in 2012.
12. In 2013, the council introduced a change programme, subsequently known as Transforming Angus. Initially, this led to substantial changes in its management structure. With most of its former management team retiring, a more streamlined structure was introduced. Transforming Angus then focused on a series of projects aimed at modernising the delivery of services and helping to reduce costs.
13. As a result of these significant changes, we carried out an audit of Best Value in March 2016 that was focused on four main issues:
 - the impact of the new council management structure on its leadership (paragraphs 14 to 20);
 - the effectiveness of the council's leadership including member/officer working relationships (paragraphs 21 to 23);
 - whether there are effective systems of scrutiny and performance management across all services that help the council identify and prioritise areas where it needs to continue to improve (paragraphs 24 to 28).
 - how the 'Transforming Angus' programme is contributing to the council's vision for the people of Angus and will help meet the financial pressures it faces (paragraphs 29 to 42).




Leadership

There have been important improvements in the leadership provided by senior managers and by elected members. The council is now more outward looking, with a shared vision on the need for it to modernise.

14. Over the past few years, improvements have been made in the strategic leadership provided by senior managers. In 2007, the council reduced the number of its service departments and directors from eleven to five. In 2013, the council continued this streamlining process, implementing a new structure with further mergers. The number of service departments was reduced from five to three. At the same time, the number of senior management posts was reduced from seven to four (see Exhibit 1).
15. This was followed by a restructuring of middle-management posts which was completed in 2014. The overall number of posts remained at 35 but the number of heads of services fell sharply from 29 to 11, while the number of subordinate senior manager posts increased from 6 to 24.

Exhibit 1

Angus Council implemented a new organisational structure in 2013

	Before	After
 Departmental structure	Chief Executive's department	Chief Executive's Unit
	Education	Children & Learning
	Social work & health	
	Infrastructure services	Communities
	Neighbourhood services	
	Corporate services	Resources
 Executive team	Chief Executive	Chief Executive
	Assistant chief executive	
	5 Directors	3 Directors
 Senior managers	29 heads of service	11 heads of service
	6 senior service managers	24 service managers

Source: Angus Council

16. This latest restructuring has resulted in annual savings of around £800,000 in staffing costs. There is evidence that it has helped to improve the level of strategic leadership and corporate working provided by senior managers, and there are signs that the council is now much more

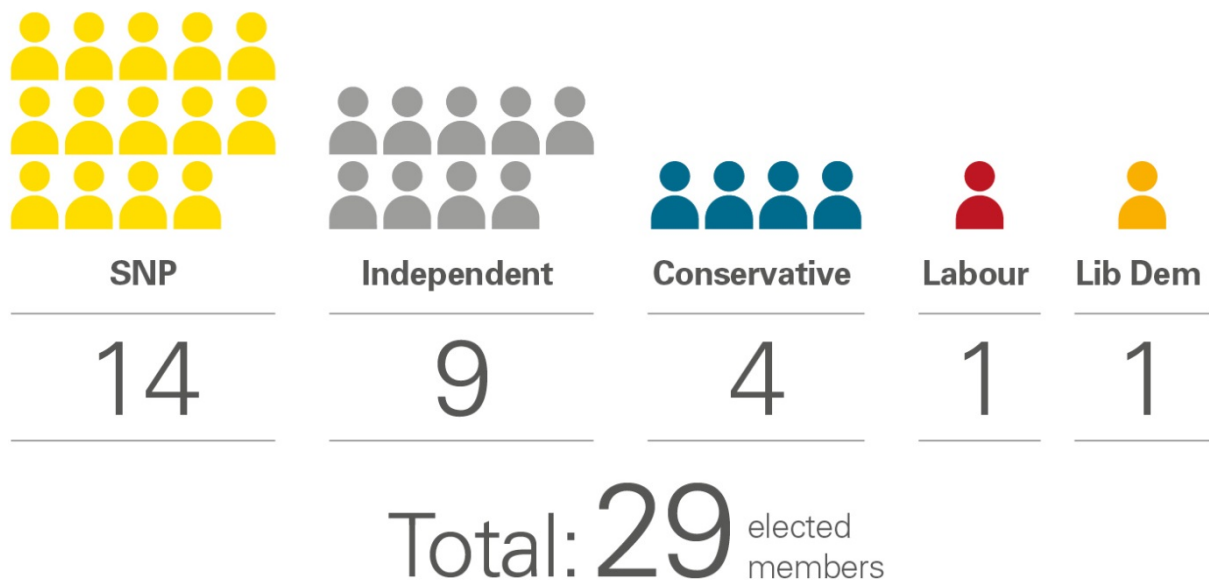
outward-looking. In previous years, senior appointments tended to be made from within the council. In contrast, three of the most senior managers currently in post, including the Chief Executive, have been brought in from other councils. This has helped bring in new ways of thinking, with the council looking to adopt different business processes and develop new ways of delivering services. It has, for example, looked to other councils such as Edinburgh, Fife and Renfrewshire to help inform its transformation and digital programmes.

