



Accounts Commission Annual Report 2006/07



Accountability and performance



The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- Securing the external audit, including the audit of Best Value and Community Planning.
- Following up issues of concern identified through the audit, to ensure satisfactory resolutions.
- Carrying out national performance 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 they are required to publish.

The Commission secures the audit of 32 councils and 35 joint boards (including police and fire services). Local authorities spend over £14 billion of public funds a year.

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Welcome

In this report we give an account of our work in the past year and highlight the main issues which have arisen.

It has been a year of continuing development. We have seen the Best Value audit regime increasing its impact on local government, and so benefiting those who pay for and use its services, with nine reports published in the year.

We also held our first public hearing in connection with a Best Value report and subsequently made findings which addressed many of the concerns which were raised about the operation of West Dunbartonshire Council. I believe that the statutory duty of Best Value placed on local authorities, and our audit reports, are a real spur to improvements in corporate governance and thus in service delivery. But we want to do better. So we have launched a review of the Best Value audit process and we will consult with local authorities on the outcome of that review and any proposals for change.

Last year I mentioned the roll-out of the new risk-based approach to financial audit and assurance. This is another development which I believe has had a positive impact and I am particularly pleased that already we see the benefits from aligning the financial audit and Best Value audit processes. Like all public bodies, we have a duty to ensure that our activity is proportionate and the resources are effectively used for the maximum possible benefit. Our joined-up approach to audit activities will, I am sure, secure real benefits for local government in the future.

During the year we published a number of significant studies, ever more the product of joint working with the Auditor General, which reflects how public services are evolving. I would like to give a particular mention to the study on *A Teaching Profession for the 21st Century* which I believe has made a valuable contribution to a vitally important part of the public service.

Local government has responded well to our previous reports but continues to face many significant challenges. The overview report of the local authority audits gave our view of the main areas which councils should be addressing in the period before and after the elections of 3 May. We look forward to working with the new councils at both member and officer level in our complementary roles of holding to account and pursuing improvement.

We are committed to demonstrating the public value of audit on a joined-up basis. We very much welcome the review of regulation, audit, inspection and complaint handling under Professor Crerar, and we will continue to work with the review team with a view to maximising the impact of our work while minimising the burden on public bodies.

This is the last annual report which I will introduce as chair of the Commission. During my period of office I have been impressed by the commitment and effort of our partners in contributing to the success of our work together. I am grateful to ministers and Scottish Executive officials, as well as our partners in local government, including COSLA and SOLACE, for all their support. We in the Commission wish to thank the Auditor General and the staff of Audit Scotland for their commitment and continued service.

On a personal note, I wish to express my appreciation of all the individual Accounts Commission members, past and present, with whom it has been my privilege to work. Their engagement and support have been invaluable during my period of office, and I thank them all.



Alastair MacNish Chair

A handwritten signature in black ink, which appears to read 'Alastair MacNish'.

