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COUNCIL MONITORING OF ARMS-LENGTH ORGANISATIONS TO BE REVIEWED

Against a background of a general improvement in financial management and performance, Scottish councils need to do more to improve the way in which they monitor the use of funds they provide to arms-length organisations. This is highlighted in a report published today (2 April) which contains the Controller of Audit's overview of the 2000/01 local authority audits and the Accounts Commission's findings.

Controller of Audit, Ronnie Hinds, commented:

“I am pleased to be able to report that councils completed their accounts by the due date and that their finances are in a generally healthy state. The vast majority of DLOs/DSOs achieved break-even or better and the council-wide performance indicators point to an overall improvement in the quality of services delivered.

But some councils need to do more to develop their governance arrangements. For those that have yet to introduce audit committee principles within their structures, I would encourage them to do so. More generally, it is essential that councils have sound financial procedures in place and where auditors have reported weaknesses, councils should ensure that they take action urgently to rectify matters”.

The Controller's report also highlights the importance of sound monitoring when councils decide to provide public money to arms-length organisations, such as trusts, grant aided organisations and voluntary bodies.

Chairman of the Accounts Commission, Alastair MacNish says:

“Today's report presents a picture of how councils are performing across the full spectrum of their work, but I am particularly interested this year in the Controller's comments about their arrangements for monitoring funds that they give to arms-length organisations.

There is clearly a mixed picture in the way that councils approach this important area. It seems likely that we will see more of this type of arrangement in the future so I am pleased that Audit Scotland intends to look closely at existing practice. This will assist us in updating the Code on *'Following the Public Pound'* which we developed jointly with COSLA in 1996”.

The local authority overview report is available from Audit Scotland on 0131 477 1234 or it can be downloaded from the Audit Scotland web site at www.audit-scotland.gov.uk.

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Notes to editors

1. The Accounts Commission for Scotland was set up in 1975 and is independent of both central and local government. The Commission ensures that local authorities, fire and police boards spend £9 billion of public money properly and wisely.
2. Audit Scotland is a statutory body set up in April 2000, under the Public Finance and Accountability (Scotland) Act, 2000. It provides services to the Accounts Commission and the Auditor General for Scotland.
3. The Controller of Audit's report is made under s102 (1) of the Local Government (Scotland) Act 1973 and draws on the reports prepared by the appointed auditors of the 32 councils and 35 other local authority bodies at the conclusion of their audits. The Controller of Audit is an independent statutory officer who submits reports to the Accounts Commission on matters arising from the audit of local authority accounts in Scotland.
4. The Code of Guidance on Funding External Bodies and Following the Public Pound was developed jointly by the Accounts Commission and COSLA. The Code was supplemented by operational guidance issued by COSLA in 1998. In essence the code says that councils have powers in certain circumstances to enter into agreements with external bodies who undertake functions which might normally be carried out by councils themselves. The external body may be a council funded trust or company. In other cases the relationship may be with grant aided organizations and voluntary bodies. The nature of these agreements is often wider than a simple contract for services.
5. Accounts qualified in 2000/01

Inverclyde	£13.5 million borrowed in advance of need, outwith Council's borrowing powers Unexplained differences arising from accounting reconciliations (debtors: £149,000; creditors: £332,000)
Shetland Islands	Disagreement about the way in which the Council had accounted for a property transaction in a previous year (ongoing impact on reserves)

Matters arising at individual councils in 2000/01

Clackmannanshire	The auditors expressed serious concerns about the council's lack of progress in reviewing its financial interests in external bodies. See page 28 of report
Comhairle nan Eilean Siar	The auditors reported that the building Maintenance and Roads DLOs failed to achieve break-even with deficits of £321,000 and £253,000 respectively. These are significant in terms of the level of DLO activity, representing over 10% of turnover in each case. See pages 28 and 29 of report
Midlothian	The auditors referred to a contract for an extension to a school in which there had been a £560,000 (over 30%) overspend. See page 29 of report
South Lanarkshire	The auditors expressed concerns about a contract for debt recovery services. See pages 29 and 30 of report