17. This further rationalisation of the council's departmental structure has also helped increase corporate working. Elected members find it easier to focus on broad strategic issues, rather than having to work within service silos. There is now much greater consistency between departments, both in terms of business processes such as service planning and staff appraisal and in terms of a shared vision for how the council needs to develop.
18. This has been accompanied by significant efforts to engage with the council's workforce as a whole. For example, a management development programme is being rolled out for all of the council's senior and middle managers. There is an increasing emphasis on making the council less hierarchical, reducing the decision-making layers, and delegating operational decisions to front-line managers. Senior managers are increasingly getting out and about, regularly holding meetings away from the council headquarters and working in person with local managers.
19. A Leadership Forum, consisting of the council's most senior 120 managers from across all services, was established in 2013. This meets every three months and helps ensure employees across the council have a shared vision of how it needs to develop. Initially, this started as a top-down information-giving event. But it has now developed into much more of a two-way communication exercise, with middle managers encouraged to share their thoughts and suggest changes which they think need to be made. We met with a number of middle managers and found them to be very positive about the Forum and the changes taking place within the council. While many felt that more time was needed to fundamentally change the culture of the council and its working practices, there was a firm belief that it was heading in the right direction.
20. In September 2015, the council's Policy & Resources Committee approved a new workforce strategy. This sets out a broad direction for the next three years, linked to the council's planned changes in its business processes, with the need for a smaller workforce, more collaborative working, and new skills. But this is not yet supported by more detailed plans, setting out specific proposals on staffing numbers, grades and skills, and links to other key strategies, including the budget strategy, need to be clearer.
21. There are good working relations between elected members and senior managers, with a shared vision on how the council needs to develop. The Chief Executive and his Directors meet at least weekly with the council Leader and other Administration office bearers. Regular meetings are also held with non-administration members. The use of member-officer groups has become established, helping to develop policy in complex areas, overseeing major programmes such as Transforming Angus, or scrutinising particular service areas or areas of concern such as flood risk management and community grants. Officers also provide regular

private briefings for members, helping to ensure they are properly informed about key proposals and giving them an opportunity to ask for more information.

- 22. There have also been some improvements in the leadership provided by elected members. In 2010, our report commented on the poor working relations between political groupings. Council meetings were often antagonistic and unproductive. The behaviour of a number of members was referred to the Standards Commission, and fundamental disagreement about representation on committees led to many seats being unfilled.
- 23. In recent years, there has been greater consensus between elected members on the broad vision for Angus and for the council. The Council has a minority administration (Exhibit 2). While disagreements and debates take place, as we would expect in any council, there are usually good working relationships between political groupings. Referrals to the Standards Commission are less frequent, and all committee seats have been filled. In a significant break from the past, the Scrutiny and Audit Committee is now chaired by a non-administration member. However, political relationships can still be fragile, with recent sharp disagreements on specific local issues and three non-administration members resigning from the budget strategy group.

Exhibit 2
Angus Council – Political make up



Source: Angus Council

Scrutiny by elected members

There have been improvements in scrutiny. But there needs to be a greater emphasis on public accountability and there is still scope for members to focus more on the priorities for improving service performance.