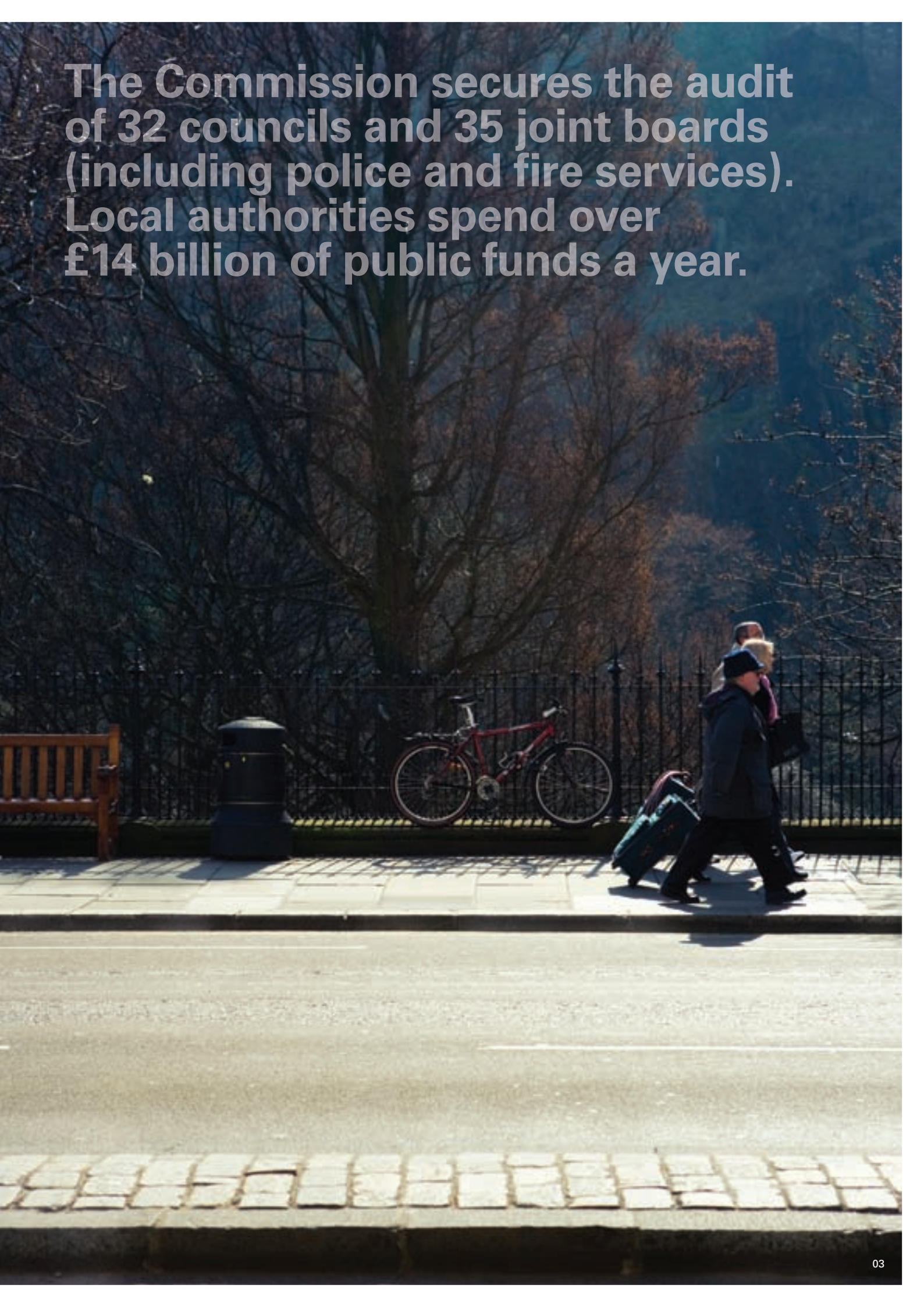
What we do

The Accounts Commission for Scotland was established in 1975 to secure the audit of Scottish local government and to consider reports arising from that audit. The Commission's original functions have developed and its responsibilities are now:

- 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 secure the audit of the performance by local authorities of their Best Value and Community Planning duties
- to consider reports made by the Controller of Audit, to investigate all matters raised and to conduct hearings where appropriate
- to undertake or promote Best Value studies in local government
- to give directions to local authorities on performance information
- to make recommendations to the Scottish Executive and to local authorities, and to impose sanctions on individual officers and members responsible for illegality
- to advise the Scottish Executive on local authority accounting matters.

The Commission, together with the Auditor General for Scotland, is supported in its work by Audit Scotland, which was set up to provide services to both. The performance of Audit Scotland is reported separately in its annual report, which can be found at www.audit-scotland.gov.uk

The Commission secures the audit of 32 councils and 35 joint boards (including police and fire services). Local authorities spend over £14 billion of public funds a year.



98.5%

of audits were completed by the deadline.

£9m

in ongoing and future pension overpayments were highlighted in the National Fraud Initiative report.

£6m

worth of fraud and errors were identified and can now be recovered as a result of the National Fraud Initiative.

