

426th meeting of the Accounts Commission for Scotland

**Thursday 14 April 2016, 10.15am
in the offices of Audit Scotland, 102 West Port, Edinburgh**

Agenda

1. **Apologies for absence.**
2. **Declarations of interest.**
3. **Decisions on taking business in private:** The Commission will consider whether to take items 12 and 13 in private (* see note).
4. **Minutes of meeting of 10 March 2016.**
5. **Minutes of meeting of Audit Scotland Board of 26 February 2016.**
6. **Update report by the Secretary to the Accounts Commission:** The Commission will consider a report by the Secretary to the Commission on significant recent activity in relation to local government.
7. **Update report by the Controller of Audit:** The Commission will consider a verbal report by the Controller of Audit providing an update on his recent activity.
8. **National Scrutiny Plan 2016/17:** The Commission will consider a report by the Director of Performance and Best Value.
9. **Draft Commission annual report:** The Commission will consider a report by the Secretary to the Commission.
10. **Commission engagement strategy: report and update:** The Commission will consider a report by the Secretary to the Commission.
11. **New financial powers update:** The Commission will consider a report by the Assistant Director of Audit Services.

The following items are proposed to be considered in private:*

12. **New approach to auditing Best Value:** The Commission will consider a report by the Director of Performance Audit and Best Value.
13. **Commission business matters:** The Commission will discuss matters of interest.

* It is proposed that items 12 and 13 be considered in private because:

- Item 12 will require discussion of proposals in relation to auditing Best Value before they are published, including consideration of comments thereon from councils and other stakeholders.
- Item 13 may be required if there are any confidential matters that require to be discussed outwith the public domain. The Chair will inform the meeting in public at the start of the meeting if this item is required and what it covers.

The following papers are enclosed for this meeting:

Agenda Item	Paper number
Agenda Item 4: Minutes of meeting of the Commission of 10 March 2016	AC.2016.4.1
Agenda Item 5: Minutes of meeting of the Audit Scotland Board of 26 February 2016	AC.2016.4.2
Agenda Item 6: Report by Secretary to the Commission	AC.2016.4.3
Agenda Item 8: Report by Director of Performance Audit and Best Value	AC.2016.4.4
Agenda Item 9: Report by Secretary to the Commission	AC.2016.4.5
Agenda Item 10: Report by Secretary to the Commission	AC.2016.4.6
Agenda Item 11: Report by Assistant Director of Audit Services	AC.2016.4.7
Agenda Item 12: Report by Director of Performance Audit and Best Value	AC.2016.4.8

MEETING: 10 MARCH 2016

MINUTES OF PREVIOUS MEETING

Minutes of the 425th meeting of the Accounts Commission held in the offices of Audit Scotland at 102 West Port, Edinburgh, on Thursday, 10 March 2016, at 10.15am

PRESENT: Douglas Sinclair (Chair)
Ronnie Hinds (Deputy Chair)
Sandy Cumming
Sheila Gunn
Christine May
Stephen Moore
Graham Sharp
Pauline Weetman
Geraldine Wooley
Sophie Flemig
Tim McKay

IN ATTENDANCE: Paul Reilly, Secretary to the Commission
Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value (PABV)
Russell Frith, Assistant Auditor General, [Items 10, 11 and 14]
John Gilchrist, Manager, Audit Strategy [Item 14]
Mark Roberts, Senior Manager, PABV [Item 12]
Owen Smith, Senior Manager, Audit Strategy [Items 10, 11 and 14]
Claire Sweeney, Assistant Director, PABV [Item 13]

<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 11 February 2016
5.	Minutes of meeting of Financial Audit and Assurance Committee 25 February 2016
6.	Minutes of meeting of Performance Audit Committee 25 February 2016
7.	Update report by the Secretary to the Commission
8.	Update report by the Controller of Audit
9.	Review of annual audit reports 2014/15
10.	Annual Audit Impact Report
11.	Code of Audit Practice
12.	Briefing: Community Justice (Scotland) Act 2016
13.	Work programme: outputs from consultation
14.	Procurement of audits: appointments
15.	Commission business matters

1. Apologies for absence

It was noted that apologies for absence had been received from Alan Campbell.

2. Declarations of interest

The following declarations of interest were made:

- Ronnie Hinds, in item 9, as a former Chief Executive of Fife Council
- Sheila Gunn, in item 7, as a non-executive Director of the Wheatley Group
- Christine May, in item 9, as a former leader of Fife Council, and in item 13, as Vice-Chair of Fife Cultural Trust
- Stephen Moore, in item 9, as a former chief officer of Fife Council.
- Douglas Sinclair, in item 9, as a former Chief Executive of Fife Council.

3. Decisions on taking business in private

It was agreed that items 13 and 14 should be taken in private for the following reasons:

- Item 13, which requires discussion on the draft work programme before it is published, including consideration of comments thereon from councils and other stakeholders
- Item 14, which will require discussion of issues involving commercial confidentiality.

4. Minutes of meeting of 11 February 2016

The minutes of the meeting of 11 February 2016 were submitted and approved, subject to noting advice from the Director of PABV in relation to item 4, first bullet point, that information on the rationale behind the local government finance settlement and longer-term trends of allocations would be provided in a publication to be published alongside the Local Government Overview report.

5. Minutes of meeting of Financial Audit and Assurance Committee 25 February 2016

The minutes of the meeting of the Financial Audit and Assurance Committee of 25 February 2016 were submitted and approved.

6. Minutes of meeting of Performance Audit Committee 25 February 2016

The minutes of the meeting of the Performance Audit Committee of 25 February were submitted and approved.

7. Update report by the Secretary to the Accounts Commission

The Commission considered a report by the Secretary to the Commission providing an update on significant recent activity relating to local government and issues of relevance or interest across the wider public sector.

During discussion, the Commission agreed, in relation to paragraph 10, that audit sponsors be informed of such events and invited as appropriate.

Action: Director of PABV

Thereafter, the Commission agreed to note the report.

8. Update report by the Controller of Audit

The Controller of Audit provided a verbal update on his recent activity including meetings and discussions with stakeholders.

9. Review of annual audit reports 2014/15

The Commission considered a report by the Controller of Audit and Director of PABV advising of the outcome of the review of the 2014/15 annual audit reports for councils and related local authority bodies.

During discussion, the Commission:

- Agreed that the Controller of Audit provide more information on police and fire pension liabilities.
- Agreed that information on longer-term funding and spending trends would be a useful feature in future versions of this report.

Actions: Controller of Audit and Director of PABV

Thereafter, the Commission noted the report.

10. Annual Audit Impact Report

The Commission considered a report by the Assistant Auditor General on the biennial review of the annual audit.

During discussion, the Commission:

- Noted that the report had previously been noted by the Financial Audit and Assurance Committee, which also noted advice from the Assistant Auditor General that he was currently reviewing, in conjunction with the Secretary, the reporting of audit risks and impact to the Commission.
- Agreed that this review include issues around the definition of impact, significance of risk, and the consistency of definition of risk between auditors.
- Agreed, in relation to paragraph 20, that reporting on value for money needs to be a core and clearly understood part of the new approach to auditing Best Value.

Action: Assistant Auditor General

Thereafter, the Commission noted the report.

11. Code of Audit Practice

The Commission considered a report by the Assistant Auditor General updating the Accounts Commission on the results of the formal consultation process on the draft Code of Audit Practice and presenting the updated Code for agreement.

Following discussion, the Commission agreed:

- To note the outcome of the consultation process.
- To approve the text of the revised Code of Audit Practice, subject to points raised in discussion.
- That it be remitted to the Chair to finalise the foreword and any final amendments in conjunction with the Auditor General.

Actions: Assistant Auditor General

12. Briefing: Community Justice (Scotland) Act 2016

The Commission considered a report by the Director of PABV providing a brief summary of the changes to the community justice system that have been introduced by the recently passed Community Justice (Scotland) Act 2016.

During discussion, the Commission agreed:

- To note that the work programme contains a commitment to assess community justice through a performance audit in 2018/19.
- In relation to this, that such work be done on a phased basis, similar to that used in the ongoing work in relation to health and social care integration.

Action: Director of PABV

Thereafter, the Commission noted the briefing.

13. Work Programme: outputs from consultation [in private]

The Commission considered a report by the Secretary to the Commission covering responses to the recent consultation on the Commission's five year work programme (2016/17 – 2020/21).

During discussion, the Commission agreed:

- That given that some councils did not take the opportunity to respond to the consultation, that the profile of the work programme be promoted in dialogue between local auditors and councils, and between local area networks and councils.
- That internal audit be considered as an issue to be covered in the lunchtime speaker programme.
- To approve the five-year work programme and associated publication arrangements.

Actions: Secretary

14. Procurement of audits: appointments [in private]

The Commission considered a report by the Assistant Auditor General on the outcome of the audit procurement exercise and makes recommendations for provisional appointments of auditors to local government bodies for the 2016/17 to 2020/21 appointment period.

Following discussion, the Commission:

- Note the outcome of the procurement exercise.
- Approved provisional appointments of auditors to local government bodies in Scotland, as detailed in the report, subject to consultation with successful firms and audited bodies during March and April.
- Noted that final recommendations for appointments would be made to the Auditor General and the Commission at its meeting on 12 May 2016.

Actions: Assistant Auditor General

15. Commission business matters

There being no further business, the meeting was closed.

Minutes of Meeting of **Audit Scotland** held on 26 February 2016 in the offices of Audit Scotland at 102 West Port, Edinburgh

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

APOLOGIES: None

IN ATTENDANCE: D McGiffen, Chief Operating Officer
R Frith, Assistant Auditor General
M Walker, Assistant Director, Corporate Performance and Risk
S Boyle, Assistant Director, Audit Services Group

<u>Item No</u>	<u>Subject</u>
1.	Apologies
2.	Declarations of Interest
3.	Chair's Report
4.	Accountable Officer's Report
5.	Accounts Commission Chair's Report
6.	Minutes of the meeting dated 3 December 2015
7.	Review of the Actions Tracker
8.	SCPA Report on Audit Scotland's 2016/17 Budget
9.	Q3 Financial Performance Report
10.	Q3 Corporate Performance Report
11.	Q3 Becoming World Class Improvement Programme Report
12.	Securing World Class Audit
	(a) Audit Procurement Update
	(b) Funding and Fees – 2016 Issues and Work Plan
	(c) Public Sector Risk Monitoring
13.	Openness and Transparency of Board Business
14.	AOB
15.	Date of next meeting

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1. Apologies

There were no apologies.

2. Declarations of Interest

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

3. Chair's Report

Ian Leitch advised that he had held meetings with Diane McGiffen and Russell Frith to discuss Board matters and the progress of work on fees and funding following the Scottish Commission for Public Audit's report on Audit Scotland's 2016/17 budget. The Chair congratulated Caroline Gardner on her inclusion in the recently published Public Finance list of Top 50 Trailblazers.

4. Accountable Officer's Report

Caroline Gardner provided an update on her activity since the previous board meeting, including her involvement on the panel for the Audit Procurement Interviews and early thoughts on the implications of *The agreement between the Scottish Government and the United Kingdom Government on the Scottish Government's fiscal framework*. She advised that there would be an update report to the Board on initial issues and approaches once colleagues had considered and discussed the agreement in detail. She recognised that the framework's emphasis on comprehensive, reliable and transparent reporting was welcomed and provided a good base from which to design Audit Scotland's approach.

