

The Accounts Commission for Scotland

Agenda

Meeting on Thursday 22 August 2013,
in the offices of Audit Scotland, 18 George Street, Edinburgh

The meeting will begin at 10:00 am

1. **Apologies for absence.**
2. **Declarations of interest.**
3. **Decisions on taking business in private:** The Commission will consider whether to take items 10 to 14 in private.
4. **Minute of meeting of 20 June 2013.**
5. **Chair's introduction:** The Chair will report on recent activity and issues of interest to the Commission.
6. **Update report by the Controller of Audit:** The Commission will consider a report from the Controller of Audit on significant recent activity in relation to the audit of local government.
7. **Housing and council tax benefits administration audit activity – annual report:** The Commission will consider a report by the Assistant Auditor General.
8. **Replacement of 1985 Local Authority Accounts Regulations:** The Commission will consider a report by the Assistant Auditor General.
9. **Any other business.**

The following items are proposed to be considered in private:

10. **Independent evaluation of the first three audits of community planning partnerships – draft response by Accounts Commission and Auditor General for Scotland:** The Commission will consider a report by the Controller of Audit.
11. **Performance audit – update: Reshaping Scotland's public sector workforce:** The Commission will consider a report by the Controller of Audit.
12. **Performance audit – project brief: Procurement in local government:** The Commission will consider a report by the Controller of Audit.
13. **Scottish Government consultation: Amending the Schools (Consultation) (Scotland) Act 2010 – draft response by Accounts Commission:** The Commission will consider a report by the Controller of Audit.
14. **Local Government and Regeneration Committee: call for evidence on the Public Bodies (Joint Working) (Scotland) Bill and the Children and Young People (Scotland) Bill – draft response by Accounts Commission and Auditor General for Scotland:** The Commission will consider a report by the Controller of Audit.

The following papers are enclosed for this meeting:

| Agenda Item | Paper number |
|---|---------------------|
| Agenda Item 4: Minutes of the meeting of the Commission of 20 June 2013 | AC.2013.7.1 |
| Agenda Item 6: Report by Controller of Audit | AC.2013.7.2 |
| Agenda Item 7: Report by Assistant Auditor General | AC.2013.7.3 |
| Agenda Item 8: Report by Assistant Auditor General | AC.2013.7.4 |
| Agenda Item 10: Report by Controller of Audit | AC.2013.7.5 |
| Agenda Item 11: Report by Controller of Audit | AC.2013.7.6 |
| Agenda Item 12: Report by Controller of Audit | AC.2013.7.7 |
| Agenda Item 13: Report by Controller of Audit | AC.2013.7.8 |
| Agenda Item 14: Report by Controller of Audit | AC.2013.7.9 |

ACCOUNTS COMMISSION

MEETING 22 AUGUST 2013

MINUTES OF PREVIOUS MEETING

Minutes of the meeting of the Accounts Commission held in the offices of Audit Scotland at 18 George Street, Edinburgh, on Thursday, 20 June 2013, at 10am

PRESENT: John Baillie (Chair)
Michael Ash
Alan Campbell
Sandy Cumming
Colin Duncan
Jim King
Christine May
Bill McQueen
Linda Pollock
Colin Peebles
Douglas Sinclair (Deputy Chair)

IN ATTENDANCE: Fraser McKinlay, Controller of Audit
Russell Frith, Assistant Auditor General [Items 11 and 13]
Paul Reilly, Secretary and Business Manager
Antony Clark, Assistant Director, Performance Audit and Best Value Group (PABV) [Items 9 and 17]
Martin Walker, Assistant Director, PABV [Items 9, 10 and 12]
Carol Calder, Portfolio Manager, PABV, [Items 9 and 10]
Shelagh Stewart, Project Manager, PABV, [Item 10]
Joanna Stevenson, Audit Manager, Audit Strategy [Item 13]
Claire Sweeney, Portfolio Manager, PABV [Item 16]
Richard Scothorne, Director, Rocket Science [Item 17]
Cherri Blissett, Associate Director, Rocket Science [Item 17]
Estelle Williamson, Support Analyst, Corporate Services: Information Services [Item 18]

| <u>Item No</u> | <u>Subject</u> |
|----------------|--|
| 1. | Apologies for absence |
| 2. | Declarations of interest |
| 3. | Decisions on taking business in private |
| 4. | Minutes of meeting of 9 May 2013 |
| 5. | Minutes of meeting of Performance Audit Committee of 30 May 2013 |
| 6. | Minutes of meeting of Financial Audit and Assurance Committee of 30 May 2013 |
| 7. | Chair's introduction |
| 8. | Update report by the Controller of Audit |
| 9. | The Shared Risk Assessment process and Best Value audit work |
| 10. | Statutory performance information 2011/12: an evaluation of how the councils are fulfilling their duties on public performance reporting |
| 11. | Statement of recommended practice – charitable trusts |

12. Discussion paper on the scrutiny of arm's length external organisations
13. Annual Audit Scotland transparency and quality report
14. Accounts Commission business planning cycle
15. Any other business
16. Health and social care integration
17. Independent evaluation of the first audits of community planning partnerships
18. Accounts Commission secure portal

1. Apologies for absence

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

2. Declarations of interest

The following declarations of interest were made:

- Michael Ash, in item 16, as Chair of East Lothian Community Health Partnership and a member of East Lothian Community Planning Partnership.
- Alan Campbell, in item 9, as a former Chief Executive of Aberdeenshire Council.
- Colin Duncan, in item 12, as his wife is a director (non-remunerated) of an organisation which provides support services to South Ayrshire Council for homeless people living in the authority area.
- Christine May, in item 12, as Vice-Chairman of Fife Cultural Trust.

3. Decisions on taking business in private

It was agreed that items 16 to 18 should be taken in private as they contained draft reports and confidential issues.

4. Minutes of meeting of 9 May 2013

The minutes of the meeting of 9 May 2013 were submitted and approved.

5. Minutes of meeting of Performance Audit Committee of 30 May

The minutes of the meeting of the Performance Audit Committee of 30 May were submitted and approved.

6. Minutes of meeting of Financial Audit and Assurance Committee of 30 May

The minutes of the meeting of the Financial Audit and Assurance Committee of 30 May were submitted and approved.

7. Chair's introduction

The Chair reported that:

- On 20 May, he was accompanied by Douglas Sinclair, Alan Campbell, Sandy Cumming and Christine May to a meeting with representatives of Aberdeen's community planning partnership to discuss the audit of community planning in Aberdeen, which was published on 20 March 2013.
- On 22 May, he attended a conference for public bodies, organised by the Scottish Government, entitled 'Leading Public Sector Reform'.
- Also on 22 May, he attended a workshop convened by the University of Aberdeen exploring the roles of chair and chief executives in the governance of public bodies.
- On 23 May, he attended a meeting of the Audit Scotland Board.
- On 28 May, members attended a workshop on the Rolling Performance Audit Programme, outputs from which would be considered at a forthcoming meeting of the Commission.
- On 29 May, he gave evidence to the Local Government and Regeneration Committee of the Scottish Parliament on the Commission's overview of local government, which was published on 28 March 2013.
- Also on 29 May, he, along with the Auditor General, briefed the Parliament's Public Audit Committee on the Commission's joint report with the Auditor General *Managing early departures from the Scottish public sector*.
- On 6 June he attended meetings of Audit Scotland's Audit Committee and Board.
- Also on 6 June, he chaired the Commission's meeting with strategic scrutiny bodies, also attended by Douglas Sinclair. At that meeting, the group considered two briefings, firstly from the Scottish Government on the progress with the proposed integration of health and social care, and secondly from Audit Scotland on the public inquiry into Mid-Staffordshire NHS Foundation Trust, which the Commission itself had considered at previous meetings.
- On 12 June, he briefed the Parliament's Public Audit Committee on the local government overview.
- On 13 June, he was accompanied by Jim King, Colin Peebles and Graham Sharp to a meeting with representatives of North Ayrshire's community planning partnership to discuss the audit of community planning in North Ayrshire, which was published on 20 March 2013.
- Also on 13 June, Douglas Sinclair was accompanied by Michael Ash, Bill McQueen and Linda Pollock to a meeting with representatives of Scottish Borders community planning partnership to discuss the audit of community planning in Scottish Borders, which was published on 20 March 2013.
- He was aware of advice from the Scottish Government that an advertisement for the recruitment of a new Chair and a new member from November 2013 would be published in July 2013.

It was agreed that the Chair write to the community planning partnerships which were the subject of the recent visits, offering them the Commission's reflections on the meetings.

Michael Ash reported on a conference which he attended entitled 'Reducing Health Inequalities: Creating a Healthier and Fairer Scotland', on 29 May 2013.

8. Update report by the Controller of Audit

The Commission considered a report by the Controller of Audit providing an update on significant recent activity in relation to the audit of local government.

During discussion the Commission:

- In relation to paragraph 6, agreed that the Controller of Audit keep the Commission updated on progress with proposals of the Local Government Association to close its knowledge hub.

Action: Controller of Audit

- In relation to paragraph 7, noted advice from the Controller of Audit that he anticipated that the outputs from the quality assurance of single outcome agreements would be in the public domain, and he would keep the Commission updated on progress.
- In relation to paragraph 8, noted advice from the Controller of Audit that he would investigate links between the Scottish Local Authorities Economic Development Indicators Framework and the SOLACE national benchmarking framework.
- In relation to paragraph 15, noted advice from the Controller of Audit that imminently he would be meeting the Comptroller of Audit and visiting the National Audit Office.
- In relation to paragraph 16, noted advice from the Controller of Audit that he would discuss with the National Audit Office its approach to calculating the financial impact of its work.