Financial stewardship

Modernised audit in local government saw its first full year in 2006/07. The approach is now fully embedded and focuses on the key priorities and risks in councils, ensuring that audit activity is targeted at the issues that really matter to officers, elected members and the public.

Commission target	Performance
Well-planned, well-delivered programme of reports on individual audited bodies	<p>66 of 67 (98.5%) audits were completed by the deadline (95% in 2005/06).</p> <p>57 of 67 (85%) annual reports were completed by the deadline (95% in 2005/06). Deadlines were one month earlier than in previous years.</p>
Overview report highlights the strengths and weaknesses in internal controls and governance; and the material risks in comparison with previous years	<p>Overview report for 2005/06 was published on the 15 February 2007.</p> <p>The report highlights:</p> <ul style="list-style-type: none"> • improvements in services, including council tax collection and waste recycling. <p>The report notes potential risks to the pace of improvement achieved in recent years, particularly:</p> <ul style="list-style-type: none"> • challenges facing councils around the time of the May 2007 elections, with around a third of current councillors likely to stand down • continuing financial pressures, including the cost of equal pay settlements and implementing the single status agreement.
Audit quality reviewed to secure best value, to include more time-efficient methods and approaches to work	<p>Completed. The final report on quality appraisal of 2004/05 audits was considered in November 2006. The report concluded that the overall standard of work was satisfactory.</p>
Successful procurement process	<p>Completed. Final appointments were approved in April 2006.</p>



The Commission welcomed a general picture of improved performance in councils, while recognising that major challenges lie ahead.

Financial stewardship

(continued)

Feedback from councils continues to be positive and the focus of development activity in the last year has shifted to further reduce the burden of audit in local government. The standards of financial stewardship in Scottish local government remains generally sound and the Commission will continue to provide assurance to ministers and the public on the way public money is used in councils.

The Controller of Audit summarised the outcome of the local authority audits for 2005/06 in her overview report published in February 2007. The report provides a useful summary of the main issues in local government and is used to inform our forward work programme.

The Commission made and published findings on the overview report. The Commission welcomed a general picture of improved performance in councils, while recognising that major challenges lie ahead.

For example, the report demonstrated that:

- all councils now have policies setting out their positions on reserves. This follows an increasing focus in recent years by the Commission on the reserves issue
- council tax collection rates have reached an all-time high, exceeding 93 per cent for the first time
- waste recycling rates have reached 24.7 per cent, almost meeting the target of 25 per cent.

However, the Commission also recognised major challenges facing Scottish local government, including:

- substantial financial pressures arising from, for example, equal pay settlements, implementing single status and rising energy costs
- changes to the political governance and strategic management of councils following the May 2007 elections
- continuing pressures relating to changing demographics
- public sector reform and efficient government
- partnership working
- shared services.

While welcoming the overall picture of improvement in performance, the Commission found that councils need to develop far more robust methods for driving improvement and measuring performance.