24. There have been improvements in how elected members scrutinise performance. In 2010, our report described scrutiny arrangements as weak. At the time, the Scrutiny and Audit Sub-Committee was chaired by the Leader of the council, fundamentally compromising its independence and objectivity. Elsewhere in the council, many substantial items of business were approved with little public debate or challenge. And the ability of members to scrutinise was hindered by a lack of reliable information on service performance and outcomes.
25. A non-administration member has chaired the Scrutiny and Audit Committee since 2012. This has greatly increased its independence and its ability to provide constructive challenge. In addition, our observations of several meetings have confirmed that it carries out its role effectively, regularly focusing on key issues and holding officers to account.
26. A series of scrutiny panels has also been established, looking at specific issues such as roads maintenance or the progress of the Transforming Angus programme. These meetings are held in private and aim to give members a more detailed understanding of specific issues. In our view, they are effective in carrying out independent and detailed reviews of key areas and making recommendations. The 2015 scrutiny panel review of the Transforming Angus programme, for example, demonstrated a good awareness of the slow progress being made on some of the key projects and the issues that needed to be addressed. The panel considered the outcomes and pace of change and recommended more focussed performance management reporting to demonstrate progress against timescales, savings and outcomes.
27. However, there is still a need for members to demonstrate a greater level of public accountability. The statutory guidance on Best Value requires key discussions and decision-making to be held in public meetings. In recent years, the emphasis on private briefings and member-officer working groups within Angus Council has had some benefits. Given the antagonistic relations between some members in previous years, it has helped to provide a safer, less politically-charged environment to ask questions and discuss options. But it has meant that members tend to ask questions and carry out their scrutiny role in private. We attended council and committee meetings which were relatively short, with little discussion of key issues prior to decisions being made. The council needs to establish more open and transparent forms of scrutiny, building on the good working relations established in briefings and member/officer groups, and encouraging more debate and questioning to be carried out in public.
28. There is also still scope for improvement in the performance information provided to elected members. This is better than it was in 2010, when our report described arrangements as inadequate. Reports on performance, improvement and transformation activity are provided to elected members more regularly throughout the year at Scrutiny and Audit, Policy and Resources and service specific committees. The format and content of performance reports

now provides greater clarity and is linked to council priorities, outcomes, improvement actions, targets and risks to success. They also include benchmarking information. However, performance reporting still tends to be based on individual services, with no high level corporate overview of performance against the council plan and its priorities. This is an important gap. Current reports do not indicate any serious weaknesses in service performance, but councils are expected to look for opportunities to make all services better. In our meetings with elected members, we found many that were unable to clearly identify which areas of the council's performance are priorities for improvement.

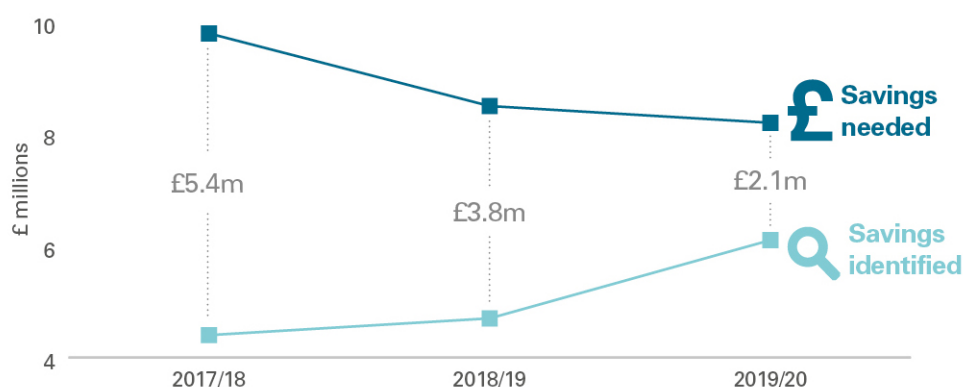
Financial position

The council faces increasing financial pressures and needs to find cumulative savings of £26.5 million over the next three years. It has approved projects that are planned to achieve £15.2 million of savings and is currently identifying other measures to deliver the remainder.

29. In recent years, Angus Council has had some success in reducing its spending, through a series of efficiencies and service reductions. Its reserves have steadily increased and are now above the council's planned levels, at £43.5 million, £27.6 million of which is committed or set aside as a contingency. In addition, it has relatively low levels of debt, compared with other councils. There are questions about the robustness of its budget-setting processes, with consistent revenue underspends of at least two per cent in each of the previous five years. But the council has now introduced a priority-based budget system to help improve its financial management.
30. Despite these efforts, the council faces increasing financial pressures. Reductions in funding, at the same time as growing demands on services, mean that the council needs to continue to make difficult decisions in order to reduce its spending. Any reserves can only be used once. Following the 2016/17 local government funding settlement, announced by the Scottish Government in December 2015, the council estimates that it needs to find cumulative savings of around £26.5 million over the next three years (see Exhibit 3). These estimates are based on its four-year financial strategy, which takes into account expected levels of income and expenditure including pay inflation, demographic change, council tax and levels of government grant. It also includes an assessment of risk to predict "base", "optimistic" and "pessimistic" levels of funding gaps and required savings.