Thereafter the Commission agreed to note the report.

9. The Shared Risk Assessment process and Best Value audit work

The Commission considered a report by the Controller of Audit providing an update on Best Value audit activity that flows from the shared risk assessment process.

The Commission:

- Agreed that more consistent phraseology be used in such future reports in describing performance and agreed audit work.
- Agreed that the Controller of Audit consider how to give public performance reporting a higher profile in the ongoing shared risk assessment process.
- Agreed that the Controller of Audit make a clearer link in such future reports to his analysis of councils' performance against requirements for public performance reporting (which is subject of another paper at today's meeting).
- Noted advice from the Controller of Audit that an ongoing review of the shared risk assessment process, being led by the Strategic Scrutiny Group (made up of the Commission and its strategic scrutiny partners), would consider the relationship between the audit of community planning partnerships, the joining up of scrutiny, and the shared risk assessment process.

- Agreed that the Controller of Audit consider how to ensure the effective involvement of stakeholders in his review of auditing of Best Value.
- Agreed that the Commission be kept informed regularly of Best Value audit activity flowing from the shared risk assessment process.
- Agreed that a schematic representation of the shared risk assessment and associated Best Value process be produced.
- Agreed that the information in the report be included on the proposed Accounts Commission secure portal.
- Noted the key audit findings from the three pieces of targeted Best Value audit work which arose from last year's shared risk assessment process.
- Endorsed the proposed Best Value audit activity arising from the recent shared risk assessment refresh process, in the context of the planned review of the local government Best Value audit and the advent of the community planning partnership audit.
- Agreed that in future the reporting of all Best Value audit work should be either through the annual report to members and the Controller of Audit, or through statutory reporting from the Controller of Audit to the Commission, or both.

10. Statutory performance information 2011/12: an evaluation of how councils are fulfilling their duties on public performance reporting

The Commission considered a report by the Controller of Audit providing an update on councils' approach to public performance reporting (PPR) and how well they are implementing obligations in relation to PPR as set out in the Commission's statutory performance information (SPI) Direction.

The Commission:

- Noted the progress councils have made in fulfilling their obligations for public performance reporting as set out in the SPI Direction.
- Noted with disappointment those areas where there remains room for improvement.
- To this end, noted that Audit Scotland will follow up with auditors and appropriate stakeholders.
- Further to this end, agreed that the Chair write to all councils (leaders, chief executives and chairs of audit committees) urging progress.
- Further to this end, agreed that Audit Scotland liaise with the Improvement Service to explore ways to support councils.
- Further to this end, that the Commission articulate its concerns in forthcoming meetings with the Convention for Scottish Local Authorities and the Society of Local Authority Chief Executives Scotland.
- Agreed that the Controller of Audit consider how to identify good practice in the public reporting of performance across the public sector.
- Agreed that public performance reporting be a subject for a future report in the *How Councils Work* series.

Action:

11. Statement of recommended practice – charitable trusts

The Commission considered a report by the Assistant Auditor General outlining the current and potential future audit arrangements for registered charities administered by Scottish local authorities.

During discussion, the Commission noted advice from the Assistant Auditor General that some local authorities have been rationalising the number of registered charities that they administer.

The Commission:

- In line with its duty to appoint auditors to those bodies defined by Section 106 of the Local Government (Scotland) Act, agreed to formally extend the appointment of each local authority auditor to cover all charities.
- Agreed that the Assistant Auditor General report back on any issues arising from this action.
- Agreed that it would be desirable in the longer term for local authority charities to be subject to the same scrutiny burden as their private sector equivalent.
- To this end, having noted that such an aim would require a change in legislation, agreed that the Assistant Auditor General explore with relevant parties, including the Office of the Scottish Charity Regulator, how to make a proposal for such a change.

Actions: Assistant Auditor General

12. Discussion paper on the scrutiny of arm's length external organisations

The Commission considered a report by the Controller of Audit providing contextual information and identifying issues relating to local authority arm's length external organisations (ALEOs) and outlining potential next steps for the Commission to take.

During discussion, the Commission:

- Agreed that more detailed information on organisational structure and resources be produced for a sample of around 15 different ALEOs.
- Agreed that more information be provided on the size and budget of ALEOs, notwithstanding the advice of the Controller of Audit that more discussion would be needed on what constitutes an ALEO.
- To this end, agreed to delegate to the Chair and Deputy Chair to discuss further with the Controller of Audit the information and timing of information to be provided to the Commission to allow it to give further consideration to future steps.

Actions: Controller of Audit

13. Annual Audit Scotland transparency and quality report

The Commission considered a report by the Assistant Auditor General advising of the quality of audit services delivered on its behalf by Audit Scotland and the professional firms. The report included information on the Audit Scotland Quality Framework, within which the Assistant Auditor General had based his analysis.

During discussion, the Commission:

- Noted advice from the Assistant Auditor General in relation to improvement targets arising from internal quality monitoring reviews of audits.
- Agreed that such information feature in future transparency and quality reports.

Action: Assistant Auditor General

Thereafter the Commission agreed to note the report.

14. Accounts Commission business planning cycle

The Commission considered a report by the Secretary and Business Manager proposing a business cycle for the Commission.

The Commission agreed to implement the business planning cycle with immediate effect.

15. Any other business

The Commission noted that there was no other business to be considered.

16. Health and social care integration [in private]

The Commission agreed that this item be held in private to allow it to consider actions arising therefrom.

The Commission considered a verbal briefing by the Controller of Audit on the Scottish Government's Integration of Adult Health & Social Care Integration Bill.

Following discussion, the Commission:

- Agreed that further information on the Bill be circulated to members.

Action: Secretary and Business Manager

- Noted that the Assistant Auditor General was investigating the implications of the Bill for audit, and would report to the Commission in this regard in due course.

17. Independent evaluation of the first audits of community planning partnerships [in private]

The Commission agreed that this item be held in private to allow it to consider actions arising from a report.

The Commission considered a report of an independent evaluation of the first three audits of community planning partnerships conducted on behalf of Audit Scotland by Rocket Science.

The Chair welcomed Richard Scothorne, Director, and Cherri Blissett, Associate Director, to the meeting. Mr Scothorne and Ms Blissett then undertook a presentation summarising the report and took questions from Commission members.

Following discussion, the Commission:

- Noted the report.
- In relation to the recommendations in the report on operational matters, agreed to delegate taking forward these recommendations to Audit Scotland in consultation with the Community Planning Partnership Steering Group (which is chaired by the chair of the Accounts Commission and consisting of Commission representatives, the Auditor General and Audit Scotland representatives).
- Agreed to delegate authority to the Chair and Deputy Chair to agree with the Auditor General for Scotland a draft joint response to the report for publication on the Audit Scotland and Accounts Commission websites.
- Further in this regard, agreed that this draft report be considered at the next meeting.
- Agreed to delegate authority to the Chair and Deputy Chair to determine how best to communicate to key stakeholders how the Commission has taken on board and reflected the constructive evaluation feedback in any revised approach to future CPP audits.

The Chair thanked Mr Scothorne and Ms Blissett for their presentation and for attending the meeting.

18. Accounts Commission secure portal [in private]

The Commission agreed that this item be held in private to allow it to view a demonstration of a proposed secure portal site.

The Commission considered a report by the Secretary and Business Manager introducing a secure portal site from which members could remotely access Audit Scotland information relevant to its business.

Paul Reilly and Estelle Williamson undertook a presentation demonstrating the workings of the proposed secure portal site.

Following discussion, the Commission agreed:

- To launch the site at the start of July 2013.
- To note advice from the Secretary and Business Manager on arrangements being developed by Audit Scotland to allow access to management and other information through personal electronic devices.

ACCOUNTS COMMISSION

MEETING 22 AUGUST 2013

REPORT BY CONTROLLER OF AUDIT

UPDATE REPORT

Introduction

1. The purpose of this report is to provide a regular update to the Commission on significant recent activity in relation to the audit of local government.
2. It is intended to complement the intelligence reports to the Financial Audit and Assurance Committee, which provide a more detailed update on issues arising in local government.
3. The most recent such report was at the Committee meeting of 30 May 2013.

Local government issues

4. The deadline for sign off of local authority accounts is 30 September. Current information from auditors suggests that all audits will be completed on time.

Scottish Government / CoSLA

5. Ministers and COSLA agreed a collaborative cross-sector approach to the quality assurance (QA) of draft Single Outcome Agreements (SOAs) aimed at:
 - giving Ministers and the Leader of each Council confidence that the SOA is as well developed as possible and sets the course for effective partnership working and on-going improvements in the joint delivery of outcomes
 - giving each CPP useful feedback and constructive challenge to help it develop and agree its SOA and undertake improvement thereafter
 - identifying steps that will require action from the Scottish Government and its agencies, as well as local government, if CPPs are to be able to develop and improve.
6. SOA QA panels of senior leaders from across the public sector have now met with each CPP and Location Director to discuss draft SOAs and identify key strengths and areas for improvement. The QA feedback was shared with Scottish Ministers and local Council Leaders who have subsequently signed-off all 32 SOAs. They have written to CPP chairs, Council Chief Executives, Community Planning Managers and Location Directors confirming the outcome of the QA process.
7. Scotland's Chief Statistician has published information on the number of people benefiting from free personal care and free nursing care (FPNC) in Scotland and how much local authorities spend on personal care services. The report shows that local authorities spend on FPNC to self-funding residents in care homes has increased from £86 million in 2003-04 to £111 million in 2011-12. In the same period spending on

personal care services to older people in their own homes has also risen, from £133 million in 2003-04 to £347 million in 2011-12. This reflects:

- an increasing proportion of older people are being cared for at home, rather than in hospital or care homes
 - increasingly home care workers are providing personal care services rather than domestic services
 - people living at home have increasing levels of need, reflecting the fact that people with high care needs are being supported to remain at home for longer.
8. A £264 million project to deliver high speed broadband across Scotland is being funded by Scottish local authorities, the Scottish Government and the UK Government's Broadband Delivery UK task force and will be delivered by BT. This investment is in addition to the £146 million investment announced earlier this year for the Highlands and Islands area. It is expected to reduce differences in broadband speeds between urban and rural areas across Scotland.