Joint report with the Auditor General for Scotland

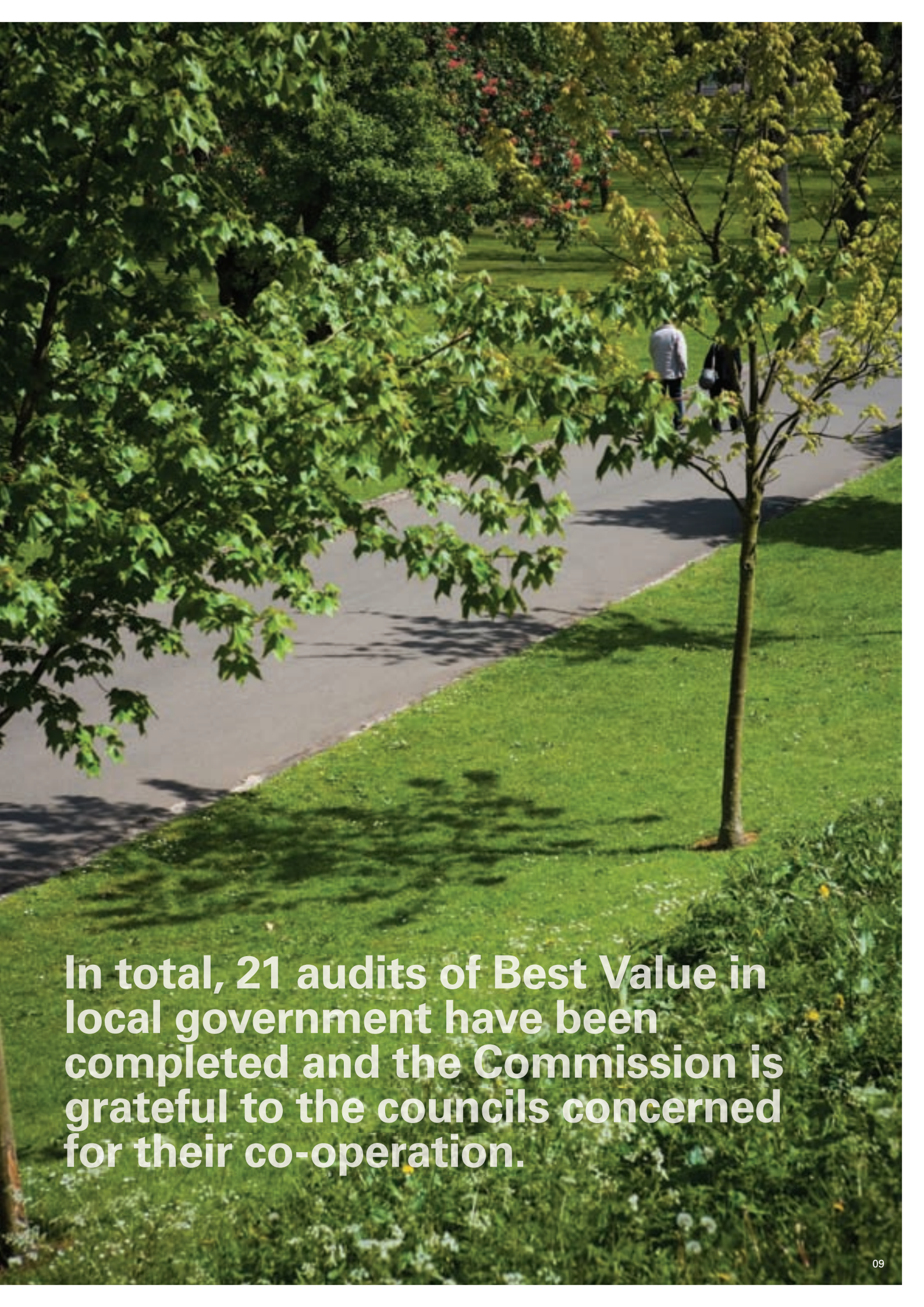
No hiding place: the National Fraud Initiative in Scotland 17/05/2006

Audit Scotland facilitated a national detection exercise under which Scotland's councils worked with other public bodies to identify £15 million worth of fraud and errors. As a result, the bodies could now seek to recover about £6 million and prevent about £9 million in ongoing and future pension overpayments.

Best Value

The Commission has set up formal arrangements for the conduct of Best Value audits. When the audit team have completed their work the Controller of Audit makes a statutory report describing the outcome and her conclusions.

Commission target	Performance
Best Value audit programme delivered on time	There were nine Best Value audits and one overview report presented to the Commission and published. In addition, there was a pilot police authority audit conducted and presented to the Commission. There are five full audits and one progress report ongoing.
Stakeholders recognise accuracy and value of outputs	Follow-up meetings with Commission members reported positive feedback overall. Informal stakeholder feedback has been positive; a more formal assessment is being undertaken as part of the review of the Best Value audits.
Audits result in well-focused improvement plans likely to deliver progress	Audits have resulted in improvement plans being submitted to the Accounts Commission. Follow-up audits have shown that progress is being made. Local audit teams have noted that some improvement plans are proving to be overambitious.
Lessons implemented for future audits	<p>Contained in overview report.</p> <p>Review of the process under way to learn lessons from the experience to date and to start preparing for the next cycle of audits. The review involves public consultation and an independent report which will be published. We will also meet with stakeholders, and with council leaders and chief executives later this year.</p> <p>The audit methodology has developed and improved over the period. Further improvements will be made in response to the findings of the Accounts Commission's review.</p>



In total, 21 audits of Best Value in local government have been completed and the Commission is grateful to the councils concerned for their co-operation.