Caroline provided an update on the work of the Public Audit Committee and advised the Board that there was only one meeting left before the parliamentary recess for the elections. She also advised that she and Fraser McKinlay, Director of Best Value and Performance Audit and Controller of Audit, would be meeting with the Assistant Chief Executive of the Scottish Parliament to discuss plans for the orientation of new MSPs and how Audit Scotland could support the Parliament in that work.

Caroline commented on the SCPA meeting and report on Audit Scotland's budget proposal for 2016-17, which appeared later on the agenda, and welcomed the approval of the budget proposal.

Finally, Caroline reminded the Board that a reception to mark the opening of Audit Scotland's new office at West Port was planned for 24 March 2016 and that the Presiding Officer of the Scottish Parliament had confirmed her attendance.

5. Accounts Commission Chair's Report

Douglas Sinclair provided an update on the work of the Accounts Commission since the previous meeting of the Board. He advised that the Commission had recently published its third best value report on the City of Edinburgh Council and that the report demonstrated the benefit of follow up reports. He advised that Commission members would be meeting with Argyll and Bute council to discuss the findings of the recent best

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value review of that council and that the Commission had recently been discussing the issues facing integrated joint boards.

6. Minutes of the meeting dated 3 December 2015

The Board considered the note of the meeting of Board members on 3 December 2015, which had been previously circulated. The Board members who had been present confirmed the note as an accurate record of their meeting. The Board noted, as they had at the time, that the meeting on 3 December 2015 had been inquorate, but having considered the note adopted and ratified it.

The Chair advised that, as previously raised, a discussion on the question of the quorum would be considered in conjunction with item 13.

7. Review of the Actions Tracker

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

Martin Walker, Assistant Director, Corporate Performance and Risk sought the agreement of the Board to a revised date for the approval of the Audit Scotland corporate plan by the Board. Following an explanation of the reasons for the request, which included allowing time to reflect on the outcomes of the Accounts Commission's strategy seminar in March, the Board agreed to consider a draft of the Corporate Plan at its May 2016 meeting.

Action:

- **The Action tracker to be revised to include a deadline of May 2016 for the approval of the Corporate Plan. (May 2016)**

8. SCPA Report on Audit Scotland's 2016/17 Budget

The Board noted the SCPA Report on Audit Scotland's 2016/17 Budget and its recommendations, which had been previously circulated. The Chair advised that it was important that Audit Scotland meet the timetable set out in the report.

9. Q3 Financial Performance Report

The Board noted the Q3 Financial Performance report, which had been previously circulated and had been considered earlier at the meeting of the Audit Committee.

10. Q3 Corporate Performance Report

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the report on Q3 Corporate Performance, which had been previously circulated.

Martin invited members to note the level of activity reported with 100% of reports being delivered on schedule in the period and the extent of the coverage these had received together with the activity by the Public Audit Committee.

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Heather Logan invited Russell Frith, Assistant Auditor General, to consider how to incorporate a measure of the quality of reviews of firms following the discussion at the earlier Audit Committee meeting on the recent report from the Financial Reporting Council. Russell advised that his team had been piloting the use of balanced scorecards on the performance of auditors, and that those may provide a useful basis for reporting.

The members noted the report and the performance achieved in the quarter.

Action:

- **Russell Frith, Assistant Auditor General, to consider whether performance reports could include more information on audit quality. (April 2016)**

11. Q3 Becoming World Class Improvement Programme Report

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the third quarterly report on the Audit Scotland Becoming World Class Improvement Programme.

Martin invited members to consider the progress reported on the programme and welcomed any comments on proposed actions. He advised that it was a comprehensive programme of performance improvement and that in the past quarter a number of significant milestones had been reached.

Following discussion, the members noted the report on progress and next steps.

12. Securing World Class Audit

(a) Audit Procurement Update

Russell Frith, Assistant Auditor General, introduced the update report on Audit Procurement, a copy of which had been previously circulated.

Russell invited members to note the current position, results to date and analysis of the 2016 tender exercise for the procurement of private firms together with the proposed next steps.

Members noted that the procurement process was now at the ten day stand-still stage during which unsuccessful bidders could challenge the outcome, so the final results could not be confirmed or communicated until 29 February 2016.

Caroline Gardner advised that the involvement of Procurement Scotland and an independent external adviser working alongside Russell and his team had ensured a robust process, with the right balance of quality over cost.

Following discussion, the members welcomed the update and noted that consideration was now being given to the costs and funding of the quality regime required to provide assurance on the performance of auditors to stakeholders, including the Auditor General for Scotland and the Accounts Commission for Scotland.

The Chair thanked Russell and his team and panel members Caroline Gardner, Heather Logan, Graham Sharp and Fiona Daley for their time and commitment to the procurement process.

(b) Funding and Fees – 2016 Issues and Work Plan

Russell Frith, Assistant Auditor General, introduced the report on Fees and Funding, 2016 Issues and Work Plan, a copy of which had been previously circulated.

The Chair advised that he had met with Russell Frith and Diane McGiffen earlier in the week to discuss the report in detail and that this was the first in a series of papers that would be provided to the Board over the course of the year to meet the commitments made to the SCPA to have a more transparent and simpler fee system in place for the 2016-17 audits.

Russell invited members to note the proposed revised approach to setting fees in order to provide greater transparency, detail of the remaining funding policy issues and the remaining work to be undertaken on policies, sector level issues and individual audit level fees. In addition, Russell invited members to consider the consultation process, results to date and analysis of the 2016 tender exercise for the procurement of private firms together with the proposed next steps.

There was a detailed discussion during which members requested clarifications on the section dealing with integrated joint boards.

Caroline Gardner commented that the report had been helpful in clarifying for members why and how the fee system currently operates and that because a detailed and complex system is being managed, the transition from a formulae driven model to something else had to be modelled robustly. She also advised that external support and challenge would be brought in to the work to ensure that we think through the options and impacts carefully.

Following discussion, the Board:

- noted the progress of the review so far
- agreed to the development of the overall approach
- agreed the proposed way forward on funding issues:
 - to seek funding by the Scottish Consolidated Fund for NHS performance audits
 - to seek funding by the Scottish Consolidated Fund for police and fire performance audit and best value work
- agreed that integrated Joint Board best value work be funded through existing performance audit/best value routes in the short term, but kept under review
- the Board approved the timetable set out in section 9, which would be incorporated into the Board action tracker.

Action:

- **The action tracker to be updated to include the items in section 9 of the report. (March 2016)**

(c) Public Sector Risk Monitoring

Stephen Boyle, Assistant Director, Audit Services Group, joined the meeting.

Stephen Boyle shared with members a presentation on Public Sector Risk Monitoring which provided an overview of our public sector audit risk and assurance framework.

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Stephen invited the Board to note the risk management processes which draws on audit intelligence from the shared risk assessments of local authorities, sector wide team risk assessment meetings, hotlist of emerging audit risks and support to sharing intelligence from sectors across the audit teams.

Following discussion, the members welcomed the briefing on Audit Scotland's monitoring of public sector audit risks.

Stephen Boyle, Assistant Director, Audit Services Group, left the meeting.

13. **Openness and Transparency of Board Business**

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the report on Board Openness and Transparency, a copy of which had been previously circulated. Martin invited members to consider the options for, and practical implications of, changes to the arrangements for increased openness and transparency around the conduct of Board business.

During detailed discussion, members considered a range of options. Although there was a general consensus on moving to more openness and transparency, Board members also raised concerns about operational arrangements for dealing with the timing of publication of minutes and reports, particularly when changes or corrections had been requested by the Board to the reports presented.

It was agreed that the Board would publish Board papers and minutes after the meeting, and that the Assistant Director, Corporate Performance and Risk would develop further operational guidance to sit alongside the general principles. It was further agreed that the Chief Operating Officer would discuss the operation of the new approach with Management Team and advise the Board in March of a proposed launch date for the new system.

Discussion of the quorum for Board meetings, which had been referenced under item 6, was continued until the next meeting.

Actions:

- **The Chief Operating Officer to advise the Board of a start date for the new approach to publishing board papers. (March 2016)**
- **The Assistant Director, Corporate Performance and Risk to develop operational guidance to sit alongside the principles presented in the report for the Board to consider. (March 2016)**
- **The quorum for Board meetings to be discussed at the next meeting. (March 2016)**

14. **AOB**

The Chief Operating Officer provided an update on the arrangements for the formal opening of the West Port office.

15. **Date of Next Meeting**

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It was noted that the next Audit Scotland Board meeting had been scheduled for **Thursday 24 March 2016** in the offices of Audit Scotland, 102 West Port, Edinburgh.

MEETING: 14 APRIL 2016

REPORT BY: SECRETARY TO THE ACCOUNTS COMMISSION

UPDATE REPORT

Introduction

1. The purpose of this report is to provide a regular update to the Commission on significant recent activity relating to local government, as well as issues of relevance or interest across the wider public sector.
2. The regular Controller of Audit report to the Commission which updates the Commission on his activity complements this report. The Commission's Financial Audit and Assurance Committee also receives a more detailed update on issues relating to local government. This report also complements the weekly briefing provided by Audit Scotland's Communication Team made available on the members' portal, which provides more detailed news coverage in certain areas.
3. The information featured is also available on the members' portal. Hyperlinks are provided in the electronic version of this report for ease of reference.

Commission business

4. The [Local Government Overview 2016](#) report was published on 17 March: the report found that budget reductions will mean starker choices for councils and will not be met simply by cutting staff and services. The report highlighted that in 2014/15 councils made performance improvements in areas such as educational attainment and waste recycling but that customer satisfaction in a number of services was decreasing. The report was covered by STV, the Scotsman, the Herald, the Daily Mail, the Daily Express and the National. In press releases the Scottish Government claimed that the budget reduction figures were less than those quoted in the report and COSLA questioned councils' ability to be innovative when they are subject to increasing central direction on how to deliver services. The report was downloaded 418 times and the podcast 253 times.
5. The [Changing Models of Health and Social Care](#) report was published jointly with the Auditor General on 10 March: the report found that a lack of leadership has meant that transformational change is not happening fast enough to deliver the ambitious vision for health and social care. The report was covered extensively in the press, including an in depth article in the Herald. It has been downloaded 2205 times and the podcast has been downloaded 652 times. It is to be considered by the Public Audit Committee after the Scottish Parliamentary election.
6. The third [Community Planning update](#) report was published by the Commission jointly with the Auditor General on 3 March. The press release accompanying the report notes that community planning has yet to plug the gap between expectations and delivery. Progress on community planning has not yet achieved the major change needed to fulfil its potential to reduce inequalities and put communities at the heart of delivering public services. The Commission Chair and the Auditor General attended the Public Audit Committee on 9 March to present a briefing on the report. The report was downloaded 960 times and the podcast 88 times.

7. Over the last 12 months the following reports have been published by the Commission the download statistics and increase from last month are shown below.