Current activity in local government

9. COSLA has published the results of a survey of councils on the impact of housing benefit changes. Responses from 20 of the 26 councils that still retain their own housing stock suggested that 80% of councils had received 50% or less of rent due to be collected from tenants in the first 100 days after the changes. The survey indicated that debts were up £2 million on the same month the previous year, with COSLA warning that if the trend continued, arrears could reach £25 million a year.
10. There were a number of media reports during July concerning Riverside Inverclyde (RI). RI is an Urban Regeneration Company limited by guarantee, with charitable status. RI's two member organisations, Inverclyde Council and Scottish Enterprise, commissioned a mid-term review from independent consultants which was considered in private by the Council's Environment and Regeneration Committee on 25 June. The report concluded that there have been some real achievements in the regeneration of the area. It also recognises that there are areas for improvement and some targets, for example in relation to job creation, have not been met. The report recommends a new approach to regeneration in the area, reflecting the different economic conditions in which RI is now operating. My understanding is that just under £60 million of public money has been spent since RI's creation in 2006. The mid term review report was also considered by a special meeting of the RI Board on 7 August. The appointed auditor and my officers are in contact with the council and are monitoring developments closely. I will consider what, if any, audit work may be appropriate in light of the outcome of the special meeting of the Board.
11. Dundee is one of four cities to have been shortlisted for European City of Culture in 2017. The four were chosen from a longer list of eleven potential contenders. Aberdeen was unsuccessful in its bid to be shortlisted.
12. Scottish Borders Council has won an appeal against a £250,000 fine imposed by the Information Commissioner's Office. An Information Tribunal concluded that there were insufficient grounds to justify the penalty.

13. South Lanarkshire Council has lost a Freedom of Information case. The Court of Session has ruled that it should have provided details of different pay scales for men and women workers. The council reportedly faces a legal bill of up to £200,000.

People update

14. Steve Grimmond has been appointed as Chief Executive of Fife Council. He was previously Executive Director, Environment, Enterprise & Communities at the council.
15. Sue Bruce, Chief Executive of City of Edinburgh Council, announced in July that she would be taking on a non-executive director role with the energy company Scottish and Southern Energy (SSE). She has indicated that she will be giving part of her SSE salary to charities which benefit the city and would be carrying out her new duties in her own time.

Audit Scotland structure update

16. As the Commission is aware, Barbara Hurst, formerly Director of Performance Audit, has now retired. We have taken the opportunity to combine the Performance Audit and Best Value and Scrutiny Improvement groups under my leadership, with an interim title of Performance Audit and Best Value (PABV). The new group was launched in June and work is now well underway to merge the two predecessor teams. The overall aim is to provide a more cohesive programme of audit work for the Accounts Commission and Auditor General, utilising more effectively the full range of skills and expertise at our disposal.

The key benefits of this change will be:

- the development and delivery of a more coherent and better managed programme of work for the Accounts Commission and AGS (and Scottish Parliament);
- maximising the respective skills and expertise of the two groups
- making better use of data and intelligence
- working more efficiently
- making the most of the full range of Audit Scotland's activities and strengthening the links between local and national audit work.

We have now agreed lead roles for the five Assistant Directors in the new group as follows:

- Performance auditing – Angela Canning and Angela Cullen will lead the development and delivery of our performance audit work across all sectors
- Best value auditing – Ronnie Nicol will take on responsibility for delivering the existing BV audit work in local government. He will also lead the ongoing development of the BV audit in councils and consider our approach to BV in other sectors
- Partnership auditing and scrutiny improvement – Antony Clark will lead our work on partnerships, including the next phase of CPP audits. He will continue to lead

our work on strategic scrutiny improvement and the shared risk assessment process

- Responding to issues of public concern – Martin Walker will lead a new function, with responsibility for investigating issues of concern raised by members of the public and elected politicians, whistleblowing, and statutory reporting.

Other Audit Agencies

17. On 22 July the Competition Commission published its [interim decision](#) on the proposed remedies following their investigation into the audit market. This included a proposal that all FTSE 350 companies should re-tender audit engagements every five years. We propose to bring a fuller paper to the Accounts Commission later this year once the Competition Commission has finalised its decisions.

National Audit Office and the Audit Commission

18. On 21 June the NAO published a [report](#) on confidentiality clauses and special severance payments. The report concluded that there is a lack of transparency, consistency and accountability in the use of compromise agreements in the public sector. Commission members will recall that we published a joint AGS/Accounts Commission report on early departures earlier this year.

19. The UK government has announced that the Cabinet Office will take on responsibility for the National Fraud Initiative (NFI) once the Audit Commission is abolished in 2015.

Conclusion

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

**Fraser McKinlay
Controller of Audit
14 August 2013**

ACCOUNTS COMMISSION

MEETING 22 AUGUST 2013

REPORT BY ASSISTANT AUDITOR GENERAL

BENEFITS PERFORMANCE AUDIT ANNUAL REPORT

Purpose

1. The purpose of this report is to advise the Commission of the outcome of Audit Scotland's benefits performance audit work during 2012/13. It also provides an update on Scottish councils' preparedness for welfare reform.

Background

2. In April 2008, the Accounts Commission took over the responsibility for auditing housing and council tax services in Scotland from the Benefit Fraud Inspectorate. This work is known as the benefits performance audit. Its main objective is to help councils improve their benefits services but it also holds councils to account for any failing services. The audit has two phases:
 - a risk assessment phase that identifies risks to continuous improvement
 - a focused audit phase that examines the service, or parts of it in more detail if a council is unable, or unwilling, to reduce key risks identified.
3. Risk assessment reports are provided to council Chief Executives who prepare an improvement plan detailing the actions with associated timescales that they will take to address identified risks.
4. Ten risk assessments were completed during 2012/13. In addition, a follow up of progress made by Aberdeenshire Council was carried out following its focused audit in 2011/12. The progress report was presented to the Accounts Commission in August 2012.
5. Following receipt and review of council improvement plans, progress reports were requested from 9 councils.
6. A review of housing benefit overpayments was undertaken comparing performance in Scotland against English and Welsh councils in respect of the identification and recovery of overpayments.

Recommendation

7. The Commission is invited to note the outcomes of the benefits performance audit work from April 2012 to March 2013.

Russell Frith
Assistant Auditor General
14 August 2013

Benefits Performance Audit Annual Update 2012/13



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

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Purpose

1. In April 2008, the Accounts Commission took over the responsibility for auditing housing and council tax benefit (HB/CTB) services in Scotland from the Benefit Fraud Inspectorate. This work is known as the benefits performance audit and this paper invites the Accounts Commission to note the outcome of Audit Scotland's benefits performance audit work for 2012/13.

Summary

2. Audit Scotland has found that well managed benefits services can deliver high quality services for claimants in a time of increasing workloads, reduced funding and uncertainty.
3. During 2012/13 we identified 129 risks to continuous improvement at ten councils with councils accepting all of these risks. We found 85% of risks identified at previous risk assessments had been either fully or partially implemented. Council satisfaction with the audit process is high at 89%.
4. Looking forward, UK Government welfare reforms are having a significant impact on councils. Universal Credit (UC), which is planned to be rolled out progressively between 2013 and 2017, will end the devolved administration of HB to councils. CTB was replaced in April 2013 by the Scottish Council Tax Reduction Scheme. Going forward there remains uncertainty around the timing of the migration of HB to UC and the on-going role councils will play in the delivery of UC.

Background

5. In Scotland, one in four households received financial support to help pay for their rent or council tax during 2012/13 in the form of means tested HB/CTB. Scottish councils paid out £2.17 billion in HB/CTB awards in 2012/13 and received £47.6 million in funding from the Department for Work and Pensions (DWP) to deliver HB/CTB services. This consisted of £42.3 million in administration grant, an additional £4.2 million of funding due to the recession and £1.1 million to help meet the costs of implementing welfare reform changes. This represents a 5.3% increase from 2011/12 in HB/CTB awards paid out and a 4.8% reduction in overall funding.
6. The main objective of the benefits performance audit is to help councils improve their benefits services but it also holds councils to account for any failing services. The audit has two phases:
 - a risk assessment phase that identifies risks to continuous improvement

- a focused audit phase that examines the service, or parts of it in more detail if a council is unable, or unwilling to reduce key risks identified.
7. Risk assessment reports are provided to council Chief Executives who are invited to prepare an improvement plan detailing the actions with associated timescales that they will take to address identified risks. These reports are also copied to the DWP to provide assurances over how Scottish councils are performing.
 8. When a focused audit is required the Controller of Audit prepares a report to the Accounts Commission. Focused audit reports are provided to council Chief Executives and are also copied to the DWP and published on the Audit Scotland website.