Best Value

(continued)

The Commission considers each report and makes its findings, which are published. The council must meet to consider the report and findings and make a formal response, usually including an improvement plan.

During 2006/07, the Accounts Commission made findings on nine Best Value audits, including two progress reports on Inverclyde and Shetland Isles Council. The Commission also held, for the first time, a public hearing into a Best Value report, at West Dunbartonshire Council.

In total, 21 audits of Best Value in local government have been completed and the Commission is grateful to the councils concerned for their co-operation. In early 2007, we commissioned an independent review of the Best Value audit regime, the results of which will be available to the Commission in the next few months. This review has involved extensive consultation with local authorities and other stakeholders. The Commission's intention is to consult with local authorities on the outcomes of the review later in 2007.

The Commission continues to allow for flexibility in the programme of Best Value audits, with progress reporting and supporting improvement becoming an increasingly important element of our work.

We have continued to experience some slippage in the Best Value audit programme. There are a number of reasons for this, including the impact of the local government elections, and the extended time required to complete some challenging audits.

In 2006/07, Audit Scotland undertook a pilot Best Value study in a police authority. This demonstrated that there are important questions about measuring the performance of the police service and about accountability in circumstances where responsibility is shared between police authorities, chief constables and ministers. Therefore there are a number of issues about the future conduct of such audits which we intend to discuss with the principal stakeholders before finalising the audit arrangements.

The following section provides a summary of the reports published in 2006/07 on the Audit of Best Value and Community Planning.

The Highland Council

05/04/2006

Highland Council often delivered appropriate and effective solutions to service delivery, but there were areas in which it must make improvements if it is to be in a position to deliver Best Value. In particular, there was a need for stronger corporate direction. There was a need to strengthen management arrangements, particularly on corporate issues.

Renfrewshire Council

06/07/2006

Renfrewshire Council's leadership was strong and effective, understood what needed to be done to deliver Best Value and was making good progress with this. However, there was still much to be done to improve service performance.

Comhairle nan Eilean Siar

17/08/2006

The report said the comhairle had failed to plan for and to introduce Best Value processes and cited a lack of robust performance management arrangements. It did, however, recognise the particular geographical and historical problems it faced, and accepted that there was strong community engagement and active and committed political leadership.

East Ayrshire Council

06/09/2006

This report found East Ayrshire Council was committed to Best Value. It had effective leadership, performed well in a number of activities and could recognise areas for improvement and address them. The council needed to streamline its Best Value processes and ensure continuous improvement throughout its activities.

West Dunbartonshire Council

11/10/2006

This report found the council had made limited progress in Best Value and urgently needed to address its weaknesses. Its leadership was not respected and there was a lack of transparency in decision-making. Staff morale was weak and there were allegations of bullying. The Accounts Commission called a hearing on the basis of this report (see case study).

Shetland Islands Council – progress report

18/01/07

Shetland Islands Council had made a start in addressing the issues raised in the Accounts Commission findings of March 2005. But the Commission remained concerned at the pace and extent of change in delivering improvements.

Inverclyde Council – progress report

20/02/07

The Commission said that Inverclyde Council was moving in the right direction, following its critical report in 2005, and that there was a clear commitment and enthusiasm to improve. Among the actions it had taken was to appoint a new chief executive, set up a new management structure and new political management arrangements, and appoint a corporate management team.

City of Edinburgh Council

27/02/07

The City of Edinburgh Council displayed many of the features of a Best Value council, including many examples of good service delivery. However, some services, such as refuse collection and the processing of planning applications, still needed to improve.

Scottish Borders Council

07/03/07

This report said Scottish Borders Council had made substantial progress in recent years and had done much of the groundwork needed to achieve Best Value. However, there was a gap between its ambitions and its current performance.