Report	Date	Report downloads	Podcast downloads
Local Government Overview 2016	17 Mar 2016	418	253
Changing Models of Health and Social Care	10 Mar 2016	2205	652
Community Planning update	3 Mar 2016	960	88
Procurement in Councils – impact report	8 Feb 2016	401 (+185)	-
City of Edinburgh Council Best Value	25 Feb 2016	247 (+148)	165 (+101)
Major Capital Investment in Councils - Follow Up	14 Jan 2016	960 (+195)	167 (0)
Argyll and Bute Best Value Audit	17 Dec 2015	482 (+19)	<30 (0)
Health and Social Care Integration	3 Dec 2015	4371 (+705)	453 (0)
The Moray Council: Audit of Best Value and Community Planning Follow Up	29 Oct 2015	915 (+89)	182 (0)
Falkirk Council: Audit of Best Value and Community Planning	27 Aug 2015	1104 (+84)	243 (0)
Scotland's Public Sector Workforce – Impact report	4 Aug 2015	752	-
Aberdeen City Council Best Value Audit	2 Jul 2015	1206 (+255)	35 (0)
East Dunbartonshire: Audit of Best Value and Community Planning Follow Up	4 Jun 2015	1177 (+122)	41

8. Douglas Sinclair, Christine May, Graham Sharp and Sheila Gunn will meet with the City of Edinburgh Council on the 11 April, to discuss the recent Best Value report. They will be accompanied by me and the Senior Manager for the Audit, Gordon Neil.
9. On 17 March, supplementary data from the [Major capital investment in councils - follow up](#) was published as an [interactive exhibit on the Audit Scotland website](#). The exhibit allows users to interact with the data and 'drill down' into it to get detailed information on individual council's spending. The interactive exhibit was accompanied by an [external blog post](#) by Ashleigh Madjitey, Audit Officer, Audit Scotland, on the benefits of presenting data differently. The blog post was featured on [Oregon Auditing's homepage](#). The audit team will present their findings to elected members at South Ayrshire Council on 27 April.
10. The Commission held its annual strategy seminar in Dunkeld on 15 and 16 March. The Commission will be considering at its next meeting a revised Strategy and accompanying engagement plan, reflecting the deliberations at the event.
11. The Strategic Scrutiny Group met on 31 March. The papers for the meeting are available on the members' portal. The main issues discussed by the Group were thus:

- The Group agreed the National Scrutiny Plan (this is elsewhere on today's agenda).
 - The Group considered feedback on implementation of the 2015/16 Shared Risk Assessment (SRA) process. This included aspects of the process that worked well alongside other areas where further improvements are needed to strengthen the effectiveness and impact of the process in future years. The Group agreed a number of improvements to the process. This issue will be considered by the Commission at a forthcoming meeting.
 - The Group considered an options paper on how scrutiny should evolve to meet the challenges facing public services in the 21st Century. Among the next steps that were agreed were the refinement of theory of improvement; development of options for further place-based developments; preparation of an options for change discussion paper; identification of potential barriers to change; and early external stakeholder engagement. The Commission will consider this further at forthcoming meetings.
12. On 3 March, Douglas Sinclair hosted a second round table event in relation to the forthcoming *How Councils Work* report on roles and responsibilities; the purpose was to listen to views of representatives from the Scottish public sector. The event was attended by:
- George Black, Former Chief Executive of Glasgow City Council, now a visiting professor to Strathclyde University's Public Policy Institute
 - Jenny Laing, Leader Aberdeen City Council
 - Jim Savege, Chief Executive of Aberdeenshire Council, representing the Society of Local Authority Chief Executives Scotland (SOLACE)
 - Karen Wiles, Head of Legal and Governance at Aberdeenshire Council, representing the Society of Local Authority Lawyers & Administrators in Scotland (SOLAR)
 - Lorna Johnston, Executive Director Standards Commission
 - Professor Richard Kerley, School of Management, Queen Margaret University
 - Tim McKay, Accounts Commission.

Audit Scotland

13. The official opening of the new Audit Scotland Edinburgh office was held on 24 March. The Rt. Hon. Tricia Marwick, Presiding Officer of the Scottish Parliament was the guest of honour and there was music from the Big Noise initiative. The event was successful with a range of external visitors joining staff for the celebrations and having tours of the office.
14. Audit Services group and the Performance Audit and Best Value group have published their 2016/17 business plans and workforce plans. The plans set out how the groups will plan and manage their workforce in the year ahead. Both plans take into consideration the new audit appointments and how best to link with other business groups.
15. The Auditor General was elected as a fellow of the Royal Society of Edinburgh in March. The Society announced 56 new fellows from arts, business, science, technology and academia.

Issues affecting local government

Scottish Government:

16. Health and Social care integration went 'live' on 1 April; there are now 30 integrated joint boards across Scotland.
17. On 2 March, the First Minister announced that council tax would increase for homes in higher bands if her party was re-elected, and that councils would be able to increase council tax by up to 3 per cent from 2017. Other parties have criticised the plans as not going far enough, and have set out their own proposals:
 - Labour has proposed a revised council tax based on a percentage of the property value, which would be revalued.
 - The Conservatives highlighted how the changes mirror the recommendations in a study they commissioned on local taxation. They also warn against Scotland developing a reputation as a high tax country as that will damage the economy.
 - The Liberal Democrats called the changes "timid"; they propose an increase of 1p to each income tax band to fund education.
 - The Scottish Greens propose replacing council tax with a new property tax based on up-to date values.
18. On 21 March, a £10.8 million People and Communities Fund was announced. The fund will be allocated to 185 projects across Scotland in 2016/17 to address inequalities in disadvantaged communities.
19. From 17 March, the Scottish Government launched a number of related consultation exercises in relation to the Community Empowerment (Scotland) Act 2015. They are seeking views on:
 - Community planning: proposed guidance and regulations
 - Participation requests: draft regulations
 - Asset transfer: draft regulations
 - Land reform and the crofting community right-to-buy: proposed secondary legislation
 - Land reform and the community right to buy abandoned, neglected or detrimental land: policy proposals

The consultations are open until various dates in June. More information can be found [here](#) The Commission will consider a proposed response at a forthcoming meeting.
20. On 17 March, the [Scottish Social Attitudes Survey 2015](#) was published; it found that:
 - 34 per cent of people trusted their local council to make fair decisions. This is compared to 18 per cent for the UK government and 49 per cent for the Scottish Government.
 - Trust in the Scottish Government was at the highest level since 1999 at 73 per cent. This is compared to 23 per cent for the UK government.
 - Satisfaction in the NHS has also increased, to 62 per cent, the highest since the survey began.
21. On 11 March, the Scottish Government announced five new indicators for the National Performance Framework. These were:

- Reduce underemployment
- Reduce the proportion of employees earning less than the Living Wage
- Reduce the pay gap
- Improve access to local greenspace
- Increase natural capital

The new indicators were developed after a round table which was set up to improve the identified gaps in the framework around: work and employment, environmental factors and the strength of our communities and relationships. There will be further reviews to the framework to respond to the Community Empowerment (Scotland) Act.

22. On 15 March, the Scottish Government announced a [consultation on proposals to change the Scottish Household Survey](#). The data is currently used as a measure for things like the national housing and regeneration outcome indicators, the child poverty strategy for Scotland and the Local Government Benchmarking Framework. The consultation proposes a reduction in the scope of the survey. There are two options:
- Biennial topics, i.e. halving the number of topics covered by the survey every year and collecting data on each topic every second year, with a small reduction in sample size (from 10,700 to 10,100).
 - Reduction of the overall survey sample size by around a third, from 10,700 to 7,450, with a small reduction in topics covered by the survey.

Given the Commission's particular interest in the Local Government Benchmarking Framework, it is proposed that a response be submitted to the consultation. Due, however, to the extremely short timescale for the exercise (the consultation closes on 19 April), it is proposed that I draft a response for sharing with Commission members for comment and signing off by the Chair.

23. On 10 March, the Scottish Government announced that councils would receive £406 million in grant subsidy to deliver more affordable homes in 2016/17. The grants are part of the £572 million affordable housing supply programme which will see 50,000 affordable homes built, 70 per cent of which will be for social rent.
24. On 9 March, the [Government Expenditure and Revenue Scotland 2014/15](#) was published; it reported that public sector expenditure for Scotland in 2014/15 was £68.4 billion, which is 9.3 per cent of UK expenditure and £1400 more per person than the UK average. It also reported that Scotland's net fiscal balance was a deficit of £14.9 billion, when a share of oil revenue is included, this is 9.7 per cent of the gross domestic product (GDP), the UK's deficit by comparison is 4.9 per cent of their GDP.
25. On 23 March, Andrew Flanagan, Chair of the Scottish Police Authority (SPA) published his [Review of Governance in Policing](#). The review had been commissioned by the Cabinet Secretary for Justice on 3 September 2015. The report makes 30 recommendations for improvement in the practice of governance arrangements for policing in Scotland. The report concludes that having an arms-length body in the SPA providing a separation from politics and policing is an appropriate model for governing a national police service. The report recommends improvements to ensure representatives of local communities feel sufficiently listened to regarding local policing, are able to input effectively into the development of national policy issues, and have a way of recording their 'voice' on the quality and effectiveness of Police Scotland's engagement with them. The report's other main findings include:

- SPA to strengthen its governance procedures and review with the Scottish Government and Police Scotland how working arrangements and protocols reinforce the positioning and authority of the SPA.
 - Clearer definition of the SPA's areas of responsibilities and how it conducts its business.
 - Review of the underlying systems and processes used by Police Scotland to provide information with a view to improving clarity and enhancing the quality of analysis and benchmarking.
26. In terms of local engagement, the report sets out the key issue as being that local scrutiny bodies do not feel they are sufficiently listened to regarding local policing and they are unable to input into national policy issues. Local commanders do not have sufficient autonomy to adapt national policies to meet local requirements. The report sets out a number of recommendations to improve the communication and engagement processes of Police Scotland at a local level and proposed a more formal approach to escalation of issues. It also suggests a more formalised relationship between local scrutiny bodies and the SPA.

Scottish Parliament

27. The current Scottish Parliament session drew to a close on 23 March; the first meeting of the new session will be on 12 May 2016 after the Holyrood elections. The Queen will address the new parliament on 2 July.

Parliamentary Committee News.

Local Government and Regeneration Committee:

28. At its meeting on 16 March, the Committee took evidence from the Minister for Transport and Islands on the Disabled Persons (Badges for Motor Vehicles) (Scotland) amendment regulations 2016.
29. On 9 March, the Committee considered the Burial and Cremation (Scotland) Bill and agreed amendments. It also considered their draft annual report in private.
30. The Committee published a [legacy paper](#) setting out the work they have carried out over the fourth parliament session on 16 March. It recommended that its successor:
- Build on their successful use of social media to engage with communities
 - Continue to monitor the use of fixed odd betting terminals and
 - Investigate the operation of trading standards.
31. It also published its [annual report 2015/16](#) on 17 March.

Public Audit Committee:

32. The Public Audit Committee met once during March, on the 9th. At that meeting it took evidence from Douglas Sinclair and Caroline Gardner on the Community Planning: Update report. The full report of the session can be found [here](#).
33. At the same meeting the Committee considered responses from the Scottish Government on:
- The Auditor General report *NHS in Scotland 2015*, on which it agreed to write to the Scottish Government for further clarification.

- The joint Commission and Auditor General audit report on health and social care which it agreed to note.
 - The Auditor General report *Implementing the Scotland Act 2012: An update* which it also agreed to note.
34. The Committee published a [legacy paper](#) setting out the work it has carried out over the fourth Parliament session on 16 March. It published their [annual report 2015/16](#) on the 17 March.