Work carried out during 2012/13

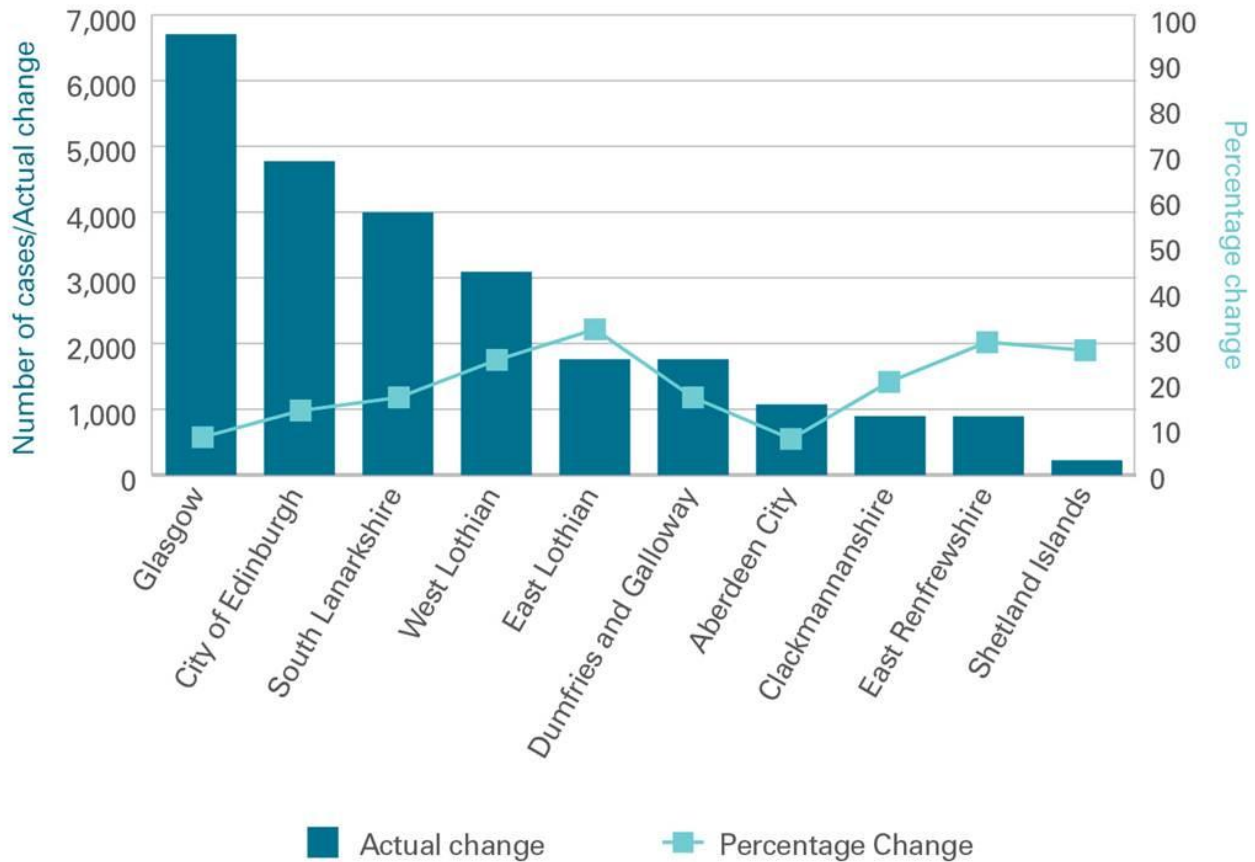
9. The current round of risk assessments commenced in 2010/11 and continued through 2012/13. A risk based model was used to ensure the councils representing what we considered to be the highest risk were assessed first.
10. Appendix A contains the details of the ten risk assessments which were planned and completed during 2012/13. In addition, a follow up of progress made by Aberdeenshire Council was carried out following its focused audit in 2011/12. The progress report was presented to the Accounts Commission in August 2012.
11. Following receipt and review of council improvement plans to address the risks identified in our risk assessment reports, progress reports were requested from 9 councils during 2012/13. The details are in appendix B.
12. To date, progress reports have been received from all councils with the exception of Aberdeen City Council which is due to be received in October 2013. Action taken to address risks was considered to be satisfactory in all updates received to date. However, due to the speed of processing performance only recently improving in the City of Edinburgh Council, a further update was requested by the end of July 2013 to ensure performance had been sustained. This update has been received as is currently being reviewed.
13. In line with Audit Scotland's objective of identifying and sharing good practices, a review of housing benefit overpayments was undertaken in January 2013 comparing performance in Scotland against English and Welsh councils in respect of the identification and recovery of overpayments. As well as identifying areas of concern, the review identified and shared areas of good practice with councils to help encourage councils to review and improve the quality of their processes. The key messages from the review were that :
 - overpayments outstanding in Scottish councils have risen by 31% from £72.1 million in 2009/10 to £94.7 million in 2011/12

- the value of overpayments identified each year by Scottish councils has increased by 5% from £49.5 million in 2009/10 to £51.8 million in 2011/12
 - the value of overpayments recovered each year by Scottish councils has increased by 3.5% from £34.3 million in 2009/10 to £35.5 million in 2011/12
 - omissions from DWP published datasets made meaningful analysis and benchmarking difficult.
14. In May 2013, a welfare reform update was prepared which included details of Scottish councils' preparedness for the upcoming changes. The report was presented to the Accounts Commission before being sent to the Chief Executives of all Scottish councils.

Key issues from 2012/13 Risk Assessments

Outcomes of the risk assessments

15. Audit Scotland identified 129 risks to continuous improvement (199 in 2011/12) in the ten risk assessments carried out in 2012/13. Our work identified that 85% (77% in 2011/12) of previously identified risks had been either fully or partially implemented
16. Improvement plans have been received from all councils visited.
17. Analysis of the submitted improvement plans identified that:
- 100% (100% in 2011/12) of the identified risks were fully accepted by councils
 - 27% (35/129) of these risks were carried forward from previous risk assessments.
18. Councils have offered the current economic downturn and associated caseload increases, along with budgetary and welfare reform pressures as reasons why not all agreed actions have been implemented.
19. Between November 2008 and February 2013, there has been a 15.6% (65,623) increase in HB claims in Scotland. The exhibit below details the caseload increase for the ten councils we visited.

Exhibit 1: Change in caseload between November 2008 and February 2013

20. Some councils have performed well. South Lanarkshire Council had taken action to either fully or partially implement all of the agreed actions from their first round risk assessment. Only two risks were identified during Dumfries and Galloway Council's risk assessment in March 2013 against an overall average of 13 risks for the councils visited in 2012/13.
21. It is clear from our risk assessments that where benefits services are well managed they can deliver value for money and high quality services for claimants in difficult economic circumstances although the availability of sufficient experienced and skilled staff appears to have a significant affect on performance.

Good practices identified

22. A number of innovative initiatives and areas of good practice have been identified in Scottish benefit services during 2012/13. Many of these can be tracked back to the actions taken by councils to address the risks identified in our first round of risk assessments. The initiatives and areas of good practice identified during our visits include:

- Aberdeenshire Council were presenting comprehensive performance updates including comparison against targets, previous years and other Scottish local authorities to members.
- Glasgow City Council's Revenues and Benefits division's close working relationships with key stakeholders have assisted customers. Initiatives include:
 - working with the Registrar's department to ensure that recently bereaved customers are receiving the correct amount of benefit and discounts
 - publicising and providing a tailored service with additional support to first time claimants
 - the *Long Term Conditions and MacMillan Service*, a free and confidential money advice and support service.
- Glasgow City Council has DWP fraud investigation officers co-located within the council counter-fraud team and working relationships with the DWP officers and other stakeholders such as the Police have facilitated joint sanctions.
- East Lothian Council introduced a risk-based verification approach to processing new claims which helped maintain claims processing performance during a period when the service was under resourced.
- The City of Edinburgh Council's benefits service achieved Customer Service Excellence accreditation in October 2010. The service routinely consults customers and publishes its performance against customer service standards.
- The City of Edinburgh Council has developed a comprehensive Quality Assurance Framework focusing on risk to help ensure quality and accuracy across benefits administration.
- Dumfries and Galloway, South Lanarkshire and the City of Edinburgh Councils have performance management frameworks in place which include the measurement of individual benefits processor's performance as well as team and service performance. This has been effective in improving performance and allowing the service to identify and take action where officers are in need of support.
- Scottish councils have been participating in various working groups at a national level reviewing welfare reforms and their implications. These groups include the Benefits Software Suppliers Group and the DWP's Single Fraud and Investigation Service (SFIS). In addition a number of Scottish councils we visited during 2012/13 are involved in piloting various aspects of welfare reform. These include:
 - The benefits service in City of Edinburgh Council is working with Dunedin Canmore Housing Association trialling the direct payment of HB to tenants
 - Glasgow City Council is piloting the DWP's SFIS where a fraud investigation team has been established consisting of staff from the council, DWP and HM Revenue and Customs (HMRC) with the authority to investigate and sanction all benefit and tax credit offences

- South Lanarkshire Council is taking part in the Scottish Government's local authority UC pilot looking at developing online facilities at local offices to assist and support customers who do not have access to the internet
- Dumfries and Galloway Council is involved in one of the UK wide local authority led pilots supporting digital inclusion. The benefits service is also working with the council's employability and skills service to provide financial education and support.