Case study

The impact of the West Dunbartonshire Best Value report

In October 2006, the Controller of Audit made a Best Value report on West Dunbartonshire Council, citing major weaknesses in leadership, accountability and morale.

As a result, the Accounts Commission called a hearing to hear more evidence on the report's conclusions. This was the first time that the Commission has called a hearing on a Best Value audit report.

Over 29 and 30 November at Clydebank Town Hall, the Commission heard evidence in public from representatives from Audit Scotland and the council. Others among the 23 witnesses included John McFall MP, Jackie Baillie MSP, councillors, union representatives and community activists.

Following this, the Accounts Commission released its findings in December. It said the council could not currently deliver Best Value. Decisions needed to be more transparent and there were significant deficiencies in corporate decision-making. Staff morale was low, scrutiny was inadequate and senior politicians and officers failed to lead effectively.

The Commission asked for an Improvement Plan from the council and recommended it seek external help. It also said the council should review certain decisions on schools, housing and community facilities.

Local Government Minister Tom McCabe endorsed the findings and demanded urgent remedial action at the council.

Audit Scotland is due to report on progress at the council in November 2007.



Performance audit

The Accounts Commission has the power to conduct studies and issue reports on performance in local government. Increasingly, performance audit reports are produced jointly with the Auditor General, which reflects the changing nature of public service delivery.

Commission target	Performance	
Improved publicity for outputs in current study programme	<p>Four performance reports were published and they all gained significant media coverage.</p> <p>In addition to making the reports available in hard copy and on Audit Scotland's website (12,230 Accounts</p>	<p>Commission reports downloaded in 2006/07), they were made into podcasts. The podcasts provide an aural overview of the reports and also help improve accessibility for members of the public who require additional support.</p>
Impact of previous study programme assessed and lessons learned	<p>Previous study programme has been assessed and the lessons learnt have informed our decisions about the new programme for the forthcoming period until the end of 2008.</p>	<p>The Commission will continue to assess the longer term outcomes of previous studies.</p>
Improvements in impact from future study programme	<p>Four reports published. All gained significant media coverage.</p>	<p>Forthcoming programme will include lessons learnt from previous work.</p>

Four performance reports were published in 2006/07:

Accounts Commission report

A review of service reform in Scottish fire and rescue authorities
01/03/07

This report said Scottish fire and rescue authorities were giving more emphasis to fire prevention and community safety, but it was too early to demonstrate a sustained reduction in risks from fire. New procedures had delivered efficiency savings and freed up staff for community fire safety activities. Authorities needed to do more to evaluate the impact of their community safety work to ensure they were making best use of resources.

Joint reports with the Auditor General for Scotland

A mid-term report: a first stage review of the cost and implementation of the Teachers' Agreement
11/05/07

The Teachers' Agreement brought benefits for the teaching profession, but the lack of performance measures made it difficult to assess the wider impact of the £2.15 billion investment. The report recommended that the Scottish Executive work with other parties to the Agreement to identify and report on a set of comprehensive performance measures.

Community planning: an initial review
16/06/2006

This report said community planning partnerships have made progress but needed to do more to show how their work was improving public services.

It also said the complex remit of many partnerships made it difficult for them to achieve their aims, and called on the Scottish Executive to support community planning more effectively.

Public sector pension schemes in Scotland
20/06/2006

This report on the six main public sector pension schemes in Scotland found that the gap between current funding and the potential liability could be as high as £53 billion. The contributions from both employees and employers would almost certainly increase and there were likely to be demands on future public spending to meet these costs.

Performance information

The Commission discharges its responsibility for performance information in local government through a national Direction.

