

# Strategy 2001-2004

Accounts Commission for Scotland

## The Accounts Commission

The Accounts Commission is a statutory, independent body, whose overall purpose is to hold local government to account by using the audit process to:

- give assurance on probity, stewardship and financial management
- effect continuous improvement
- promote the economic, efficient and effective use of resources
- secure the fair presentation of financial and performance information.

The Commission has five main responsibilities:

- securing the external audit
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- reviewing the management arrangements which audited bodies have in place to achieve value for money
- carrying out national value for money studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information which they are required to publish.

The Commission secures the audit of 32 councils and 34 joint boards (including police and fire services). Local authorities spend over £9 billion of public funds a year.

## Audit Scotland

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. Together they ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

## Foreword by the Chairman

In 1996 we published our strategy for the Accounts Commission and in the past four years have achieved many of our objectives. In the last year major changes have taken place in the operation of Scottish government, in the bodies which we audit and in our own public audit arrangements. We set out in this strategy document our vision of the way ahead for the Commission and of the contribution we can make to sound financial management and stewardship of public funds in Scottish local government.

We believe our overall purpose is to hold local government to account by using the audit process to:

- give assurance on probity, stewardship and financial management
- effect continuous improvement
- promote the economic efficient and effective use of resources
- secure the fair presentation of financial and performance information.

With the establishment of the new public audit arrangements under the Scottish Parliament there was a transfer of resources from the Accounts Commission and from the National Audit Office into Audit Scotland. The staff, buildings, finances and other resources to achieve the objectives of the Accounts Commission and the Auditor General for Scotland are now located in Audit Scotland. The detailed proposals for implementing our policy objectives as stated in this strategy document will be developed through the strategy of Audit Scotland, who will then derive business plans and performance measures for its activity. We will hold Audit Scotland to account for its delivery of our requirements, both as expressed in this high level document and in more detailed operational directions and requirements.

In this document we:

- review our progress against the last strategy document
- examine the environment in which we now operate
- express our purpose and set out our strategic objectives
- describe how we will achieve those objectives and measure our performance.

We perceive our role to be to act in the interests of citizens as recipients of services and paymasters of local government. In addition, our principal stakeholders are:

- the Scottish Executive
- councils
- other audited bodies, such as joint boards
- COSLA.

We are grateful to the many individuals and bodies, including councils and other stakeholders in the public and private sectors, who responded to our consultative draft strategy. We were also pleased to be able to discuss it with Ministers and COSLA. This document takes account of the views expressed.

  
Ian Percy, Chairman

## Our achievements

Over the past four years we have succeeded in implementing many of the objectives of our 1996/99 strategy. In that time we have:

- extended the public audit model to NHS bodies in Scotland
- dealt with the backlog of accounts and audits in Scottish local government arising from the re-organisation of 1996
- published our revised Code of Audit Practice
- issued statutory reports and findings on both specific and general issues in local authorities and the NHS, and introduced annual overview reports
- agreed with COSLA a Code of Guidance on Following the Public Pound
- improved and increased the number of reports on value for money studies in the NHS and local government and on performance in Scottish councils
- developed joint VFM working with Inspectorates
- worked with The Scottish Office (now the Scottish Executive) and COSLA to develop the Best Value regime
- developed the management arrangements audit
- helped establish the Public Audit Forum
- reviewed the operation of the field audit teams and established a common vision and methodology for their work
- developed our communications strategy and improved our consultation arrangements.

Areas where we continue to develop to achieve our objectives in the interest of our stakeholders include how we measure and report on own performance, and how we demonstrate that our performance is consistent with best value and that the audit process itself delivers value for money. We address these issues in this strategy document.

## The changing world

Many of the major changes in the environment in which we operate are obvious and are common to many agencies in the Scottish public sector. The election of the new government at Westminster in May 1997, the creation of the Scottish Parliament, the abolition of the internal market in the NHS and the outcome of the McIntosh Commission on Scottish Local Government have all set the framework for our activity. The increasing emphasis on accountability for and scrutiny of public expenditure, the attention paid to standards of behaviour in public life and the focus in government on “what matters is what works” inform our approach to our purpose and objectives.