Areas for improvement

23. Audit Scotland has identified the following main areas of risk during 2012/13:

- weaknesses in the analysis, accurate recording and monitoring of overpayments raised and subsequently recovered
- a significant rise in the value of overpayments outstanding and a lack of targets being in place for the recovery of overpayments
- accuracy checks not being effectively completed and limited recording and analysis of the outcomes to help identify learning and deliver improvement
- a lack of challenging targets for counter-fraud activity and a decline in counter-fraud performance
- a lack of publicity of successful counter-fraud outcomes
- a decline in customer service performance
- councils not setting targets and reporting performance on all aspects of the service
- performance being adversely affected during periods of change such as the restructuring of benefits services
- limited recording and analysis of outcomes to enable councils to improve the effectiveness of intervention activity
- experienced staff leaving through voluntary early release schemes and benefits services having difficulty in filling vacant positions.

Welfare reform

24. Our welfare reform update identified that all councils had identified welfare reform as a risk and had carried out a significant amount of work to plan for and mitigate against the impact of the changes. All councils were found to have information on the financial impact of welfare reform and in some cases detailed financial analysis of the impact in respect of each of the welfare changes had been undertaken.

25. From the first round of assessments we are seeing improvements in communication with stakeholders and partnership working. All councils are acutely aware of the need to communicate welfare reform changes to stakeholders such as benefit recipients, landlords, community planning partners and third sector agencies. A number of different communication channels have been used such as local forums, seminars, training and awareness sessions,

information helplines, and press releases. A significant amount of communication with benefit recipients has also taken place with regards to future reforms such as UC and assistance with financial planning and budgeting.

26. Despite some tight deadlines for the introduction of various welfare reforms, councils are working much more with partners such as COSLA, the Scottish Government, the DWP and each other mainly to help deliver the changes.
27. Uncertainties remain which make it difficult for councils to plan effectively. In particular, there is uncertainty in respect of the migration timeline from HB to UC, and the level of support councils are expected to provide to customers in the future.
28. During 2012/13, councils have successfully implemented systems to deliver the Scottish Welfare Fund and the new Scottish Council Tax Reduction Scheme despite many challenges.

Stakeholder feedback

29. Assessment questionnaires are issued after each risk assessment. The questions are designed to gain assurances over whether the audit methodology and documentation are effective and to look for areas which can be improved. During 2012/13, we received replies from ten councils. Council satisfaction with the audit process is high at 89% (88% in 2011/12).
30. Overall the responses were positive and provided assurance that the audit methodology is fit for purpose and proportionate. The following comments help illustrate these responses:
 - Communication was professional throughout with the on site visit carried out in an effective and efficient way focusing only on areas where further clarification was required
 - The auditor's manner was exemplary
 - There were no surprises and it was carried out in a professional manner
 - I was allowed an extension to the deadline which was appreciated
 - I felt at ease and had the opportunity to ask stupid questions.
31. Whilst the majority of the responses were positive not every council found the process to be so. Particular concerns raised were:
 - The completion of the self-assessment was troublesome in terms of everything else required of the team
 - The benefits service had undergone a major change and was in a period of recovery. It was felt that the timing of the audit did not provide a "normal view" of performance
 - The timescale for the self-assessment was fairly tight due to the amount of supporting evidence and indexing of the information
 - The expectation of continuous improvement had not altered despite the changes instigated by the council, DWP and an overall increase in workload resulting from the economic climate.
32. Audit Scotland has taken these comments on board in the planning and delivery of risk assessments. Specifically, we have revised our processes, have increased the time for

councils to complete self-assessments, and are now focusing more on the effectiveness of services in meeting national and local priorities, business planning and reporting, and delivering outcomes.

33. We will also continue to monitor our approach going forward in conjunction with the DWP.

Appendix A – The 2012/13 risk assessment programme

| Date on site | Council | Date reported |
|---------------------|--|---|
| May 2012 | Aberdeenshire Council- progress report following focused audit | August 2012- report to the Accounts Commission |
| April 2012 | Glasgow City Council | July 2012 |
| June 2012 | West Lothian Council | September 2012 |
| July 2012 | City of Edinburgh Council | October 2012 |
| August 2012 | Shetland Islands Council | November 2012 |
| September 2012 | Aberdeen City Council | January 2013 |
| October 2012 | Clackmannanshire Council | January 2013 |
| November 2012 | East Renfrewshire Council | February 2013 |
| January 2013 | South Lanarkshire Council | March 2013 |
| February 2013 | East Lothian Council | May 2013 |
| March 2013 | Dumfries & Galloway Council | May 2013 |

Appendix B – Progress reports requested during 2012/13

| Council | Date progress report received or expected | Conclusion on action taken to address risks |
|-----------------------------|---|--|
| Midlothian Council | December 2012 & April 2013 | Satisfactory |
| East Dunbartonshire Council | August 2012 | Satisfactory |
| The Moray Council | October 2012 | Satisfactory |
| Comhairle nan Eilean Siar | May & November 2012 | Satisfactory |
| Renfrewshire Council | February 2013 | Satisfactory |
| Glasgow City Council | March 2013 | Satisfactory |
| City of Edinburgh Council | January 2013 and another update due by 31 July 2013 | Update received and currently being reviewed |
| South Lanarkshire Council | July 2013 | Satisfactory |
| Aberdeen City Council | Due by 31 October 2013 | |

ACCOUNTS COMMISSION

MEETING 22 AUGUST 2013

REPORT BY ASSISTANT AUDITOR GENERAL

REPLACEMENT OF 1985 LOCAL AUTHORITY ACCOUNTS REGULATIONS

Purpose

1. The purpose of this report is to brief the Commission on the Scottish Government's consultation on draft Regulations to replace the Local Authority Accounts (Scotland) Regulations 1985 (1985 Regs).

Background

2. Scottish Ministers may make Regulations under section 105 of the Local Government (Scotland) Act 1973 (the 1973 Act) about the preparation of accounts and financial control matters. The main extant regulations date from 1985 although these were amended in 2010 to require the preparation of Remuneration Reports.
3. After prompting by LASAAC and Audit Scotland the Scottish Government convened a working group in 2011 with representatives from local authorities, the Scottish Government, Audit Scotland, CIPFA and LASAAC to consider possible changes. In July 2013 the Government issued draft replacement Regulations for comment. The Consultation letter and Draft Regulations are attached.
4. The purpose of the revision is to strengthen governance and internal control and to enhance financial reporting as well as to modernise language and processes. The Scottish government intend the Regulations to be brought to Parliament in sufficient time for them to apply to 2013-14 accounts.
5. Equivalent regulations in England have been updated every few years and are generally more prescriptive than the 1985 Regs.

Key proposals and commentary

a) Unaudited accounts and public inspection of accounts

Current position

Local authorities are required to send their unaudited accounts to the Controller of Audit by 30 June each year. Within 28 days of being so requested by the Controller the local authority must make available for public inspection the accounts and all related books and records for not less than 15 full days. The authority must place an advert for this in local newspapers and send a copy to the Controller.

In a computer age this is an entirely outdated, cumbersome process which achieves nothing of value. We therefore requested that the Government consider alternative approaches as part of their review of the Regulations.

Proposal

The proper officer is still required to sign the unaudited accounts by 30 June and pass them to the appointed auditor. Authorities are then required to put a notice on their websites no later than 11 July and keep it there for at least 14 days to advertise that the accounts and all related documents may be inspected by the public for 15 working days from 25 July.

The process for objecting to accounts and the auditor's obligation to hear the objection is set out in primary legislation (section 101 of the 1973 Act) and is unaffected by these proposals.

This revised approach has the considerable merit of fixing the inspection period for all councils for all years rather than the varying dates used at present from council to council and year to year. It also removes a layer of bureaucracy from the audit process. The current process did help establish centrally that all accounts had been received by 30 June but we can collect that information directly from auditors instead.

b) Content of annual accounts

Current position

Current legislation only requires an abstract of accounts and, since 2011, a remuneration report. In addition proper accounting practice requires an Explanatory Foreword and a form of statement of internal control.

Proposal

Draft Regulation 8 requires the Statement of Accounts to include a management commentary, a statement of responsibilities, a governance statement and a remuneration report.

This brings the statutory requirements in line with England & Wales and lessens the need for significant reports to be founded only on the Code of Accounting practice which, it has been argued, should not be the vehicle for setting wider governance type reports.

c) Finalisation of accounts

Current position

Once the audit is nearly complete the proper officer usually re-dates the accounts and, when the auditor has signed the audit opinion, they are laid before a meeting of the authority within two months. There is no requirement for an authority to "approve" the accounts at any stage.

The authority therefore is not required to have any involvement in or active ownership of the annual accounts, which has added to the sense that they are not important. Recent non-statutory developments whereby other officers or the leader sign governance statements have helped but only to a limited degree. The Scottish Government have therefore considered how to involve the authority more directly in the accounts process.

Proposal

Draft Regulation 10 proposes that the final accounts should be considered and approved by the authority in full meeting or by a committee of the authority whose remit includes audit or governance functions no later than 30 September. We understand that the intention is that this approval should take place before the auditor signs the audit opinion. Authorities will then have until 31 October to publish the accounts on their websites. The draft Regulations also specify who should sign the various documents including that the leader of

the council and the chief executive should sign the governance statement, the management commentary and the remuneration report.

Current legislation does not set a date for the completion of the audit of the accounts – the date of 30 September being set by the Commission and enforced through guidance to auditors. The proposals do not explicitly set a deadline but in order to comply with the requirement for approval by the authority by 30 September they implicitly reinforce a date around 30 September.