Commission target	Performance
<p>Improved performance overall (SPI)</p>	<p>PI Direction published November 2006 and PI Guide December 2006.</p> <p>There are 50 SPIs that facilitate a comparison. Between 2003/04 and 2005/06, 22 SPIs show an overall performance improvement of at least 5%. A further five show a deterioration of at least 5%.</p> <p>There was improved service performance in homecare, council tax collection and waste recycling.</p>
<p>Improved and fairer publicity for outputs</p>	<p>As well as publishing the SPI data on Audit Scotland's website, the Commission aimed to provide a broadly rounded picture of council performance in relevant reports where the SPIs are considered in a fuller context. Councils' service performance, including various SPIs, was highlighted in press coverage of Best Value reports and the <i>Overview of the local authority audits 2006</i>.</p>
<p>Reduced burden on councils</p>	<p>For 2005/06, the Commission reduced the number of SPIs to 70 (80 in 2004/05), a move that was welcomed by councils and stakeholders. For 2006/07, the Commission retained the same SPIs for council services in support of the SE-led joint project considering performance management in local authorities, while amending the police SPIs to reflect the developing Scottish Policing Performance Framework.</p>
<p>Improved accessibility for stakeholders</p>	<p>SPI data and Council Profiles are now published on Audit Scotland's website by December each year, helping councils and stakeholders assess performance and benchmark progress. SPIs are also reported in the Best Value audit reports, relevant study reports and the <i>Overview of the local authority audits 2006</i>, thereby ensuring that they are seen in a broader context.</p>

93%

of council tax is now collected on time, an all-time high.

22

Statutory performance indicators show an overall improvement of at least 5%.

24.7%

of waste is recycled, nearly reaching our target of 25%.

Performance information

(continued)

The Commission discharges its responsibility for performance information in local government through a national Direction. Since December 2005, when the information for 2004/05 was published, the Commission has changed the way it reports the performance of Scotland's councils against the statutory performance indicators (SPIs). The new approach has allowed us to make the SPI Data Compendium ('the Compendium') and Council Profiles available on our website by December each year, and improved our ability to meet the needs of our stakeholders, who use the data for assessing performance and benchmarking progress.

The Compendium provides all the SPI data for Scotland's councils, fire brigades and police forces. The Council Profiles give individual profile reports on Scotland's councils, with details of their performance against a range of indicators, and reports comparing councils on a range of key services.

As part of the changed arrangements, we have integrated commentary on a number of key findings from the Compendium into the *Overview of the local authority audits 2006*. Findings from the SPIs are also used in our Best Value audits and national studies.

The Commission is currently engaged in discussions with stakeholders on the future framework for performance monitoring in local government and the role of SPIs within that. We expect the initial results of these discussions to feed into the 2007 Direction.

The SPI Data Compendium and Council Profiles can be found at www.audit-scotland.gov.uk/performance/index.htm

The new approach has allowed us to make the SPI Data Compendium and Council Profiles available on our website by December each year and improved our ability to meet the needs of our stakeholders.





The Commission strives to ensure the highest standards of governance in carrying out its duties.

Governance

The Accounts Commission strives to ensure the highest standards of governance in carrying out its duties.

Commission target	Performance
Audit Scotland held to account for delivery	<p>Audit Scotland's quarterly performance reports submitted in accordance with forward plan and considered by the Commission.</p> <p>Audit Scotland's overall performance is reported publicly in its annual report which can be found at www.audit-scotland.gov.uk</p>
Members have performance assessed	Performance appraisals for outgoing and continuing members were completed.
Improvement in cohesion and effectiveness	Reviewed at an annual strategy seminar and through the members' performance appraisals.

Audit Scotland provides services to the Commission and the Auditor General and the Commission receives regular reports on its performance. Commission meetings occur monthly, with additional meetings to consider Best Value reports as required. In addition, the Financial Audit and Assurance Committee and Performance Audit Committee meet three to four times per year to consider specific aspects of the Commission's functions.

Commission members are also closely involved in Performance studies and individual Best Value audits. Each study is sponsored by two Commission members and two Commissioners attend the Best Value follow-up meetings with councils, along with the secretary and either the chair or deputy chair.

The chair of the Accounts Commission is also the chair of the Audit Scotland Board, and John Baillie, a Commission member, is a board member. The performance of Audit Scotland is reported separately in its annual report, which is available at www.audit-scotland.gov.uk

The Controller of Audit has the statutory function of reporting to the Accounts Commission on the outcome of the audits, including Best Value and Community Planning.