There have been a number of specific developments which affect the Commission directly. The Scottish Parliament appointed the first Auditor General for Scotland and the Public Finance and Accountability (Scotland) Act 2000 put in place a new framework for public audit in a devolved Scotland. We were happy to play a part in the development of that framework and we welcome the recognition of the separate democratic legitimacy of local government and the confirmation of the role of the Commission in holding local government to account. As part of that development responsibility for the audit of health bodies was transferred from the Commission to the Auditor General for Scotland.

The Act brought into being Audit Scotland, the body which provides staff and services to both the Auditor General and the Commission. The opportunity has been taken to create one public sector audit agency in Scotland working to common standards and taking a coherent approach in all areas where the Scottish Parliament’s resources are spent. It means a new set of relationships between the Commission, the Auditor General and the organisation, and we are committed to making those relationships work and to providing the Scottish Parliament and local government with an audit service which delivers excellence and adds value.

The Scottish Parliament has moved to abolish surcharge and replace it with new powers for the Commission. We believe that this will make the process of holding individuals in local government to account more effective and we join Scottish local government in welcoming this development.

The Scottish Parliament has also provided for the creation of a Standards Commission to oversee how councillors and members of other public bodies observe the codes of conduct for their personal behaviour and we look forward to working together with the Standards Commission to ensure that we both take a consistent approach and minimise the risk of duplication and confusion.

Perhaps the most important series of changes are those affecting local government itself. We are pleased that, as councils develop alternative decision making models, many of them are seeking to enhance the role of scrutiny in their proposals. The package of proposals to take forward the recommendations of the McIntosh Commission will clearly have a major impact on the way in which councils operate and we will be anxious to ensure that high standards of corporate governance are maintained.

Best Value as a concept is not new to local government but we have been happy to play a part in taking it forward through membership of the Task Force and through developing the Performance Management and Planning audit. It is clear that this agenda will continue to develop over the period of this strategy and that the Commission must be able to respond as flexibly as possible.

## Our purpose

It is important that we have a clear understanding and articulation of the overall purpose of all our activity and to have that understood and agreed by our stakeholders. It is often said that there is a tension between the role of the Commission as “policeman”, operating through the audit process and its role as “helper” through value for money studies and the encouragement of best practice. We think that this tension is a healthy catalyst because, in reviewing the financial and other performance of audited bodies we seek to bring about change and continuous improvement whilst creating public confidence in the regularity and probity of final reporting and transactions. We can do this in a variety of ways using different tools and methods for different sets of circumstances.

We believe our overall purpose is to hold local government to account by using the audit process to:

- give assurance on probity, stewardship and financial management
- effect continuous improvement
- promote the economic efficient and effective use of resources
- secure the fair presentation of financial and performance information.

To achieve this overall purpose we have been given a range of statutory functions which remain:

- to secure the audit of all accounts of local authorities and associated bodies either by employed staff of Audit Scotland or by firms of accountants
- to set the framework within which auditors carry out their functions through the Code of Audit Practice
- to undertake or promote value for money studies in local government
- to give directions to local authorities on performance information
- to consider all reports made by the Controller of Audit under the 1973 Act, to investigate all matters raised and to conduct hearings where appropriate
- to make recommendations to the Scottish Executive and to local authorities, and to impose sanctions on individual officers and members responsible for failures
- to advise the Scottish Executive on local authority accounting matters.

### Setting our objectives

In fulfilling our overall purpose we have as our objectives:

- maintaining propriety in local government, working with all other agencies to promote sound stewardship and high standards of conduct
- positioning the Commission as the advocate of improved performance in the interests of citizens as users and paymasters of local government services
- working with the Auditor General for Scotland and the Scottish Parliament to improve the process of accountability in the public sector in Scotland
- developing the contribution of the audit and inspection process to performance assessment and continuous improvement in local authority services, under Best Value.

# Achieving our objectives and goals 2001-2004

## *Maintaining propriety in local government, working with all other agencies to promote sound stewardship and high standards of conduct*

We seek to achieve this objective through the audit process. The public audit model has now gained wide acceptance across the public sector in Scotland and we will work with the Auditor General through Audit Scotland to develop its key characteristics:

- the independence of public sector auditors from the organisations being audited
- a wider scope covering audit of financial statements, regularity, propriety and value for money
- public reporting.

Each year we will demonstrate where propriety and sound stewardship have been achieved in each audited body and reveal areas of concern by reporting in public on individual bodies and on the broad picture in the annual overview.