Exhibit 3

Annual financial savings needed, identified and funding gap



Source: Angus Council

31. At present, the council has agreed savings of £15.2 million. Some of these are planned to come from efficiency measures and service reductions. But the council expects to generate most of its savings through a series of change projects, known as Transforming Angus. The remaining £11.3 million of savings have not yet been identified, with a particularly noticeable shortfall in 2017/18 and 2018/19. The council expects these savings to be provided through a series of other measures, such as staff reductions, service redesigns, income generation, and a review of the schools estate. A programme of service reviews due to be carried out during 2016/17 aims to help develop detailed proposals.

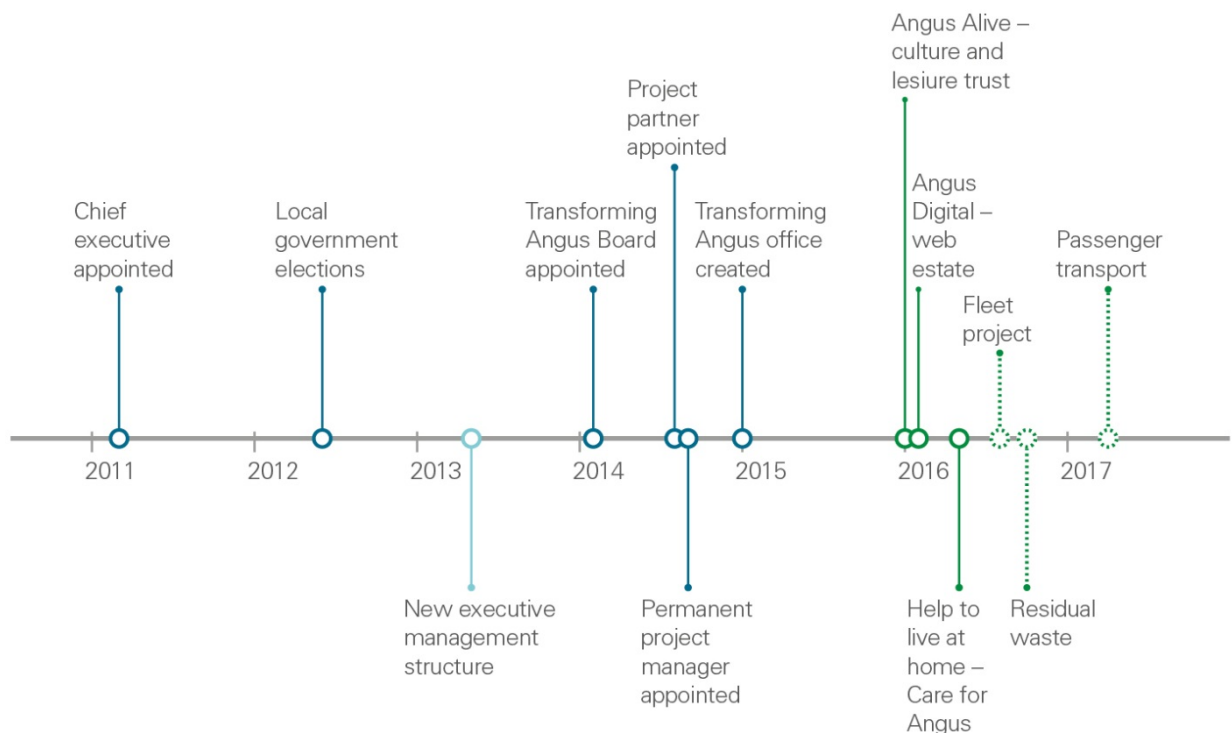
Transforming Angus projects

Transforming Angus has led to some important changes in organisational culture, but the council needs to increase the pace of change in how it delivers services.