Whilst we have a number of reservations about the detailed wording of the Regulations in this area which we will feed back to the Scottish Government the principles being proposed should increase the active involvement of members in the annual reporting arrangements and hopefully increase their sense of ownership.

Our reservations relate to the proposed sequence of signatories which would leave a gap of a week or more between the proper officer's signature and that of the auditor. We would strongly prefer the signature to be required at or after the date of authority approval.

We also have reservations about the practicality of implementing this part of the revised Regs in 2013/14 as, by the time the Regulations are laid in the Scottish Parliament, Councils will have set their meeting timetables for 2014. There will also be resource implications for auditors who are likely to lose 1-3 weeks from the current audit timetables in order to meet council meeting dates and the 30 September deadline.

d) Publication of Controller reports and Ministerial directions

Current position

The Accounts Commission may publish Controller of Audit special reports but authorities are not required to publish any Controller reports or Ministerial directions following Accounts Commission recommendations.

Proposal

Draft Regulation 11 proposes that Controller of Audit Reports received by an authority under section 102(2) of the 1973 Act and Ministerial directions should be published in the same place as the accounts.

Again we have some technical reservations about the proposed timing of publication which is alongside the annual accounts, whereas Controller reports may occur at any time in the year.

e) Publication of auditor's annual audit reports

Current position

Annual audit reports are not mentioned in statute and are published by Audit Scotland on our website. Annual audit reports considered at public meetings of authorities or committees may also become public via the authority.

Proposal

Authorities should publish copies of the accounts, audit certificate and "any related report provided by the auditor to the authority" on their website and keep them there for at least five years. Whilst the Regulations do not refer to the annual audit report by name we understand that this is the principal document intended to fall within the regulation.

f) Internal audit

Current position

There is no statutory requirement for local authorities to undertake internal audit activity although it is recommended by Government and is clearly best practice.

Proposal

Draft Regulation 7 requires that a local authority “must undertake an adequate and effective internal audit of its accounting records and of its systems of internal control in accordance with recognised practices in relation to internal control”.

In addition the authority must, at least once in each financial year, conduct a review of the effectiveness of its internal audit.

g) Other matters

The draft regulations do not make any distinction between large and small bodies. The equivalent Regulations in England use the Companies Act thresholds for small companies of income or expenditure of less than £6.5 million as a basis for identifying smaller bodies who are not required to apply all of the Regulations, for example an annual review of internal audit. We will suggest in our response that the Government may wish to consider a similar way of identifying smaller bodies in Scotland.

The working group discussed the possibility of requiring the proper officer to be a qualified accountant as a possible way of addressing concerns raised by the Commission and others about the number of proper officers who were not in the top tier of management. The Government have not included this in the draft Regulations. There is no legislative requirement for Companies to have a qualified finance director although it is certainly regarded as good practice for Whitehall departments. Given the number of senior tier Director of Corporate Services type roles there could be a tension between requiring qualification of the proper officer and encouraging the post to be a top tier manager.

Recommendation

6. The Commission is invited to comment on the proposals in the draft Regulations and note that a detailed response will be provided to the Scottish Government.

Russell Frith
Assistant Auditor General
14 August 2013

By email:

Chief Executives and Directors of Finance of Scottish Local Authorities;
Audit Scotland; Chief Executive, Convention of Scottish Local Authorities
(COSLA); The Chartered Institute of Public Finance and Accountancy (CIPFA);
The Local Authority (Scotland) Accounts Advisory Committee (LASAAC);
Institute of Chartered Accountants of Scotland (ICAS)

Our Ref: B5226156

Date: 4 July 2013

Dear Consultee,

CONSULTATION: LOCAL AUTHORITY ACCOUNTS REGULATIONS

Background

I write to advise that we are consulting on changes to the statutory arrangements for local authority accounts and audit.

Sections 96 to 104 of *The Local Government (Scotland) Act 1973* (the 1973 Act) set out the statutory arrangements for local authority accounts and audit. Section 105 provides Scottish Ministers with the power to make provision, by regulations, as necessary or expedient to ensure sections 96 to 104 of the Act have full effect.

The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) asked the Scottish Government to review *The Local Authority Accounts (Scotland) Regulations 1985* (the 1985 Regulations). A review was undertaken by a working group with representatives from Scottish local authorities, the Scottish Government, Audit Scotland, CIPFA and LASAAC. The papers and minutes from the review group are available from the Scottish Government website at:

<http://www.scotland.gov.uk/Topics/Government/local-government/17999/LAacc/LAAcctsRevGp>

Strengthen governance

The review identified a number of changes which would help strengthen corporate governance processes. These have been reflected in the consultation draft regulations which propose:

- A role for the local authority as a corporate body to take responsibility for ensuring the financial management of the authority is adequate and effective. This includes a

requirement for the authority to undertake an annual review of the effectiveness of its system of internal control. Following this review the authority is required to consider the findings of that review and issue a governance statement. This statement is to be published as part of the annual statutory accounts.

- Placing the responsibility on the local authority as a corporate body to keep adequate accounting records. The proper officer is still identified as being responsible for maintaining the accounting systems and records and ensuring the systems are up to date and being observed.
- An enhanced role for council members for approving the annual statutory accounts, which requires a meeting of members, either of the authority or by committee, to consider the accounts.

Enhanced reporting

In addition we seek to promote enhanced reporting in the statutory accounts. The CIPFA/LASAAC Code Board considered whether the Explanatory Foreword in the statutory accounts should be replaced with a Management Commentary in line with the UK Government's Financial Reporting Manual (FRoM). The position taken by the Code Board is to encourage local authorities to prepare a report taking into consideration the FRoM but not making it a requirement. The Code Board has indicated it is looking to the UK Government and the Devolved Administrations to provide direction. Including the requirement for a Management Commentary in the consultation draft of the regulations seeks to resolve this situation by providing Scottish local authorities with the opportunity to express their views.

Internal audit

The consultation draft of the regulations proposes to make it a statutory requirement for a local authority to undertake an adequate and effective internal audit. We seek views on this proposal.

Remuneration Report

In 2011 the 1985 Regulations were amended to require the statutory accounts to contain a Remuneration Report, which includes the disclosure of information on pension rights.

The consultation undertaken in 2010 included a proposal for the remuneration report to disclose the value of the cash equivalent transfer value of a person's pension right. In light of consultation responses at that time, in particular feedback that imminent tax changes should be considered, Scottish Ministers did not make this disclosure a requirement in the amending regulations laid before the Scottish Parliament.

The disclosure of cash equivalent transfer values continues to be a requirement for both central government and the private sector, and this has not changed in light of tax changes to pensions. We are therefore propose to make it a requirement that local authorities should make this disclosure and wish to consult again on this disclosure.

Timetable and coverage

We propose to revoke the 1985 regulations (and the 1997 and 2011 amending regulations) and replace them with a new single set of regulations. A consultation draft of *The Local Authority Accounts (Scotland) Regulations 2013* can be found as a separate attachment to this consultation document, together with a consultation response sheet.

The proposal is that the new regulations will come into force this financial year and will be applicable to the statutory accounts for 2013-14 onwards.

The 1985 Regulations apply to all local authorities, including those bodies set out in section 106 of the 1973 Act. We welcome views as to whether this approach continues to be appropriate.

Consultation

Those wishing to respond to this consultation are requested to complete the **consultation response sheet** which is provided as a separate document. This provides more detail on each of the new regulations and asks specific questions on each regulation.

In order for the Scottish Government to assess comments properly respondents are requested to support any responses where they disagree with any proposal with reasons as to why they do not support the proposal, and, where applicable, any alternatives.

The consultation will close on **4 October 2013**.


Our preference is to receive comments by email, which should be sent to Louise.Hester@scotland.gsi.gov.uk

Should you wish to respond in writing please sent to:

Louise Hester
Scottish Government
Local Government Division
Area 3J, Victoria Quay
Edinburgh
EH6 6QQ

If you ask for your response not to be published we will regard it as confidential and we will treat it accordingly. You should be aware that the Scottish Government is subject to the provisions of the Freedom of Information (Scotland) Act 2002 and would therefore have to consider any request made to it under the Act for information relating to responses made to this consultation exercise.

Yours faithfully,



Hazel Black
Head of Local Authority Accounting

2013 No.

LOCAL GOVERNMENT

The Local Authority Accounts (Scotland) Regulations 2013

Made - - - -

Laid before the Scottish Parliament

Coming into force - -

The Scottish Ministers make the following Regulations in exercise of the powers conferred by section 105(1) of the Local Government (Scotland) Act 1973(a) and all other powers enabling them to do so.

In accordance with section 105(2) of that Act, they have consulted with such associations of local authorities as appear to them to be concerned.

PART 1

Introductory

Citation and commencement

1. These Regulations may be cited as the Local Authority Accounts (Scotland) Regulations 2013 and come into force on [31st March 2014].

Saving Provision

2. Nothing in these Regulations applies to any accounts, or any statement of accounts, that relate to a financial year that began prior to 1st April 2013.

Interpretation

3. In these Regulations—

“the 1973 Act” means the Local Government (Scotland) Act 1973;

“appointed auditor” means the person appointed to audit a local authority’s accounts as required by section 96(4) (accounts and audit)(b) of the 1973 Act;

(a) 1973 c.65, which is amended by the Rating and Valuation (Amendment) (Scotland) Act 1984 (c.31), section 10(2). The functions of the Secretary of State in section 105 transferred to the Scottish Ministers by virtue of section 53 of the Scotland Act 1998 (c.46).

(b) Section 96(4) is amended by paragraph 3 of schedule 4 to the Public Finance and Accountability (Scotland) Act 2000 (asp 1).