In December the Accounts Commission published its Disability Equality Scheme 2006-09.

The Commission

The chair, deputy chair and members of the Commission are appointed by Scottish ministers following an open recruitment process. They are appointed for a period of three years, normally renewable for a further three-year period. The members of the Commission during 2006/07 were as follows:



Alastair MacNish

Alastair MacNish (chair)
Chair of Audit Scotland Board
Appointed: September 2001
Term ends: September 2007

Chair of Audit Scotland Board. Former chief executive of South Lanarkshire Council. Previously held a number of posts in Strathclyde Regional Council including deputy director of Social Work. Served as chairman of the Leadership Advisory Panel.



Isabelle Low

Isabelle Low (deputy chair)
Appointed: October 2001
Term ends: September 2009

Former senior civil servant, director of the 21st Century Government Group in the Scottish Executive. Former member of the State Hospitals Board for Scotland, member of Scottish Consumer Council and of the Statistics Commission.



Alan Alexander

Alan Alexander
Appointed: October 2002
Term ends: September 2008

Emeritus Professor of Local and Public Management, Strathclyde Business School. Former chairman of Scottish Water. Member of Economic and Social Research Council and chair, Postwatch Scotland. Non-executive chair, Distance Lab Ltd.



John Baillie

John Baillie
Appointed: September 2003
Term ends: September 2010

Visiting professor of Accountancy at Glasgow University. Member of the Reporting Panel of the Competition Commission. Former partner in Scott-Moncrieff and KPMG. Member of Audit Scotland Board.

Owen Clarke
Appointed: September 2003
Term ends: September 2009

Former head of Inland Revenue in Scotland/North of England and former chairman of Scottish Ambulance Service. Currently holds two non-executive posts within the Scottish Executive.



Owen Clarke

Jean Couper
Appointed: October 2002
Term ends: September 2008

Partner in a management consultancy and previously a senior management consultant with Price Waterhouse. Former chairman of Scottish Legal Aid Board and past member of the Police Advisory Board. Director of The Ombudsman Service Ltd and director of K3 Consultants Ltd.



Jean Couper



Ann Faulds

Ann Faulds

Appointed: September 2003
Term ends: September 2009

Partner in Dundas and Wilson, Solicitors.
Former solicitor in Central Regional Council.



Keith Geddes

Keith Geddes

Appointed: October 2002
Term ends: September 2008

Policy director for a consultancy firm, a former leader of Edinburgh and Lothian Regional Councils and former President of COSLA. Deputy chair of Scottish Natural Heritage.



Mahendra Raj

Mahendra Raj

Appointed: October 2001
Term ends: September 2007

Professor of Finance at Aberdeen Business School. Editor of Studies in Economics and Finance. Member of the reporting panel of the Competition Commission for UK. Member of the Scottish Legal Aid Board. Former consultant to the Commonwealth.



Iain Robertson

Iain Robertson

Appointed: September 2003
Term ends: September 2010

Chairman of Scottish Legal Aid Board, Independent member of the DTI Legal Services Board. Chairman Coal Liabilities Strategy Board. Former group strategy director of Anglian Water Group and chief executive of Highlands and Islands Enterprise.



Douglas Sinclair

Douglas Sinclair

Appointed: February 2007
Term ends: September 2009

Former chief executive of Fife Council and chief executive of COSLA. Chair of the Scottish Consumer Council.

Two members left the Commission during the year:

Alyson Leslie

Appointed: September 2003
to 31 January 2007

Research consultant, interim manager. Lay associate, General Medical Council.

Peter McKinlay

Appointed: September 2003
to 30 September 2006

Former senior civil servant, director of Scottish Prisons Service and chief executive of Scottish Homes.

In addition, **Michael Docherty** has been appointed to the Accounts Commission for the period 1 July 2007 to 30 June 2010.

There is a register of Accounts Commission members' interests which is open for inspection in the offices of Audit Scotland and which can be accessed on the website at www.audit-scotland.gov.uk/accounts/acmembers.htm

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