The Commission's Code of Audit Practice has gained wide recognition by establishing the framework in which our auditors operate. It gives audited bodies a clear understanding of what they may expect from their auditors as well as setting the standards for the conduct of auditors' work. In the past few years there have been significant developments in the issue of standards and guidelines on auditing and business risk methodologies of major firms to improve audit effectiveness. We will work with the Auditor General to produce a revised Code of Audit Practice which will ensure the coherent application of public audit principles across the whole range of expenditure of the Scottish Parliament in accordance with International Standards of Accounting and guidelines adopted by the Public Audit Forum.

In 2001 all audit appointments in local government and the NHS expire. We will take this opportunity, again working with the Auditor General, to make sure that appropriate appointments are made throughout the Scottish public sector which will enable the most effective and economic delivery of the audit service while ensuring that auditors within Audit Scotland and the approved private sector firms have portfolios which allow them to deliver their work to the highest standards.

Securing those high standards is the principal objective of the quality control review process. We intend to increase the rigour of that process, concentrating on outputs by auditors. Feedback from individual audited bodies on the performance of auditors is a vital element of this process. We intend that it will apply with equal rigour to both Audit Scotland and private sector providers.

We believe that the procurement of a proportion of the audit work from firms of accountants in the private sector enhances the audit process, ensures appropriate competition and broadens the knowledge and skills base available.



*Positioning the Commission as the advocate of improved performance in the interests of citizens as users and paymasters of local government services*

The publication of performance information enables citizens to hold councils to account, enabling the comparison of performance among councils and also the performance of individual councils from year to year. Performance information plays an important role in Best Value, contributing to public performance reporting by councils in their area.

We are working with COSLA, SOLACE and the Executive to make sure that the statutory performance indicators are of value not only to citizens but also to management and government. A number of significant changes have already been made as part of this development process. Our criteria for statutory performance indicators will be:

- indicators should, where possible, be output or outcome focussed - ie, they should concentrate on what the service is delivering. These will be balanced with efficiency indicators to allow a rounded view of how well services are delivered.
- it should be clear whether a change in performance reflects improvement or decline.
- indicators should refer to nationally set or agreed targets or standards, rather than local ones, so that comparison between authorities can be made on a more like-for-like basis. Local targets and performance in meeting them can now be covered in local public performance reports.

Each year we will consult widely before making our statutory performance Direction and continue to encourage councils to use the published information and consult each other to continually improve performance.

We will make available to the public information about the performance of their council and we will encourage improvement in councils' performance which will be demonstrated in the performance information published by them and us.

*Working with the Auditor General for Scotland and the Scottish Parliament to improve accountability in the public sector in Scotland*

The Commission is an independent statutory body and we will maintain our independence of both central and local government so that our work remains objective and evidence based and is seen to be just, fair and unbiased. We recognise, however, that we can only achieve our objectives by working with others. We must secure acceptance of our conclusions and recommendations by working together with the Parliament, the Executive, local government and other interested parties. In this way we will achieve change and improvement and we fully recognise the importance of these partnerships.

The committees of the Scottish Parliament will take an active interest in the subject matter of our studies and reports. We will seek to develop a close working relationship with those committees, sharing with them our intended work programme and output and listening carefully to their concerns and wishes. We believe that by working together we can increase the impetus for change for the better in local government. We also recognise that the Commission has its place in the new governance of Scotland because of the

need for a separate independent body to deal with stewardship of public funds in individual councils and associated bodies. We will continue to discharge that part of our role independent of both the Parliament and the Executive.

The Commission has a direct relationship with Scottish Ministers and we have enjoyed a positive and constructive working relationship with them over the years. The Commission is accountable to the Scottish Parliament through Scottish Ministers and we work to a common agenda of securing sound stewardship of public funds and continuous improvement in the delivery of services. We will work with the Executive to develop a new framework document for the operation of the Commission which will reflect the new governance arrangements under the Scottish Parliament and secure the positive working relationship with the Executive which we have enjoyed to date.

Auditors report in public to the Controller of Audit on the financial stewardship of individual councils and other local government bodies. The Controller reports to the Commission when directed or when legally necessary and this may lead to the use of the Commission's statutory powers which have recently been enhanced following the abolition of surcharge. We seek to use those powers sparingly and only when we believe it is in the public interest, as we believe that local government wishes to work with us to secure our objectives.