32. The council is currently implementing a wide-ranging change programme, known as Transforming Angus. As mentioned earlier, this has led to important changes in the organisational culture of the council. As well as delivering savings, a new streamlined management structure has helped the council become more corporate and outward-looking. Initiatives such as the establishment of a Leadership Forum have improved staff communication and encouraged a greater degree of operational decision-making.
33. Transforming Angus is now focussing on a series of projects which aim to modernise the way services are delivered and help meet the financial challenges faced by the council over the next three years:
- **Angus Digital** - upgrading information systems, facilitating mobile working, and making more information and services accessible online.
 - **Improved business processes** - the creation of a culture and leisure trust, a procurement review, help to live at home project, and passenger transport.

- **Improved customer experience** - a Channel Shift programme aims to provide a series of online payments and requests for services such as pest control and bulky household waste.
 - **Agile working** - a review of the schools estate, other council buildings, and remote working, with the number of relevant council properties planned to reduce from 40 to 10.
34. The council plans to deliver a total of £17 million of savings from Transforming Angus, around two-thirds of the total savings it needs to make. The council also forecasts that, once all the current projects have been completed in 2020/21, they will deliver annual savings of £15.3 million - representing around six per cent of current net expenditure.
35. Elements of these changes, such as an estates review, date back to 2012. However, following the management restructuring in 2013, proposals started to be developed for a more wide-ranging programme of change. In March 2014, Transforming Angus was then formally adopted as a key element of the Council Plan 2014-17, its first since the local government elections in 2012 and the establishment of a new administration (Exhibit 4).

Exhibit 4
Transforming Angus key dates



Source: Audit Scotland

36. Some projects simply reflect the type of reforms carried out by other councils many years ago, such as the creation of a culture and leisure trust or plans to reduce the number of buildings occupied by council staff. However, they still have merit and represent a significant shift in the organisational culture of Angus Council. Moreover, there are plans to build on the current

change programme, with, for example, further proposals for joint working with neighbouring councils on procurement and commissioning.

37. The council has also sought to ensure that it has the expertise it needs to develop and implement the various Transforming Angus projects. It has established a Transforming Angus change fund of £3.7 million. A programme manager was appointed in September 2014, with staff seconded from other council departments forming a Transforming Angus office. In addition, the council has sought external support, appointing Ernst and Young (EY) as a strategic partner to the programme in August 2014. Its role is to help provide specialist advice, support and challenge.
38. Appropriate governance arrangements are in place to oversee Transforming Angus. Since 2014, a Transforming Angus Programme Board, consisting of senior managers and elected members, meets every two months. It approves business cases for specific projects and monitors the overall costs, risks and progress of Transforming Angus. It is also supported by a series of subsidiary boards that oversee individual projects. It has also been the subject of a major scrutiny panel review, carried out in May 2015. This assessed areas such as the prioritisation of projects within the programme, the work of the strategic partner, and performance management and reporting. It led to a series of improvements, particularly in the monitoring of progress in the various projects and the delivery of savings.
39. Some Transforming Angus projects are beginning to deliver benefits. For example, the Angus Alive project led to the creation of a leisure trust in December 2015. This involved the transfer of the council's museums, libraries and sports facilities to an arms-length trust. The council expects this to save £2.6 million over the following five years. Similarly, in March 2016, the council ceased to directly provide adult home care services but is working with Care About Angus, a social enterprise company overseen by Voluntary Action Angus. This forms part of a longer-term Help to Live at Home project, which the council estimates will lead to net savings of £11 million by 2020.
40. Overall, however, the pace of change has been slow, particularly in earlier years. There are signs that this pace is now picking up, with improvements made in 2014 in management capacity and governance arrangements. But many of the projects within Transforming Angus date back to 2012, and are not expected to deliver full year-on-year benefits until 2017 or 2018 or, in some cases, 2020 (Exhibit 5).