Infrastructure and Capital Investment Committee

35. At its meeting on 9 March, the Committee:
- Took evidence from the Managing Director of Scotrail Alliance.
 - Heard a transport update from the Minister for Transport and Islands and Transport Scotland.
 - Considered a petition on safety improvements on the A90-A937 which they agreed to keep open and include in the legacy report for the next session.
36. On 2 March, the Committee heard an update on housing issues from the Minister of Housing and Welfare. It also heard an update on the Forth Replacement Crossing from the Project Director and Project Manager.
37. The Committee published its [inquiry into the circumstances surrounding the closure of the Forth Road Bridge](#) on 11 March. It also published a [legacy paper](#) setting out the work it has carried out over the fourth parliament session and an [annual report 2015/16](#) on 18 March.

Finance Committee

38. At its meeting on 9 March the Committee took evidence in a round table format on the shift towards prevention in the public sector. At the same meeting it took evidence from John Swinney, Cabinet Secretary for Finance, Constitution and Economy on a number of subordinate legislations relating to the Budget and the Scottish Landfill Tax.
39. At an additional meeting on 3 March, the Committee took evidence from the Chief Secretary to the Treasury, Rt. Hon. Greg Hands, on Scotland's Fiscal Framework. The day before at their meeting the Committee took evidence from John Swinney on the same topic.
40. Also on the 2 March, the Committee considered the [Land and Buildings Transaction Tax \(Amendment\) \(Scotland Bill\)](#)
41. The Committee published a [legacy paper](#) setting out the work it has carried out over the fourth parliament session and their [annual report 2015/16](#) on 23 March.

Bills – Progress Updates:

42. The following Bills have progressed since my last report:
- The [Land Reform \(Scotland\) Bill](#) passed stage 3 on 17 March.
 - The [Scottish Fiscal Commission Bill](#) passed stage 3 on 9 March
 - The [Education \(Scotland\) Bill](#) was received royal assent on 8 March.
 - The [Private Housing \(Tenancies\) \(Scotland\) Bill](#) passed stage 3 on 18 March.

- The [Land and Buildings Transaction Tax \(Amendment\) \(Scotland\) Bill](#) passed stage 3 on 9 March.
43. As the Scottish Parliament is in dissolution, the [Footpath Parking and Double Parking \(Scotland\) Bill](#) which was being considered at stage 1 by the Local Government and Regeneration Committee, will not be considered further.

Scotland Bill - Updates:

44. [The Scotland Bill 2015-16](#) received royal assent on 23 March. Lord Smith of Kelvin has stated that the Bill puts into law the agreement that the five main political parties in Scotland reached, and that the fiscal framework means that the recommendations of his commission have been delivered in full.
45. On 10 March, the Scottish Affairs Committee published its report - [The implementation of the Smith Commission](#). The report says that the Smith Agreement “*represents the best of both worlds for Scotland and its people, giving much greater fiscal autonomy and accountability, but maintaining a good degree of protection within the wider UK economy from fiscal risks and shocks*”.

COSLA, Improvement Service etc:

COSLA

46. On 21 March, COSLA launched its [Choose Local manifesto](#) which sets out its ambitions for more decisions to be taken locally. As part of the manifesto COSLA are

‘asking every parliamentary candidate to sign up to five key pledges that can put local democracy on the map. All can be delivered within the first 100 days of the next Parliament and all will help set a course towards better and more equal outcomes for all of our communities’.

The five key pledges focus on giving more autonomy to local communities, they are:

- 1) Make Scotland’s public services local by default - with a review of public services to localise and simplify.
- 2) Redraw the partnership between local and national governments – by holding a summit to deliver a new framework.
- 3) Give communities financial choices – by putting local control at the heart of local taxation
- 4) Open up Scottish democracy – by joining COSLA in establishing a constitutional convention to design a new approach to accountability.
- 5) Join up thinking on reform – by focusing on the debate and outcomes rather than sound bites.

Improvement Service

47. The Improvement Service published [#FollowMe: A guide to social media for elected members](#). The guide covers what to consider when using for social media and how to engage effectively and safely with constituents using it. The Improvement Service hope that the guidance will result a consistent approach for communications advising elected members on strategies and approaches to social media.

SOLACE

48. On 3 March, SOLACE (at UK level) published a new report, [Transforming Services, Transforming Leadership](#). The report examines the view of SOLACE members on local government priorities and drivers as well as the future of local government finance and devolution. They reported that:
- 83% of members expect the state of local government finance over the next ten years to decline
 - 77% of members agree that more of the money spent by local authorities should be raised locally.
 - Most believe that councils' remit will grow, and that it will deliver a localised agenda.

Current activity and news in Scottish local government:

Individual councils:

49. On 22 March, the Scottish and UK governments announced a £315 million city region deal for Inverness and the surrounding Highland area. The Scottish Government has committed £135m of investment, the UK government £53m and Highland Council and its regional partners will contribute £127m. The money will be invested in improving transport connections, increasing digital connectivity, building homes and investing in life sciences. The Highland Council expect the investment to result in up to £1 billion of private sector investment over the next 10 to 20 years.
50. Highland Council [announced](#) on 24 March that it will undertake a complete redesign of the Council. The redesign will be led by a board of members and will aim to address the budget challenges faced by the Council.
51. There have been no council by-elections since my previous report.

Scrutiny, inspection, regulatory and related bodies

Scottish Public Sector Ombudsman (SPSO):

52. The newsletter [SPSO News – March](#) summarises February 2016 case numbers, outlines investigations reports, recent SPSO news and highlights emerging issues. More information on the SPSO's work, including detailed Investigations and decision reports, is available on the [Our findings](#) webpage. More detailed intelligence from the SPSO is considered on a six-monthly basis by the Financial Audit and Assurance Committee.
53. The SPSO has taken on a [new role](#) as reviewer for the Scottish Welfare Funds, people who are unhappy with councils decisions on crisis grants and community care grants can now apply to them for an independent review. Councils will still make decisions on applications to the grant and review any initial complaints about those decisions. The SPSO will now carry out an independent review if the customer still is not satisfied, in the past the council undertook this second review.
54. In [Public Finance](#) magazine, SPSO warns that additional funding could be needed to meet an increase in complaints from the public, whilst managing a decreased budget. Their remit has also increased, including prisons and water provision, and in the future the new Scottish Welfare Fund and issues arising from the merger of health

and social care provision. Around half the cases that reach the ombudsman are upheld.

Commissioner for Ethical Standards in Public Life in Scotland:

55. Since the previous meeting of the Commission, four decisions on complaints relating to councillors were published by the [Commissioner](#). The Commissioner decided that in all four complaints the councillors did not contravene the Councillors' Code of Conduct. The complaints were against
- [Councillor Geva Blackett](#), Aberdeenshire Council
 - [Councillor Alastair Ross](#), Aberdeenshire Council
 - [Councillor Hamish Vernal](#), Aberdeenshire Council
 - [Councillor Hugh Dunsmuir](#), South Lanarkshire Council

Standards Commission for Scotland:

56. There was one hearing by the [Standards Commission for Scotland](#) since my last report. At a hearing on 15 March the Commission suspended Councillor Colin Brown of Angus Council for two months. This is because Councillor Brown failed to disclose the financial interest of a close relative when participating in discussions about the disposal of Council buildings.
57. The Standards Commission for Scotland has made changes to their [guidance on the Councillors Code of Conduct](#) based on feedback they had received. The update makes the code more fit for purpose and includes illustrations and examples of factors that councillors should consider when interpreting the code. They have also added guidance on the use of social media.

Care Inspectorate

58. Following consultation the Care Inspectorate is changing the way it inspects, it is introducing [Excellence in Care](#) from the 1st April. The changes will see shorter inspection reports designed to help services improve the outcomes for their users. The new approach was developed in consultation with providers and service users and takes into consideration the Scottish Government's new national care standards.
59. On 29 March, the Care Inspectorate published a [one year progress report](#) on the Vision and Strategy for Social Services in Scotland. The report finds that even at this early stage real progress is being made collectively by all parts of the sector.

Other UK Audit Bodies

60. On 3 March, the National Audit Office (NAO) published a report on [personalised commissioning in adult social care](#). The audit found that the Department of Health needs to gain a better understanding of the different ways to commission personalised services for users, and how these lead to improvements in user outcomes.
61. On 23 March, the NAO published a report on [Local Enterprise Partnerships](#) the report found that the remit of the partnerships has grown significantly since 2010 but the approach taken by the Department of Communities and Local Government to oversee Growth Deals risks future value for money.
62. On 1 April, the Auditor General for Wales published the [Annual Plan 2016-17](#) for the Wales Audit Office (WAO). The report sets out the priorities for the current year and how the WAO will respond to and help the public sector in Wales respond to budget challenges. The strategy is based around four strategic themes:

- Continue to undertake audit work with an austerity emphasis
- Report more comprehensively on the effectiveness of governance arrangements
- Strengthen its workforce strategy so it can better respond to future developments
- Make more effective use of our data.

63. On 31 March the Northern Ireland Audit Office published its [Local Government Code of Audit Practice 2016](#).

England and Wales

64. On 1 April, the Greater Manchester devolution deal – in which for the first time a single body – the Greater Manchester Health and Social Care Partnership – will control health and social care spending across the conurbation, a sum of more than £6 billion - went live.

65. A number of local authorities have raised objections about devolution deals with the Government. The North East Combined Authority, consisting of seven local authorities, has written to ministers seeking greater certainty over areas of financial devolution following a consultation on its proposed agreement. , Councillors in Cambridgeshire passed a motion opposed to the devolution deal announced for East Anglia by George Osborne in the Budget. Councillors object to the condition of a mayor being attached to the deal.

66. Local Government Select Committee chair Clive Betts MP has asked Communities Secretary Greg Clark to confirm that four-year funding deals offered to local authorities will not be affected by business rate exemptions announced in the Budget. In a letter, Betts highlighted that authorities had been offered the deal in the last December's settlement and would need assurances that the offer still stands after business rate tax cuts. In the Budget earlier this month, Chancellor George Osborne announced that small firms would be exempted from business rates from next April. This will reduce the revenue raised, which is currently 50% devolved to councils, by £1.5 billion in 2017/18, and over £1.4 billion in each of the next three years compared to previous forecasts, although Budget documents say local authorities will be compensated for the loss of income. In addition, the chancellor set out plans for additional savings of £3.5bn to be made by 2019/20.

Conclusion

67. The Commission is invited to:

- Agree the proposal to respond to the Scottish Government consultation on the Scottish Household Survey (see paragraph 22); and
- Consider and note this report.

Paul Reilly
Secretary to the Accounts Commission
6 April 2016

MEETING: 14TH APRIL 2016**REPORT BY: DIRECTOR OF PERFORMANCE AUDIT AND BEST VALUE****NATIONAL SCRUTINY PLAN**

Purpose

1. This report introduces the National Scrutiny Plan (NSP) for Local Government 2016/17 and its related commentary report (both attached). It draws on, and summaries, the outcomes of the 2016/17 shared risk assessment process.