There is an increasing emphasis on accountability and good governance in Scottish public bodies, particularly since the establishment of the Scottish Parliament. We are aware of concern among stakeholders about the potential burden and cost of audit and inspection regimes. We will work closely with all other agencies in the field, including Inspectorates, to co-ordinate our work and avoid duplication and unnecessary burdens. We will hold Audit Scotland to account for the economy, efficiency and effectiveness of the delivery of the audit service and we will consult with local government on any proposals which may affect the cost to them of that service.

We will work with Audit Scotland to take full advantage of the opportunities offered by e-government, both in our own activity and in the field of Scottish local government.

*Developing the contribution of the audit and inspection process to performance assessment and continuous improvement in local authority services under Best Value*

At a national level, we undertake comparative studies of the economy, efficiency and effectiveness of local government. At a local level, auditors report on the performance of councils in response to those studies. The Commission requires the publication of performance information by councils and publishes that information nationally to allow the comparisons of performance as between authorities and of particular authorities year on year.

The Commission will continue to act as an agent of change, producing studies that promote national debate. The selection of topics for study will be based on wide ranging consultation with stakeholders, including the Scottish Parliament, the Executive and local government. Our criteria for selecting topics for studies are:

<b>Importance</b> Areas of high expenditure, employing large numbers of people	<b>Data</b> Areas with reliable and comprehensive data, or where constructing a data base would be cost effective and a good investment
<b>Service impact</b> Areas where there is scope to improve the quality and effectiveness of services directly to the public	<b>Coverage and balance</b> A long term objective of covering all major services
<b>Variability</b> Areas where performance levels and/or delivery systems vary significantly	<b>Cost-effectiveness</b> Areas which will achieve the greatest improvements for the lowest study costs
<b>Practicality</b> Areas with a realistic potential for improvement on a reasonable timescale with the resources available	<b>Added value</b> Areas not researched by other bodies and where the Commission is best placed to undertake studies
<b>Change</b> Areas where change is under way or is seen as important by managers and providers and where obstacles can be overcome	<b>Monitoring</b> Areas where results can be objectively audited and reported

We will have particular regard to the criteria of importance, service impact and variability.

Wherever possible we will demonstrate the effectiveness of our VFM studies by stating the expected savings which could be derived from implementing their findings, and by monitoring and reporting on councils' performance.

We will use the audit process to follow through and report on the extent to which the recommendations of study reports are implemented in councils.

We will use the output of performance information publication to influence the choice of topics and we will work to integrate these products with the Best Value regime.

As the debate on Best Value develops we intend to continue to play a role in facilitating improvement. We will play our part in the consultative process about how to take Best Value forward, and will be happy to discuss the development of the Commission's reporting regime to assist in this area.

## Our performance

If we require audited bodies to demonstrate that they provide Best Value in public expenditure, we must equally demonstrate Best Value in our own activities.

We have published performance information about ourselves in our Annual Reports. In this document we set new objectives, and will in future years measure our performance against them. With Audit Scotland we will set performance criteria for the delivery of these objectives and Audit Scotland will publish measures of their performance against these criteria. In future years we will measure our performance against our objectives and we will require Audit Scotland to set performance measures and report on them.

We will work with Audit Scotland to introduce a new charging regime for local authority audit. Our criteria for that regime will include:

- transparency for audited bodies in relating audit activity to costs
- greater simplicity in setting the “fee for audit”
- incentives for authorities to benefit from a reduction in external audit costs as a result of effective internal controls and sound financial management.

### Reporting

We recognise the importance of reporting our work in a way that makes the outcomes, conclusions and recommendations as accessible as possible. We have a communications strategy which targets our communication efforts to make sure information is presented in a style and volume that is appropriate. We will review that strategy in the light of the new operational circumstances of the Commission to make sure that the staff of Audit Scotland have a clear set of objectives for handling the Commission’s work. We will put in place mechanisms to monitor the effectiveness of our reports and conclusions in achieving change in audited bodies.

### Conclusion

Following the recent constitutional changes the role of the Commission in relation to local government has been affirmed. New and effective structures for the provision of public audit in Scotland have been put in place. We believe that the increased emphasis on accountability and scrutiny under the Scottish Parliament will enhance our work.





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