“Chief Executive”, in relation to a local authority, means the person designated by it as the head of its paid service by virtue of section 4 (designation and reports of head of paid service)(a) of the Local Government and Housing Act 1989;

“Leader of the Council” means the convener of a local authority elected in terms of section 4(1) (election of convener)(b) of the Local Government etc. (Scotland) Act 1994 or such other councillor as that local authority decides has the title of Leader of the Council for the purposes of payment of remuneration;

“local authority subsidiary body” means any entity, including an unincorporated entity, that is controlled by a local authority;

“proper accounting practices” are those practices set out in section 12 (proper accounting practices)(c) of the Local Government in Scotland Act 2003;

“proper officer” means—

- (a) the proper officer having responsibility for the administration of the financial affairs of the local authority by virtue of section 95 (financial administration) of the 1973 Act; or
- (b) where that officer is unable to act owing to absence or illness, such member of that person’s staff as is nominated by that local authority for the purposes of these Regulations;

“statement of accounts” means the abstract of accounts which is required to be produced under section 96(3) of the 1973 Act; and

“working day” means any day other than a Saturday, Sunday, Christmas Eve or a day which is a bank holiday in Scotland under the Banking and Financial Dealings Act 1971(d).

Revocations

4. The following instruments are revoked—

- (a) the Local Authority Accounts (Scotland) Regulations 1985(e);
- (b) the Local Authority Accounts (Scotland) Amendment Regulations 1997(f); and
- (c) the Local Authority Accounts (Scotland) Amendment Regulations 2011(g).

PART 2

Financial management and internal control

Responsibility for financial management

5.—(1) A local authority is responsible for ensuring that the financial management of the local authority is adequate and effective and that the local authority has a sound system of internal control which—

- (a) facilitates the effective exercise of the local authority’s functions; and
- (b) includes arrangements for the management of risk.

(2) The local authority must conduct a review at least once in each financial year of the effectiveness of its system of internal control.

(a) 1989 c.42. There are amendments to section 4 that are not relevant for the purposes of these Regulations.
(b) 1994 c.39.
(c) 2003 asp 1.
(d) 1971 c.80.
(e) S.I. 1985/267.
(f) S.I. 1997/1980.
(g) S.S.I. 2011/64.

(3) The findings of the review referred to in paragraph (2) must be considered at a meeting either of the local authority or of a committee of the local authority whose remit includes audit or governance functions.

(4) Following consideration of the findings of the review referred to in paragraph (3) that authority or committee must approve an annual governance statement, prepared in accordance with proper practices in relation to internal control.

(5) The annual governance statement must be signed by the Chief Executive and the Leader of the Council.

Accounting records and control systems

6.—(1) A local authority must keep adequate accounting records.

(2) Adequate accounting records means records that are sufficient—

- (a) to show and explain the local authority's transactions;
- (b) to disclose with reasonable accuracy, at any time, the financial position of the local authority; and
- (c) to enable members of the local authority to ensure that any accounts that require to be prepared comply with the requirements of these Regulations.

(3) The accounting records must in particular contain—

- (a) entries from day to day of all sums of money received and expended by the local authority and the matters in respect of which the receipt and expenditure takes place; and
- (b) a record of the assets and liabilities of the local authority.

(4) If the local authority deals in goods, the accounting records must contain—

- (a) statements of stock held by the authority at the end of each financial year;
- (b) all statements of stocktakings from which any statement of stock as is mentioned in paragraph (a) has been or is to be prepared; and
- (c) except in the case of goods sold by way of ordinary retail trade, statements of all goods sold and purchased, showing the goods and the buyers and sellers in sufficient detail to enable all these to be identified.

(5) Where a local authority has a local authority subsidiary body that is not subject to the requirements of this regulation, the local authority must ensure that the body takes such reasonable steps as are necessary to secure that the body's accounting records enable the local authority to fulfil its duties under the 1973 Act and these Regulations.

(6) The proper officer is responsible, on behalf of the local authority, and subject to any instructions given to that officer by that authority, for determining the form of, and maintaining, the local authority's—

- (a) accounting control systems; and
- (b) accounting records and supporting accounting records.

(7) The proper officer must ensure that the accounting control systems are observed and that the accounting records of the local authority are kept up to date.

Internal audit

7.—(1) A local authority must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with recognised practices in relation to internal control.

(2) Any officer or member of a local authority must, if that authority requires—

- (a) make available such documents of that authority which relate to its accounting and other records as appear to that authority to be necessary for the purpose of the audit; and

(b) supply that authority with such information and explanation as that authority considers necessary for that purpose.

(3) A local authority must, at least once in each financial year, conduct a review of the effectiveness of its internal audit.

(4) The findings of the review referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control referred to in regulation 5(2), at the meeting referred to in regulation 5(3).

PART 3

Published accounts and audit

Statement of accounts

8.—(1) A local authority must ensure that its statement of accounts is prepared in accordance with these Regulations and, so far as compatible with these Regulations, in accordance with proper accounting practices.

(2) The statement of accounts must include, in addition to those statements required by proper accounting practices, the following statements, which are to be prepared in accordance with proper accounting practices and recognised guidance—

- (a) a management commentary;
- (b) a statement of responsibilities;
- (c) an annual governance statement;
- (d) a remuneration report in the style set out in the Schedule to these Regulations.

(3) The statement of accounts must also include such of the following statements and disclosures as are relevant to the functions of the local authority—

- (a) a housing revenue account;
- (b) a non-domestic rate account;
- (c) a council tax account;
- (d) any other statement relating to statutory funds which is required by any statutory provision;
- (e) a note containing details of the disposal of any land at less than best consideration in terms of section 74 (disposal of land)^(a) of the 1973 Act, including the date of the meeting at which the disposal was approved or, in the case of a disposal undertaken using delegated authority, the date of the meeting at which the completed disposal was reported to the authority.

(4) The remuneration report referred to in paragraph (2)(d) must contain the information set out in the Schedule to these Regulations.

(5) The proper officer must ensure that—

- (a) the statement of responsibilities required by paragraph (2)(b) accurately reflects the proper officer's responsibilities; and
- (b) the statement of accounts gives a true and fair view of the local authority's financial position and transactions of the local authority and its group.

(6) Once the proper officer is satisfied as to the matters set out in paragraph (5), and no later than 30 June immediately following the financial year to which the accounts relate, the proper officer must certify these matters by signing and dating the statement of responsibilities and the

(a) Section 74 was relevantly amended by section 11(1) of the Local Government in Scotland Act 2003 (asp 1).

balance sheets contained within the statement of accounts and then forward the statement of accounts to the appointed auditor.

(7) The local authority must publish a copy of the statement of accounts forwarded to the appointed auditor, clearly identified as an unaudited version, on a website of the authority from the date it is so forwarded until the date on which the audited statement of accounts is published in accordance with regulation 11.

Notice of public right to inspect and object to accounts

9.—(1) A local authority must give public notice of the right of interested persons to inspect and object to its accounts, as provided for by section 101 (rights of interested persons to inspect and copy documents and to object to accounts)(a) of the 1973 Act.

(2) In this regulation, where any date referred to is not a working day, it is to be read as referring instead to the date of the next working day.

(3) The notice referred to in paragraph (1) must—

- (a) be given in accordance with section 195 (public notices) of the 1973 Act no later than 11 July immediately following the end of the financial year to which the accounts relate, and
- (b) be published for a period of at least 14 days on a website of the authority, commencing on the day the notice is first given as required by sub-paragraph (a).

(4) The notice referred to in paragraph (1) must set out the provisions of section 101(1) and (2) of the 1973 Act and state—

- (a) that the accounts and other documents referred to in section 101(1) of the 1973 Act will be available for inspection during the ordinary business hours of the local authority for 15 working days from 25 July in the year the notice is published;
- (b) the place or places at which those accounts and other documents will be available and the hours during which they will be available there;
- (c) the name and address of the appointed auditor; and
- (d) that objections to the accounts may be sent to the appointed auditor at that address until the following 22 August.

Signing and consideration of audited accounts

10.—(1) A local authority, or a committee of that authority whose remit includes audit or governance functions must, no later than 30 September immediately following the end of the financial year to which the accounts relate, meet to consider approval of the statement of accounts.

(2) Before a local authority or a committee of that authority considers the accounts for approval, the statements which form part of the statement of accounts are to be signed and dated as follows—

- (a) the management commentary by the proper officer, the Chief Executive and the Leader of the Council;
- (b) the annual governance statement by the Chief Executive and the Leader of the Council; and
- (c) the remuneration report by the Chief Executive and the Leader of the Council.

(3) Before the accounts are considered as described in paragraph (2) the proper officer must re-certify the statement of responsibilities and the balance sheets of the local authority as giving a true and fair view of the financial position of the authority at the reporting date.

(4) Where a local authority does not have a Chief Executive, the statements referred to in paragraph (2)(a) to (c) are to be signed by such person as it nominates for that purpose, and where

(a) Section 101 is amended by section 10(1) of the Rating and Valuation (Amendment) (Scotland) Act 1984 (c.31) and paragraph 3(8) of schedule 4 to the Public Finance and Accountability (Scotland) Act 2000 (asp 1).

it does not have a Leader of the Council, those statements are to be signed by such person, being a member of a local authority, as it nominates for that purpose.

(5) Following approval of the statement of accounts by the authority or committee, and before publication as required by regulation 11, the statement of responsibilities must be signed and dated by a member of a local authority nominated for that purpose as having been approved.