Background

2. This is the seventh NSP produced on behalf of the Local Government Scrutiny Co-ordination Strategic Group (SSG) since the introduction of the local government shared risk assessment process (SRA) in 2009.
3. The NSP is aggregated from the 32 local scrutiny plans (LSPs) prepared by Local Area Networks using the shared risk assessment process. It summarises planned strategic scrutiny work from 1 April 2016 to 31 March 2017 in each of Scotland's 32 councils. It includes all strategic scrutiny activity of which we are currently aware. It also covers validating self-evaluation work between scrutiny bodies and councils that is designed to support improvement.
4. At its meeting on 31st March 2016, the SSG considered learning points from a review of this year's SRA process and agreed proposals to ensure that the SRA process continues to evolve and adapt appropriately in future. This includes the SSG's increasing interest in supporting improvement and policy developments such as health and social care integration.
5. The content of the NSP has been considered by all relevant scrutiny partners to provide assurance that the proposed NSP is proportionate, well co-ordinated and can be resourced by each organisation. All scrutiny partners are content that the commentary report that runs alongside the NSP accurately reflects the views of their respective organisations. The SSG approved the NSP on 31st March 2016. The NSP and all 32 LSPs were also published (i.e. uploaded on to the Audit Scotland website) on 31st March 2016.

Conclusion

6. The Commission is asked to endorse the published National Scrutiny Plan and the commentary report.

Fraser McKinlay
Director of Performance Audit and Best Value
5 April 2016

National scrutiny plan 2016/17

A summary of local government
strategic scrutiny activity



Prepared on behalf of the Strategic Scrutiny Group
March 2016

ACCOUNTS COMMISSION 

 AUDIT SCOTLAND



Inspectorate of
Prosecution in
Scotland



Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Background



1. The National Scrutiny Plan for local government has been jointly prepared by members of the Strategic Scrutiny Group (SSG). This group comprises Scotland's main public sector scrutiny bodies – the Accounts Commission, Audit Scotland, Education Scotland, the Care Inspectorate, Healthcare Improvement Scotland, Her Majesty's Inspectorate of Constabulary in Scotland, Her Majesty's Fire Service Inspectorate, Her Majesty's Inspectorate of Prisons, The Inspectorate of Prosecution in Scotland and the Scottish Housing Regulator. Details of each body can be found in [Appendix 1](#). In this report, they are collectively referred to as scrutiny bodies.

2. The SSG was established in February 2008 to support the delivery of better coordinated, more proportionate and risk-based local government scrutiny. Since then, local government scrutiny bodies (Audit Scotland, Care Inspectorate, Education Scotland, the Scottish Housing Regulator and appointed auditors (including private sector Audit Firms)) have worked together through Local Area Networks (LANs) to share intelligence and agree the key scrutiny risks in each of Scotland's 32 councils. Annually, each LAN prepares a Local Scrutiny Plan (LSP) setting out the planned scrutiny activity for the council to respond to those specific risks. LSPs also include nationally programmed scrutiny, such as the Care Inspectorate's joint inspections of services for children, young people and families and joint inspections of adult health and social care services. This approach, called Shared Risk Assessment (SRA), is designed to ensure well coordinated proportionate and risk-based scrutiny.

3. This 2016/17 National Scrutiny Plan (NSP) for local government is one of the key outputs from the SRA process. It is the seventh such plan and summarises the strategic scrutiny work¹ from April 2016 to March 2017 in each of Scotland's 32 councils. It includes all strategic scrutiny activity of which we are currently aware. It also covers validating self-evaluation work between scrutiny bodies and councils that is designed to support improvement.

4. A separate table showing planned scrutiny activity is available on the [Audit Scotland website \[PDF\]](#) .

¹ Strategic scrutiny work does not include scrutiny activity carried out at service unit or institution level, such as inspections of individual schools or care homes, or the annual financial audit of public bodies.

Part 1

Strategic context



5. This year's NSP has been prepared at a time of significant change in the public sector delivery landscape as a consequence of, among other things, the establishment of new statutory Integration Joint Boards (IJBs) to implement health and social care integration. Also the passing of the Community Empowerment (Scotland) Act, which places new statutory duties on public bodies to work together to improve outcomes and address inequalities through community planning.

6. Alongside those developments major changes are also taking place in the world of scrutiny, such as:

- the SSG develops its collective response to the Scottish Government's public service reform agenda (eg, health and social care integration and the Community Empowerment Act)
- the SSG reflects further on its experience of place-based audit and inspection and what that means for its work and the shared risk assessment (SRA) process
- the Accounts Commission develops its plan for implementing its new approach to auditing Best Value in local government, which will take effect as part of the new local government audit appointments from 1 October 2016
- the Care Inspectorate and its partners review their approach to joint inspections of services for children, young people and families and adult health and social care services to ensure that they reflect national priorities, the creation of IJBs and the new joint inspection responsibilities for the Care Inspectorate and Healthcare Improvement Scotland around integrated health and social care and joint strategic commissioning
- how Education Scotland considers best to provide public assurance on the extent to which Education Authorities are meeting their improvement duties under the Standards In Scotland's Schools Act 2000.


Part 2


Scrutiny activity



National scrutiny programmes

7. There is a range of national scrutiny activity planned across councils over the next year and beyond. Where activity has been identified for 2016/17 that impacts on individual councils, it is included in the NSP. Significant pieces of national scrutiny activity that are planned during 2016/17 include:

- Audit Scotland's programme of national performance audits that it undertakes on behalf of the Accounts Commission and the Auditor General for Scotland. Audit Scotland has several performance audits covering local government planned during 2016/17. It will be carrying out audits covering social work, early learning and childcare, and equal pay, as well as follow-up audits on self-directed support and maintaining Scotland's roads. The [performance audit programme for 2016/17](#)  is available online. Audit Scotland will also continue to carry out a national programme of housing benefit risk assessments across councils.
- The Care Inspectorate will undertake Validated Self-Evaluation (VSE) activity with Alcohol and Drug Partnerships (ADPs). The purpose of this activity is to support the validation of ADPs and services' self-assessment of local implementation and service compliance with the Quality Principles: Standard Expectations of Care and Support in Drug & Alcohol Services. The findings from this validation work will be reviewed by the Scottish Government to consider and inform the future programme of national support that will further encourage and support delivery of continued improvements at ADP and service level. It is anticipated that all 30 ADPs will participate. The Care Inspectorate will provide brief, customised feedback to each ADP in order to help build their capacity for self-evaluation. A national overview report will also be completed by the end of 2016.
- Education Scotland will continue to work in partnership with councils to carry out a VSE of educational psychology services across all councils over a two-year period during 2016/17. It will also review the quality of Careers Information Advice and Guidance services delivered by Skills Development Scotland across all council areas. This will be the second of a three-year programme that began in 2015/16. In addition, Education Scotland will continue to engage with councils for the purpose of VSE.
- HMICS will continue to inspect local policing divisions across Scotland. Divisional inspections will cover partnership working and in particular, local scrutiny and engagement between Police Scotland and councils and the local Community Planning Partnership and Community Safety Partnership. Local police inspections also include a 'plus' element, which aims to

investigate national issues through a local lens. These elements are subject to separate reports published on its website www.hmics.org.uk .

- HMFSI will continue to inspect local fire and rescue services across Scotland over the next five years. These inspections will examine, among other things, local scrutiny and engagement between the Scottish Fire and Rescue Service and councils. As part of its programme, HMFSI will inspect four local fire and rescue services during 2016/17. HMFSI may also carry out ad hoc inspections in response to specific events, which can involve contact with local authorities.
- The Scottish Housing Regulator (SHR) will publish the findings of its thematic inquiry work completed during 2015/16. It will carry out further thematic inquiries during 2016/17. The SHR will also review the Scottish Social Housing Charter data submitted by landlords and carry out data accuracy visits during the second quarter of 2016/17. Where councils are to be involved in a thematic inquiry or a data accuracy visit, the SHR will confirm this directly with the council and the LAN lead.

Scrutiny developments

8. There is a range of scrutiny developments taking place during 2016/17.

9. In December 2014, the Accounts Commission concluded its review of Best Value and set out principles for a new approach to auditing Best Value. These principles include the need for more frequent assurance on Best Value across all 32 councils, integrating the audit processes, an increased emphasis on driving improvement, and a strong focus on the quality of service experienced by the public and the outcomes achieved.

10. The new approach will be rolled out from October 2016 but will continue to evolve. It will include assessment each year of aspects of Best Value as part of an integrated annual audit and a public report (Controller of Audit report to the Accounts Commission) for each council at least once in a five-year period that will bring together an overall picture of the council drawn from a range of audit activity. The initial iteration of the rolling programme, which will be reviewed and refreshed annually in response to factors including the SRA, will be presented to the Accounts Commission in April 2016. The results of this current SRA will make a significant contribution to the audit intelligence that will underpin the new approach, and inform the development of the initial programme. 2016 is a transition year which will involve the further development of the intelligence about each council for the new approach and the handover to new audit appointments. While preparation for the new approach progresses, Best Value audit work will continue as set out in the NSP. In addition, elements of the new approach, such as reporting mechanisms, will also be tested in some councils.

11. The Care Inspectorate, together with partner regulatory agencies (Healthcare Improvement Scotland, Education Scotland and HMICS) will continue to deliver a coordinated programme of joint scrutiny of Community Planning Partnerships and integration joint boards. Partner agencies are also reviewing the methodology for joint inspections of adults' services. As well as joint strategic scrutiny programmes, the Care Inspectorate will also be reviewing its approach to strategic commissioning, reviewing the validated self-assessment of alcohol and drug partnerships and undertaking a variety of thematic programmes of work.

Part 3

Strategic scrutiny group development and improvement priorities



12. The context in which the SSG operates has changed significantly since its establishment in 2008. A number of new scrutiny bodies have been created (Education Scotland, Care Inspectorate, Healthcare Improvement Scotland) and others have seen either their role and status amended (SHR) or the nature of the service that they inspect change from a local to national service (HMICS, HMFSI).

13. In August 2015, the SSG reflected on the progress that it has made since it was established in 2008. This acknowledged the SSG's strong track record of delivery across a range of fronts, including:

- building relationships and trust across agencies
- implementing the SRA process, which has improved coordination of scrutiny activity across the local government sector, and
- establishing the SSG as a useful forum for discussing key issues of joint strategic concern.

14. The SSG has also considered its future direction in the context of a much changed and rapidly changing public sector landscape that includes:

- the increasingly complex web of public service delivery arrangements
- demographic and other demand pressures facing Scotland's public services at a time of significantly reducing public finances
- new fiscal powers that are transferring to Scotland following the Smith Commission under the Scotland Act 2015
- the specific Scottish public policy approach of focusing on outcomes, prevention and partnership working, and
- Scotland's public service reform agenda (eg, health and social care, community empowerment, welfare reform).

15. In the context of this changing public sector policy and delivery landscape, the SSG will continue to work on improving the value it adds by:

- acting as the main forum for scrutiny bodies to develop coordinated strategic responses to major public-sector legislative changes or policy developments (including public service reform)

- broadening its scrutiny coordination role to include national thematic scrutiny activity and partnership-based audit and inspection work
- strengthening its focus on supporting improvement and promoting best practice in Scotland's public services, and
- better driving continuous improvements in operational scrutiny practices (eg the alignment of scrutiny approaches, promoting more shared training across agencies, implementing more consistent approaches to self-evaluation and supporting improvement).

16. The SSG also continues to act as a forum for scrutiny bodies to discuss key strategic scrutiny developments (eg, the Accounts Commission's new approach to auditing Best Value in local government; Healthcare Improvement Scotland's new approach to inspecting and building improvement capacity in the NHS; Education Scotland's developments in inspection approaches; and the Care Inspectorate's review of its approach to inspecting children and adults' services) and identifying opportunities for aligning assessment framework and methodologies.