Exhibit 5

Progress of Transforming Angus (TA) projects – January 2016

TA portfolio initiative	Programme or project	Stage	Net savings ¹ (£m)	Completion date ²
Angus Digital	Angus Digital implementation	Accountability for specific workstreams has been allocated to individual boards to enable specific projects to be progressed.	TBI ³	March 2020
	Web estate			January 2016
	Information management and governance (2 workstreams)			December 2017
	Internal systems (2 workstreams)			September 2017
Improved customer experience	Channel shift (6 workstreams)	Project being developed to look at feasibility of increasing online payments and other alternatives.	TBI	April 2018
Improved business processes	Culture and Leisure trust	Leisure trust created December 2015.	2.6	January 2016
	Fleet project	Project ongoing.	TBI	July 2016
	Residual waste	Project ongoing.		September 2016
	Help to live at home (3 workstreams)	New work systems and rotas introduced April 2016. Further work ongoing to look at external market.	12.9	December 2017
	Passenger transport, including green fleet (3 workstreams)	Outline business case approved June 2015. Project ongoing.	4.2	March 2017
	Procurement review (4 workstreams)	Outline business case approved February 2016. Project ongoing.	8.6	December 2017
	Income, investment and growth	Project aims, objectives and potential savings being defined.	TBI	August 2019
Agile working	Agile working - school and other estates review	Outline business case approved December 2015. Work ongoing in council offices and schools.	9.7	September 2019

Notes:

1. Cumulative savings over the five year period up to and including 2020/21.
2. Date by which the project will be fully operational.
3. TBI – to be identified.

Source: Audit Scotand

Source: Angus Council

41. In our view, there are a number of factors contributing to this slow pace. There was some delay in obtaining the widespread support of elected members, with the formal approval of Transforming Angus not taking place until after the local government elections of 2012. There may also be a need for members to be more aware of the pace of change elsewhere and the achievements of other councils. In addition, until the appointment of a programme manager and external consultants, the council lacked management capacity to properly oversee this complex change programme. The scrutiny panel review of 2015 also identified a tendency for front-line managers to focus on short-term financial savings rather than the strategic changes needed to implement the various Transforming Angus projects.

42. There are signs that the pace of change is starting to increase and that Transforming Angus projects are beginning to contribute more significant savings. During 2016/17 the council expects the programme to provide £1.8 million of savings, with this steadily increasing in subsequent years. However, the success of Transforming Angus is central to the council's financial strategy and its desire to minimise the level of service reductions, as plans are for it to provide around two-thirds of the £26.5 million of savings needed over the next three years. Elected members and senior managers will need to continue to show strong leadership to help ensure that the various projects are fully completed and deliver the required savings within planned timescales.

Conclusion

43. The council has made progress since the Accounts Commission issued its findings on the Best Value report in May 2010. In particular, it has:
 - Established revised political management arrangements that have helped strengthen scrutiny.
 - Improved the support provided to elected members, particularly through member-officer groups and private briefings.
44. The council has also established Transforming Angus, a major change programme that aims to modernise its business processes and deliver significant savings. This represents a significant shift in its organisational culture. The council faces significant financial challenges over the next few years. There is now a shared understanding, between elected members and between senior officers, that the council needs to modernise its business processes and generate significant savings in a manner that minimises the impact on services and communities.
45. The early stages of Transforming Angus have led to important changes in the organisational culture of the council. A new streamlined management structure has been accompanied by a more outward-looking and corporate approach. Communication with staff has improved through initiatives such as a Leadership Forum, helping to develop a shared vision of how the council needs to change and to help encourage greater delegation.
46. The council has now started to implement a series of projects aimed at changing the way it delivers services. The pace of change has been slow, particularly in earlier years. But there are signs that this pace is now picking up, with improvements made in 2014 in management capacity and governance arrangements. A culture and leisure trust was set up in late 2015 and changes have recently been made in adult home care services. But it needs to increase the pace of change. Many of the change projects within Transforming Angus represent developments that have already been carried out by other councils over the past decade. Four years after the core elements were identified, most projects are still at a relatively early stage with many not due to deliver full year-on-year benefits until 2020. There is also still a need for a further £11.3 million of savings to be approved.
47. In addition, the council needs to:
 - Build on the progress made in supporting elected members to further develop:
 - more open and transparent forms of scrutiny,
 - a greater focus on priorities in service performance,
 - increased awareness of approaches being taken in other councils.
 - Provide a more coherent approach to performance management, which helps prioritise areas for improvement and helps elected members scrutinise effectively.

- Ensure that improvements are made to its budgeting processes to help deliver better use of its resources.
- Develop more detailed workforce plans, linked to ongoing projects and service reviews and other key strategies.
- Ensure appropriate management capacity is in place once current external support ends and that ongoing leadership development activity is effective.