Publication of the audited statement of accounts

11.—(1) No later than 31 October immediately following the end of a financial year the local authority must publish—

- (a) the statement of accounts for that financial year as approved under regulation 10;
- (b) the certificate placed on that statement under section 101(4) of the 1973 Act by the appointed auditor; and
- (c) a copy of any related report provided by that auditor to the authority.

(2) A local authority is to publish the documents mentioned in paragraph (1) by making a copy of them available on a website of the local authority for a period of at least five years and by making copies available for purchase throughout that period on payment of such amount as the authority considers reasonable.

(3) Paragraph (4) applies where a local authority receives a report sent in terms of section 102(2) or (4) (reports to Accounts Commission for Scotland by Controller of Audit)(a) of the 1973 Act, or is required to give effect to a direction made in an order under section 103F(7) (order of the Scottish Ministers following Accounts Commission recommendations)(b) of the 1973 Act.

(4) The authority must publish a report or order referred to in paragraph (3) in the same manner as, and together with, the documents referred to in paragraph (1) for every financial year to which the report or order relates.

St Andrew's House,
Edinburgh

2013

(a) Section 102(2) was substituted by section 56 of the Local Government in Scotland Act 2003. There are other amendments to section 102 that are not relevant to these Regulations.

(b) Section 103F was added by section 33(3) of the Ethical Standards in Public Life etc. (Scotland) Act 2000 (asp 7).

SCHEDULE

Content of Remuneration Report

Definitions

1. In this Schedule—

“annual remuneration” is to be calculated—

- (a) in respect of a person who is employed or serves on a part time basis, with the salary element of remuneration increased to what it would have been had the person been paid for usual full time hours at the same hourly rate;
- (b) in respect of a person who is employed or serves for less than the full relevant financial year, with the salary element of remuneration increased to what it would have been had the person been employed for the whole year, at the same rate as applied to their period of employment or service; or
- (c) in respect of a person who falls within both of sub-paragraphs (i) and (ii), with the salary element of remuneration increased as required by sub-paragraph (i) and then further increased as required by sub-paragraph (ii);

“local authority subsidiary body” means any entity, including an unincorporated entity, that is controlled by a local authority;

- (a) “relevant person”, in relation to a Remuneration Report for a financial year, means—
- (b) a senior councillor or senior employee employed by the local authority or holding office with that authority, whether on a permanent or temporary basis, in the financial year to which that Remuneration Report relates; and
- (c) a person whose name is shown in a Remuneration Report for that financial year by virtue of paragraph 5 (persons employed by local authority subsidiary bodies);

“remuneration” means salary, fees and bonuses, whether paid to or receivable by a person, by or from a local authority or local authority subsidiary body, and includes sums paid or due by way of expenses allowance (so far as those sums are chargeable to United Kingdom income tax) and the estimated monetary value of any other benefits received by a person otherwise than in cash, and—

- (a) includes any sum paid as compensation for loss of employment or termination of a contract for provision of services; but
- (b) excludes any sum that has been paid by the local authority or local authority subsidiary body as a contribution to the person’s pension;

“senior councillor” means a Leader of the Council, a Civic Head or a Senior Councillor, all as defined by regulation 2 of the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007(a);

“senior employee” means any local authority employee—

- (a) who has responsibility for management of the local authority to the extent that the person has power to direct or control the major activities of the authority (including activities involving the expenditure of money), during the financial year to which the Report relates, whether solely or collectively with other persons;
- (b) who holds a post that is politically restricted by reason of section 2(1)(a), (b) or (c) of the Local Government and Housing Act 1989(b); or
- (c) whose annual remuneration, including any annual remuneration from a local authority subsidiary body, is £150,000 or more.

(a) S.S.I. 2007/183.

(b) 1989 c.42.

Remuneration arrangements

2. A Remuneration Report is to provide details of the local authority's remuneration policy for senior employees and senior councillors, and details of any role the local authority has in determining the remuneration policy for any local authority subsidiary body.

3. A Remuneration Report is to describe the role, and state the membership of, the local authority's committee that deals with remuneration arrangements or, where the authority does not have such a committee, state how remuneration arrangements are managed within the authority.

General disclosure by pay band.

4. A Remuneration Report is to give the number of employees of the local authority in the financial year to which it relates whose remuneration from that authority fell into each bracket of a scale in multiples of £5,000, starting with £50,000, along with the number of employees in each band in the preceding financial year.

Disclosure - local authority subsidiary bodies

5. A Remuneration Report is to give, for any local authority subsidiary body, the name of that body, together with—

- (a) the full post title and name of the chief executive of that body (or, if there is no chief executive, the post held and name of the most senior manager in that body); and
- (b) the full post title and name of each director or employee of the body whose annual remuneration in that year, including any annual remuneration from a local authority, was £150,000 or more.

Disclosure of remuneration for relevant persons

6. The Remuneration Report for each financial year is to show, in tabular form, against the post held and name of each relevant person the total amounts (before tax and other deductions), whether received or receivable, by each relevant person from the local authority or, as the case may be, local authority subsidiary body—

- (a) listed individually and rounded to the nearest whole pound;
- (b) under each of the categories listed in paragraph 8; and
- (c) for the financial year to which the Report relates, except for the total amount required by paragraph 8(h).

7. The Remuneration Report must show in separate tables—

- (a) remuneration from the local authority to relevant persons who are senior employees;
- (b) remuneration from the local authority to relevant persons who are senior councillors; and
- (c) remuneration from the local authority subsidiary body to relevant persons who are included in a Remuneration Report for that financial year by virtue of paragraph 5.

8. The categories are—

- (a) the total amount of salary, fees or allowances due to the person, whether paid or not;
- (b) the total amount of bonuses so paid or receivable;
- (c) the total amount of sums paid by way of expenses allowance that are chargeable to United Kingdom income tax and were paid to or receivable by the person;
- (d) the total amount of any compensation for loss of employment paid to or receivable by the person, and any other payments made to or receivable by the person in connection with the termination of their employment, or, in the case of a councillor, the total of any

- payment made to that person in connection with their ceasing to hold office before the end of a fixed term appointment;
- (e) the total estimated value of any benefits received by the person otherwise than in cash that do not fall within sub-paragraphs (a) to (d), are emoluments of the person, and are received by the person in respect of their employment or in their capacity as a councillor, with a footnote describing the nature of any such benefits;
 - (f) the total amount of any payments made by the local authority and local authority subsidiary body by way of remuneration to or in respect of the person that do not otherwise fall within this paragraph, other than payments relating to pensions;
 - (g) the amount that is the total of the sums shown in categories (a) to (f); and
 - (h) the amount that is the total of the payments that were made by way of remuneration to or in respect of the person under categories (a) to (f) in the financial year preceding that to which the Remuneration Report relates.

Pension rights - disclosure of information and calculation of value

9. The Remuneration Report must show, in tabular form, against the post held and name of each relevant person the value of pension rights held and acquired by that person, as required by paragraphs 11 and 12.

10. The Remuneration Report must group in separate tables—

- (a) relevant persons who are senior employees;
- (b) relevant persons who are senior councillors; and
- (c) relevant persons who do not fall within sub-paragraphs (a) or (b) and who are included in a Remuneration Report for that financial year by virtue of paragraph 5.

11.—(1) Where a relevant person included in a Remuneration Report under paragraph 9 has rights under a pension scheme which will provide defined benefits (within the meaning of section 99 of the Pensions Act 2008 (a)), the information to be provided in respect of the person is—

- (a) the value of the person's accrued pension benefits under the scheme as at 31st March in the financial year to which the Remuneration Report relates, rounded to the nearest £1,000;
- (b) the difference between that value and the equivalent value (so rounded) as at the previous 31st March; and
- (c) the amount, rounded to the nearest whole pound, of any pension contributions made to that scheme by the local authority producing the Remuneration Report, or a local authority subsidiary body named in that Report, during the financial year to which that Report relates, including any contributions which that local authority, or a local authority subsidiary body named in that Report, has agreed to pay in respect of the relevant person at a later date.

(2) In sub-paragraph (1)(a) and (b) the value of accrued pension benefits is to be calculated—

- (a) on the basis of the age at which the person will first become entitled to receive a full pension on retirement without reduction on account of its payment at that age, disregarding any entitlement to payment upon retirement on the grounds of illness, incapacity or redundancy;
- (b) assuming that the person left the related employment or service as at 31st March in the year to which the value relates without exercising any option to commute pension entitlement into a lump sum;

(a) 2008 c.30.

- (c) including any contributions that the relevant person is required to make in terms of the scheme rules, but disregarding any voluntary contributions made by the relevant person; and
- (d) without any adjustment for the effects of future inflation.

12.—(1) Where a relevant person included in a Remuneration Report under paragraph 9 has rights under a pension scheme which is a money purchase scheme (within the meaning of subparagraph (2)), the information to be provided in respect of the person is the amount, rounded to the nearest whole pound, of any pension contributions made to that scheme by the local authority producing that Report, or a local authority subsidiary body named in that Report, during the financial year to which that Report relates, including any contributions which that local authority, or a local authority subsidiary body named in that Report, has agreed to pay in respect of the relevant person at a later date.

(2) A “money purchase scheme” means a scheme under which all the benefits that may become payable to or in respect of a person are retirement benefits, the rate or amount of which is calculated by reference to payments made, or treated as made, by the person (or by any other person in respect of that person) and which are not average salary benefits.

Consultation copy

EXPLANATORY NOTE

(This note is not part of the Regulations)

[Explanatory Notes will be added once the drafting of the SSI has been finalised.]

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