17. The SSG has identified three priority areas for scrutiny developments that it wishes to take forward over the next year. These are:

- a shared vision and values for modern effective scrutiny, that sets out the added value that scrutiny brings and how it contributes to improvement
- a route map for how scrutiny needs to adapt and change to meet the challenges of 21st century public service delivery
- the delivery of a step change in the alignment and integration of operational scrutiny activity.

18. It plans to take forward these three interconnected strategic developments as a single programme of work over the coming year.

Appendix 1

The Local Government Scrutiny Coordination Strategic Group members



Accounts Commission	The Accounts Commission is a non-departmental public body (NDPB). The Accounts Commission is the public's independent watchdog for local government in Scotland. Its role is to examine how Scotland's 32 councils manage their finances, help these bodies manage their resources efficiently and effectively, promote Best Value and publish information every year about how they perform.
Audit Scotland	Audit Scotland is a statutory body providing services to the Accounts Commission and the Auditor General for Scotland (AGS). Working together, the Accounts Commission, the AGS and Audit Scotland ensure that public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.
Care Inspectorate	The Care Inspectorate (formally, Social Care and Social Work Improvement Scotland) is a non-departmental public body (NDPB). The Care Inspectorate's purpose is to provide assurance and protection for people who use care, social work and children's services and to support improvement in social care and social work provision.
Education Scotland	Education Scotland is an executive agency. It is the Scottish Government's national development and improvement agency for education. It is charged with providing support and challenge to the education system, from early years to adult learning, in line with the government's policy objectives.
Healthcare Improvement Scotland	Healthcare Improvement Scotland (HIS) is a health body. The function of HIS is to improve the quality of the care and experience of every person in Scotland every time they access healthcare by supporting healthcare providers.
Her Majesty's Fire Service Inspectorate	The Fire Service Inspectorate in Scotland exists to provide independent, risk based and proportionate professional inspection of the Scottish Fire and Rescue Service. Its purpose is to give assurance to the Scottish public and Scottish Ministers that the Service is working in an efficient and effective way, and to promote improvement in the Service. Through this, the Inspectorate provides external quality assurance to the Service, and provides support to the Service in delivering its functions.
Her Majesty's Inspectorate of Constabulary in Scotland	Her Majesty's Inspectorate of Constabulary in Scotland (HMICS) provides independent scrutiny of both Police Scotland and the Scottish Police Authority. Its approach is to support Police Scotland and the Authority to deliver services that are high quality, continually improving, effective and responsive to local needs. It can inspect other UK police services that operate in Scotland and are members of the National Preventive Mechanism, inspecting police custody centres to monitor the treatment and conditions for detainees.
Her Majesty's Inspectorate of Prisons for Scotland	Her Majesty's Chief Inspector of Prisons for Scotland is required to inspect the 15 prison establishments throughout Scotland in order to examine the treatment of, and the conditions for prisoners. The Chief Inspector also has responsibility for the inspection of legalised police cells. These are cells and the treatment of and conditions for prisoners under escort.
Her Majesty's Inspectorate of Prosecution	The Inspectorate of Prosecution in Scotland is headed by HM Chief Inspector who reports directly to the Lord Advocate. The aim of the Inspectorate is to enhance the quality of service and public confidence in the Crown Office and Procurator Fiscal Service through independent inspection and evaluation.
Scottish Housing Regulator	The Scottish Housing Regulator (SHR) is a non-ministerial department. The statutory objective of the SHR is to safeguard and promote the interests of people who are or may become homeless, tenants of social landlords, or recipients of housing services provided by social landlords.

Appendix 2

Glossary



Local Scrutiny Plan (LSP)	A document which captures agreed areas of risk and good practice, and the resulting scrutiny response for each council. It is the primary planning document for scrutiny bodies.
Local Area Network (LAN)	There is a LAN for each council, comprising representatives of all the scrutiny bodies who engage with the council. LAN members ensure that information and intelligence held by each scrutiny body is shared.
Local Government Benchmarking Framework (LGBF)	The LGBF reports on how much councils spend on particular services, their performance and how satisfied people are with these services. It supports-evidence based comparisons between similar councils so that they can work and learn together to improve their services.
National Scrutiny Plan (NSP)	The aggregation of the individual council's scrutiny plans into a national plan detailing all the scrutiny work planned across Scottish councils.
Scottish Social Housing Charter	The Scottish Social Housing Charter sets the standards and outcomes that all social landlords should aim to achieve when performing their housing activities. The Charter was approved by the Scottish Parliament and came into effect from 1 April 2012.
Shared Risk Assessment (SRA)	A joint approach using key information about local government to plan scrutiny activity that is proportionate and based on risk.
Validated Self-Evaluation (VSE)	Assistance provided by Education Scotland to councils on request, to help them develop their own methods and quality of self scrutiny.

National scrutiny plan 2016/17

A summary of local government strategic scrutiny activity

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

www.audit-scotland.gov.uk 

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National Scrutiny Plan for Local Government 2016/17

Council	Q1			Q2			Q3			Q4		
	April	May	June	July	August	September	October	November	December	January	February	March
Aberdeen City												
Aberdeenshire				HB review	EPS review							
Angus		CSI										
Argyll & Bute												
Clackmannanshire	EPS review	LAN follow up work										
Dumfries & Galloway	SHR									EPS review		
Dundee City				HB review	EPS review						CIAG	
East Ayrshire		HB review			EPS review							
East Dunbartonshire			BV work									
East Lothian			SHR		SHR							
East Renfrewshire		HB review								EPS review		
City of Edinburgh							ASI					
Eilean Siar	EPS review											
Falkirk	BV work				EPS review							
Fife						HB review				EPS review		
Glasgow City	SHR							CSI		Fire		
Highland	EPS review						CIAG					
Inverclyde	HB review											
Midlothian										CIAG		
Moray					CSI		Fire					
North Ayrshire	EPS review											
North Lanarkshire							CIAG F/U			EPS review		
Orkney Islands	EPS review			ASI								
Perth & Kinross										SHR		
Renfrewshire							CIAG					
Scottish Borders				Fire						ASI		
Shetland Islands												CIAG F/U
South Ayrshire	Fire	BV work										
South Lanarkshire	CSI					HB review				CIAG		
Stirling												
West Dunbartonshire					CSI							
West Lothian												CSI

Key

Audit Scotland	
Best Value (BV)	
Follow-up Best Value (FBV)	
Targeted Best Value Audit (TBV)	
Community Planning Partnership follow-up (CPP F/U)	
Housing Benefit Risk Assessment (HB)	
Auditor	
Additional annual audit work (AAA)	

Care Inspectorate/Multi-agency	
Children's Services Inspection (CSI)	
Adult Services Inspection (ASI)	
Education Scotland	
Education Psychology Service (EPS)	
Careers Information (CIAG)	
Careers Information (CIAG) Follow-up	

HMICS	
Local Policing +	
HMFSI	
Local area inspections (Fire)	
Scottish Housing Regulator	
Performance Investigation (SHR)	
Local Area Network (LAN)	
LAN follow up work	

MEETING: 14 APRIL 2016

REPORT BY: SECRETARY TO THE COMMISSION

COMMISSION ANNUAL REPORT AND ANNUAL ACTION PLAN PROGRESS REPORT

Purpose

1. This report proposes for publication the progress report against the Commission's annual action plan.

Background

2. The Commission publishes a three-year rolling Strategy, updated annually. Alongside this, it publishes an annual action plan, setting out detailed commitments. This year's Strategy and action plan, covering the year to 31 March 2016, was published on 22 September.

Progress and next steps

3. The attached paper in the Appendix sets out progress against the annual action plan.
4. The Commission has fulfilled all of its commitments in a general sense, with some leading to further work and thus continuing commitment. A principal piece of our work is the ongoing revision of Best Value auditing, which will continue to involve substantial work in coming months, with new auditors starting their commitments in this regard in the Autumn, and the Commission engaging formally with stakeholders. Three of the five planned performance audits have been completed and published, with the two outstanding audits, on roads maintenance and social work, at a late stage of progress. The five planned Best Value audits were completed and published. Major publications on community planning and our local government overview were also published as scheduled. Our annual performance information direction was published and is an important vehicle in fulfilling our statutory responsibility to ensure good performance information in councils.
5. All our reports continue to attract substantial press attention and coverage, and this is complemented by wide engagement activity, which is reported in the progress report against our Engagement Plan, which is elsewhere on today's agenda.
6. The Commission's annual report complements this publication, providing a rounded perspective of the Commission's activities over the year. This will be submitted to the Commission for approval at its next meeting.
7. It is proposed that the annual action plan progress report, and accompanying annual report, be published on 26 May 2016. The progress report against the Commission's engagement plan is also proposed to be published alongside.

Looking forward: revised Commission Strategy

8. It is proposed that a draft updated Commission Strategy, which includes a revised an updated annual action plan, and reflecting the Commission's discussions at its recent annual strategy seminar, be considered by the Commission at its next meeting in May.

Conclusion

9. The Commission is invited to:

- a) Approve the attached progress report against its annual action plan.
- b) Note that an accompanying draft annual report will be submitted for approval to the next Commission in May.
- c) Note that draft updated Commission Strategy and annual action plan for next year will be submitted for approval to the next Commission meeting in May.

Paul Reilly
Secretary to the Commission
4 April 2016

APPENDIX 1: ACTION PLAN PROGRESS REPORT

Key to progress: **Complete and continuing** means that while an action has been completed, it continues as part of further activity, usually as part of an ongoing cyclical process. **Continuing** means that the action has been started but will require further input from the Commission.

Action	Progress at end March 2016
Update the audit by:	
<ul style="list-style-type: none"> In conjunction with the Auditor General, agreeing a new Code of Audit Practice reflecting our changing approach to audit (by September 2015). 	<p>Complete</p> <p>The Commission approved a draft new Code of Audit Practice in September 2015. The consultation went public on 22 October 2015 and closed on 3 December. The Commission approved the new Code on 10 March 2016.</p>
<ul style="list-style-type: none"> Using this new Code as the basis for a new round of auditor appointments (by the end of 2015). 	<p>Complete</p> <p>The Commission approved a strategy for the new round of appointments in August 2015. The invitation to tender was issued on 6 November, with tenders to be submitted by 16 December. The Commission approved the provisional appointments of auditors on 10 March 2016, with final recommendations to be considered by the Commission on 12 May.</p>
<ul style="list-style-type: none"> Ensuring that our annual overview report, to be published in early 2016, reflects our key themes. 	<p>Complete</p> <p>The Commission's overview report was published on 17 March. It received extensive press and broadcasting coverage, including BBC TV Scotland's <i>Scotland 2016</i> programme. The report has been downloaded 418 times and the podcast downloaded 253 times.</p>
<ul style="list-style-type: none"> Putting in place a new approach to the audit of Best Value which is better integrated with other audit work and will provide more regular assurance about the performance of all councils (by April 2016). 	<p>Continuing</p> <p>At its meeting in December 2015, the Commission noted progress with developing the new approach. The Commission will be asked on 14 April 2016 to approve a new approach, with further engagement with stakeholders thereafter.</p>
<ul style="list-style-type: none"> As part of this, working with other stakeholders to review and update the characteristics of Best Value, including ensuring that it reflects our key themes set out above (by April 2016). 	<p>Continuing</p> <p>The Commission wrote to the Cabinet Secretary in May 2015 proposing that statutory guidance be reviewed. This has been agreed by the Cabinet Secretary who has advised that this will be taken forward by the Scottish Government during 2016.</p>

Action	Progress at end March 2016
<ul style="list-style-type: none"> Reporting on how our new approach better reflects the experience of the citizen and service user (by April 2016). 	<p>Complete and continuing</p> <p>The Commission approved its work programme in December 2015. The programme contains a commitment that performance audits will give greater prominence to the experience of the citizen and service user. The programme also reflects the Commission's commitment that every performance audit makes background data available for use by councils and citizens.</p> <p>The Commission will also be considering this as part of its development of a new approach to auditing Best Value.</p> <p>Specific examples include:</p> <ul style="list-style-type: none"> Our Local Government Overview 2016 report highlighted how councils need to work closely with their service users to identify priorities and be aware of the obligations surrounding the Community Empowerment Act. Our <i>Major capital investment in councils</i> audit published supplementary data in an interactive format on the Audit Scotland website. Our report <i>Health and social care integration</i> recommends that integrated joint boards demonstrate that the changes are having a positive impact on service users and outcomes.
Follow public money by:	
<ul style="list-style-type: none"> Reviewing and updating our expectations of councils on following the public pound (FtPP) (by September 2015). 	<p>Complete</p> <p>In August 2015 the Commission considered the outcome of its review. It concluded that:</p> <ul style="list-style-type: none"> the Following the Public Pound Code remains valid and therefore there is no need to refresh its content compliance with the Code should be embedded into the Commission's performance expectations for councils under any revised Best Value (BV) guidance and therefore part of the new integrated BV audit approach.
<ul style="list-style-type: none"> Ensuring audit activity reflects and holds councils to account against such expectations (from April 2016). 	As above.
Scrutinise the changing public service landscape by:	
<ul style="list-style-type: none"> Considering how our audit activity reflects the Community Empowerment Act. 	<p>Continuing</p> <p>The Scottish Government is still developing guidance on the Act and is currently consulting upon its proposals around guidance and regulations. This guidance will help shape any audit expectations, such as part of the audit of Best Value.</p>

Action	Progress at end March 2016
<ul style="list-style-type: none"> • Reporting, in conjunction with the Auditor General, on the progress made since our 2014 report <i>Community planning: Turning ambition into action</i> (by February 2016). 	<p>Complete</p> <p><i>Community planning: an update</i> was approved by the Commission in February and published on 3 March.</p> <p>The report was covered in the press and has been downloaded 960 times, with the podcast downloaded 88 times.</p>
<ul style="list-style-type: none"> • Reporting and implementing, in partnership with the Care Inspectorate and Healthcare Improvement Scotland, a model of audit for joint health and social care integration boards in relation to Best Value, governance and finance (by April 2016). 	<p>Complete</p> <p>An audit is in place.</p> <p>Our performance audit report <i>Health and social care integration</i> involved collaboration with the Care Inspectorate and Healthcare Improvement Scotland.</p>
<ul style="list-style-type: none"> • Publishing performance audits, by April 2016, on: 	
<ul style="list-style-type: none"> ○ Major capital investment in councils 	<p>Complete</p> <p>The report was approved by the Commission in December 2015 and published on 14 January 2016.</p> <p>The report was downloaded 960 times and the podcast 167 times. It was covered in the <i>Scotsman</i>; <i>The National</i>; <i>Sunday Post</i> and online coverage in <i>The Guardian</i>; <i>Localgov</i>; <i>Courier</i>; <i>Public Sector Executive</i>; <i>Scottish Construction Now</i> and <i>Holyrood</i>.</p>
<ul style="list-style-type: none"> ○ Health and social care integration 	<p>Complete</p> <p>The report was approved by the Commission in October 2015 and published on 3 December 2015.</p> <p>The report was downloaded 4371 times and the podcast 453 times. It was covered in the <i>Scotsman</i>; <i>Daily Express</i>; <i>The National</i>; <i>Holyrood</i>; <i>Municipal Journal</i>; and <i>Daily Mail</i>. There was also extensive political commentary and online coverage.</p>
<ul style="list-style-type: none"> ○ Roads maintenance 	<p>Continuing</p> <p>Emerging messages were considered by the Performance Audit Committee in February 2016 and the report is due to be published in June.</p>
<ul style="list-style-type: none"> ○ Understanding pressures in the health and social care system 	<p>Complete</p> <p>The report <i>Changing models of health and social care</i> was approved by the Commission in November 2015 and published on 10 March 2016.</p> <p>The report was downloaded 2205 times and the podcast 652 times. It was covered in the <i>Daily Telegraph</i>; <i>Daily Mail</i>; <i>Herald</i>; <i>Scotsman</i>; <i>The Times</i>; <i>The National</i>; and the <i>Sun</i>. There was also extensive political commentary and online coverage.</p>

Action	Progress at end March 2016
<ul style="list-style-type: none"> ○ Social work services 	<p>Continuing</p> <p>Emerging messages are to be considered by the Performance Audit Committee in April 2016 and due to be published in June.</p>
<ul style="list-style-type: none"> ● Continuing to work with our strategic scrutiny partners in co-ordinating and refining our approaches to scrutiny, audit and inspection. 	<p>Complete and continuing</p> <p>The 2016/17 National Scrutiny Plan and 32 local scrutiny plans were published on 31 March 2016. The Strategic Scrutiny Group in March 2016 reviewed the shared risk assessment process and agreed a number of improvements to be progressed in the coming year. This is reflecting on a pilot of joint scrutiny and inspection work which reported in Autumn 2015.</p>
<p>Promote good practice and innovation by:</p>	
<ul style="list-style-type: none"> ● Publishing, by the end of 2015, our annual direction on performance information with a view to: <ul style="list-style-type: none"> ○ Supporting and encouraging the Local Government Benchmarking Framework as a basis of improving the performance information available to the public. ○ Helping councils develop good practice in reporting performance information to their citizens. 	<p>Complete</p> <p>The Commission approved the annual Direction in December 2015, which was published on 18 December.</p>
<ul style="list-style-type: none"> ● Publishing a <i>How councils work</i> report on roles and responsibilities in councils (by April 2016). 	<p>Continuing</p> <p>The scope was approved by the Performance Audit Committee in February 2016 and due to be published in later 2016.</p>
<ul style="list-style-type: none"> ● Ensuring that every performance audit: <ul style="list-style-type: none"> ○ contains practical advice for elected members and officers ○ makes background data available for use by councils and citizens. 	<p>Complete and continuing</p> <p>All published performance audits have fulfilled this objective. Examples are:</p> <ul style="list-style-type: none"> ● The <i>Local Government Overview</i> report was supplemented by a self-assessment tool for councillors and guidance for councils on financial reporting and scrutiny. ● The <i>Changing Health and Social Care</i> report was accompanied by case studies and supplementary materials ● The <i>Health and Social Care Integration</i> report was supplemented with extensive information on performance indicators.

COMMISSION PUBLICATIONS 2015/16

Publication	Approved by Commission	Published	Notes
Best Value audits			
East Dunbartonshire Council	14 May 15	4 Jun 15	<ul style="list-style-type: none"> • Report downloads 1,177 • Podcast downloads 41 • Media coverage in The Mail; Herald; Kirkintilloch Herald; Milngavie and Bearsden Herald; comments from Council and COSLA and online coverage
Aberdeen City Council	11 Jun 15	2 Jul 15	<ul style="list-style-type: none"> • Report downloads 1,206 • Podcast downloads 35 • Media coverage in The Herald; Scotsman; The National; Press and Journal; Express and online coverage
Falkirk Council	13 Aug 15	27 Aug 15	<ul style="list-style-type: none"> • Report downloads 1,104 • Podcast downloads 243 • Media coverage in Public Finance; Linlithgow Gazette; Falkirk Herald and online coverage
The Moray Council progress report	8 Oct 15	29 Oct 15	<ul style="list-style-type: none"> • Report downloads 915 • Podcast downloads 182 • Media coverage in Press and Journal; Herald; BBC online coverage
Argyll & Bute Council	10 Dec 15	17 Dec 15	<ul style="list-style-type: none"> • Report downloads 482 • Podcast downloads <30 • Media coverage in Press and Journal; Scotsman; Herald; Dunoon Observer; Helensburgh Advertiser; Buteman; Oban Times; Argyllshire Advertiser
City of Edinburgh Council (follow-up)	11 Feb 16	25 Feb 16	<ul style="list-style-type: none"> • Report downloads 247 • Podcast downloads 165 • Media coverage in The Herald; Scotsman; The National; Metro; Edinburgh Evening News; Political response and online coverage

Publication	Approved by Commission	Published	Notes
Performance audits			
* Health and social care integration	12 Nov 15	3 Dec 15	• Download and media information: see above
Major capital investment in councils (follow-up)	10 Dec 15	14 Jan 16	• Download and media information: see above
* Changing models of health and social care	14 Jan 16	10 Mar 16	• Download and media information: see above
Other audit work			
* CPP national summary	14 Jan 16	3 Mar 16	• Download and media information: see above
An overview of local government in Scotland 2016	11 Feb 16	17 Mar 16	• Download and media information: see above
Other publications			
Mainstreaming equalities	12 Mar 15	30 Apr 15	
Accounts Commission annual report	11 Jun 15	24 Jun 15	
Public audit in Scotland	12 Mar 15	11 May 15	
Accounts Commission annual report	11 Jun 15	24 Jun 15	
Accounts Commission Strategy update and action plan	13 Aug 15	22 Sep 15	
Statutory performance information Direction	10 Dec 15	21 Dec 15	
National Scrutiny Plan	14 Apr 16	31 Mar 16	

PR
9/3/16

MEETING: 14 APRIL 2016

REPORT BY: SECRETARY TO THE COMMISSION

COMMISSION ENGAGEMENT PLAN – ANNUAL PROGRESS REPORT

Purpose

1. This report proposes for publication a paper setting out progress against the Commission's Engagement Plan.

Background

2. The Commission published its first Engagement Plan on 10 September 2015. The Plan covers the same period as our annual action plan, thus the year up to the end of March 2016.

Progress and next steps

3. The attached paper sets out progress against the Plan. The paper shows that the Commission has undertaken a wide range of engagement activity this year, based upon the three levels of engagement identified in our Plan: informing, consulting and collaborating. This has been complemented by substantial engagement work undertaken by Audit Scotland.
4. Our performance audit reports have attracted good publicity and interest amongst stakeholders: in local government, Parliament, and the general public through our website and through press coverage. Our formal consultation activities - around our proposals for auditing Best Value, on the new Code of Audit Practice, and on our work programme – elicited substantial responses. Dialogue with councils, particularly those on which we reported on Best Value audit work, has been very fruitful and constructive. By publishing this plan, we are able to demonstrate how we are fulfilling our commitment to be as engaging and transparent as possible in carrying out our role.
5. It is proposed that this report be published in May 2016 alongside the Commission's annual report and progress report for our annual action plan (which are elsewhere on today's agenda).
6. Engagement was discussed at the Commission's annual strategy seminar in April. It is proposed that a draft updated engagement plan, reflecting those discussions, be considered by the Commission at its next meeting in May, alongside its proposed revised strategy and action plan. These will also be proposed for publication in May.

Conclusion

7. The Commission is invited to:
 - a) Approve the attached progress report for publishing alongside the Commission's annual report and action plan update.
 - b) Note that an engagement plan for next year will be submitted for approval to the next Commission meeting in May.

Paul Reilly
Secretary to the Commission
4 April 2016

APPENDIX

What we will engage about	Who we will engage with	How we will engage	When we will engage	Progress
Our strategy and planning				
We will meet regularly with principal stakeholders to discuss our strategy and issues of mutual interest.	COSLA, SLGP, SOLACE, Scottish Government	Collaborate	We will meet regularly with COSLA, SLGP, SOLACE and the Scottish Government.	Throughout the year There has been regular dialogue throughout the year with these stakeholders on individual issues.
We will publish our annual report and promote it among stakeholders.	All stakeholders	Inform	We will write to or email council leaders, chief executives and other stakeholders as appropriate. We will provide a web based video presentation of our annual report. We will provide an interactive version of our report on our website.	June 2015 Our annual report 2014/15 was published on the Commission website, in interactive format, on 24 June 2015. Given an ongoing review of the website, no video presentation was done, but this will remain under investigation for future
We will publish our Strategy update and action plan and promote it among stakeholders.	All stakeholders	Inform	We will write to council leaders, chief executives and other stakeholders as appropriate. We will consider a web based video presentation of our Strategy.	September 2015 Our strategy update was published on our website on 22 September 2015. As above, given an ongoing review of the website, no video presentation was done, but this will remain under investigation for future
We will publish our engagement strategy and promote it among stakeholders.	All stakeholders	Inform	We will write to or email council leaders, chief executives and other stakeholders as appropriate.	September 2015 This Engagement Plan was published on our website on 10 September 2015.

What we will engage about	Who we will engage with	How we will engage		When we will engage	Progress
We will consult formally upon and publish the new Code of Audit Practice.	Local government	Inform and consult	We will write to or email council leaders, chief executives and other stakeholders as appropriate.	Early 2016	The consultation went public on 22 October and closed on 3 December 2015. The consultation was emailed to all chief executives or equivalent in all current audited bodies. 11 responses were received from local government bodies. We considered the outcome of the consultation at our March 2016 meeting.
We will consult informally with stakeholders on the shape of our proposals for Best Value.	Local government	Inform and consult	We will meet with councils, COSLA, SLGP and SOLACE to discuss our proposals	By end 2015	We wrote to COSLA on 29 May 2015 setting out our proposals. We wrote again to all councils on 11 November reporting progress. We agreed with Audit Scotland that they would undertake a series of consultation activities to this end. Such activities have been substantial, including workshops and a range of individual meetings.
	Scottish government	Inform and consult	We will meet with the Scottish Government to discuss the impact of our proposals on existing Best Value statutory guidance	By end 2015	We wrote to Alex Neil, Cabinet Secretary, on 29 May 2015 setting out our proposals. He responded on 26 October. Meetings have since taken place between Audit Scotland and Government officials.
We will then consult formally with stakeholders on our proposals for Best Value.	All stakeholders	Inform and consult	We will formally share a formal consultation document setting out our proposals and seeking views.	From end 2015	The Commission will consider at its April 2016 meeting a proposal to undertake a formal consultation exercise in Autumn 2016.

What we will engage about	Who we will engage with	How we will engage	When we will engage	Progress	
Our audit work					
We will consult stakeholders on our draft performance audit programme.	Local government	Inform and consult	We will write to council leaders, chief executives and chairs of audit and scrutiny committees seeking their views on the draft programme.	December 2015	In January 2016 we wrote to COSLA, the Scottish Local Government Partnership, SOLACE and trade unions Unison, Unite and GMB on the draft programme. We received responses from 20 councils. We considered those responses at our March 2015 meeting.
	COSLA	Inform and consult	We will meet with COSLA and SOLACE to seek their views on our proposals.	December 2015	As above.
	All stakeholders	Inform	We will share our performance audit programme and publish it on our website	From Spring 2016	We agreed our work programme at our March 2016 meeting, and published it in conjunction with the Auditor General on our website on 11 March.

What we will engage about	Who we will engage with	How we will engage	When we will engage	Progress
<p>We will publish our overview reports, performance audit reports and action plans and promote their key messages and themes (expected publication date):</p> <ul style="list-style-type: none"> • Major capital investment in councils follow-up (January 2016) • Health and social care integration (winter 2016) • Understanding pressures in the health and social care system (spring 2016) • Local government overview (spring 2016) • Roads maintenance follow up (spring 2016) • Social care (spring 2016). 	Citizens	Inform	<p>We will publish our reports and post podcasts on our website.</p> <p>We will encourage the press and media to raise awareness of our reports through press releases and other social media.</p>	<p>Ongoing</p> <p>We published the following reports (with report and podcast download figures to end March 2016):</p> <ul style="list-style-type: none"> • Major capital investment in councils follow-up: 14 January 2016 (downloads: 960 reports, 167 podcasts) • Health and social care integration: 3 December 2015* (4371 reports, 453 podcasts) • Changing models of health and social care: 10 March 2016* (2205 reports, 652 podcasts) • Local government overview: 17 March 2016 (418 reports, 253 podcasts) <p>Still to be published:</p> <ul style="list-style-type: none"> • Roads maintenance follow up: June 2016 • Social care: June 2016 <p>We also published reports on the impact of the following reports:</p> <ul style="list-style-type: none"> • Scotland's public sector workforce: 4 August 2015* • Procurement in councils: 8 February 2016 <p>(* published in conjunction with the Auditor General)</p>

What we will engage about	Who we will engage with	How we will engage	When we will engage	Progress
	Local government (including the new joint health and social care boards for appropriate audits)	Inform and consult	<p>We will write to council leaders and chief executives (and chairs of audit and scrutiny committees as appropriate) promoting key messages and themes.</p> <p>We will hold learning events and promote learning materials as appropriate.</p> <p>We will offer for audit teams to visit councils to promote our reports at meetings as appropriate, particularly for example where a report includes checklists for members or officers.</p>	<p>All of the above reports have been accompanied by letters to leaders, chief executives and chairs of audit and scrutiny committees.</p> <p>All of the above reports have included checklists for use of elected members.</p> <p>All of the above reports are shared with local audit teams to ensure council consideration.</p>
	Scrutiny partners	Inform, consult and collaborate	<p>We will write to or email our partners to promote key messages and themes and to discuss implications of our reports on strategic scrutiny</p> <p>We will discuss with scrutiny partners developing learning materials as appropriate.</p>	<p>We have shared all of the above reports with our scrutiny partners. A discussion on the Health and Social Care Integration report, and our scrutiny response to it, took place at the December meeting of the Strategic Scrutiny Group, made up of all our scrutiny partners.</p>
	Professional bodies as appropriate	Inform and consult	As appropriate	We have shared the above reports appropriately with professional bodies.
	Press and media	Inform	We will produce press releases and respond to press enquiries on our reports	All of our published reports were accompanied by press releases. The press coverage gained by each report is reported appropriately to the Commission.

What we will engage about	Who we will engage with	How we will engage	When we will engage	Progress
	Scottish Government	Inform	We will write as appropriate to ministers with any recommendations in our reports.	<p>Recommendations were made to, and shared with, the Scottish Government for the following performance audits and other reports (all published in conjunction with the Auditor General):</p> <ul style="list-style-type: none"> • Health and social care integration • Understanding pressures in the health and social care system • Community planning: an update.
	Scottish Parliament	Inform	<p>We will share our reports with Parliamentary committees and brief them, particularly the Local Government and Regeneration Committee and the Public Audit Committee</p> <p>We will issue our reports to all MSPs.</p>	<p>We shared all of our reports with the relevant Parliamentary committees and with MSPs.</p> <p>We presented our report on Borrowing and Treasury Management (published 19 March 2015) to the Public Audit Committee on 1 April 2015.</p> <p>We presented our 2015 Local Government Overview Report to the Local Government and Regeneration Committee on 24 June 2015.</p> <p>We presented our report Community Planning: an update to Public Audit Committee on 9 March 2016.</p> <p>The Public Audit Committee considered our report Health and social care integration on 13 January 2016.</p>

What we will engage about	Who we will engage with	How we will engage	When we will engage	Progress
<p>We will publish our Best Value audit reports (expected publication date):</p> <ul style="list-style-type: none"> • East Dunbartonshire Council (June 2015) • Aberdeen City Council (July 2015) • Falkirk Council (August 2015) • Moray Council (October 2015) • Argyll and Bute Council (November 2015) • Edinburgh City Council (winter 2015/16). 	Citizens	Inform	We will discuss our reports in public, publish our reports and podcasts on our website and encourage the press and media to raise awareness of our reports.	<p>Ongoing</p> <p>We published the following reports (with report and podcast download figures to end March 2016):</p> <ul style="list-style-type: none"> • East Dunbartonshire Council: 4 June 2015 (1177 reports, 41 podcasts) • Aberdeen City Council: 2 July 2015 (1206 reports, 35 podcasts) • Falkirk Council: 27 August 2015 (1104 reports, 243 podcasts) • Moray Council: 29 October 2015 (915 reports, 182 podcasts) • Argyll and Bute Council: 17 December 2015 (482 reports, <30 podcasts) • Edinburgh City Council: 25 February 2016 (247 reports, 165 podcasts).
	Local government including the new joint health and social care boards (for appropriate audits)	Inform and consult	<p>We will write to the relevant council leader and chief executive setting out the Commission's findings in relation to the report.</p> <p>We will seek a meeting with the relevant council leaders to discuss the report.</p>	<p>We met with the following councils on the following dates:</p> <ul style="list-style-type: none"> • East Dunbartonshire Council: 12 August 2015 • Aberdeen City Council: 28 August 2015 • Falkirk Council: 27 August 2015 • Moray Council: 1 December 2015 • Argyll and Bute Council: 29 February 2016 • Edinburgh City Council: 11 April 2016.

What we will engage about	Who we will engage with	How we will engage		When we will engage	Progress
	Scrutiny partners	Inform, consult and collaborate	We will share our reports with scrutiny partners.		All reports were shared with scrutiny partners and discussed appropriately in local area networks.
	Professional bodies as appropriate	Inform and consult	We will share our reports with professional bodies.		All reports were shared with professional bodies.
	Press and media	Inform	We produce press releases and podcasts and take part in interviews.		All reports were accompanied by press releases and podcasts. The press coverage gained by each report is reported appropriately to the Commission.
We will publish a progress report of our work of auditing community planning partnerships, and promote its key messages and themes.	Local government	Inform and consult	We will write to or email council leaders and chief executives promoting the key messages and themes. We will develop learning events and promote learning materials as appropriate. We will promote our reports at council and other meetings as appropriate.	From January 2016	We published Community Planning: an update, in conjunction with the Auditor General, on our website on 3 March 2016.
	Scottish government	Inform and consult	We will write to Scottish ministers promoting the key messages and themes.		We wrote, in conjunction with the Auditor General, to the Scottish government.
	NHS and other CPP partners	Inform and consult	We will write to appropriate representatives of relevant partners, promoting the key messages and themes. We will develop learning events and promote learning materials as appropriate. We will promote our reports at meetings as appropriate.		We shared our report with scrutiny partners.

What we will engage about	Who we will engage with	How we will engage	When we will engage	Progress	
	Scottish Parliament	Inform	We will share our report with Parliamentary committees and brief them, particularly the Local Government and Regeneration Committee and the Public Audit Committee We will issue our report to all MSPs.	We shared the report with MSPs and Parliamentary committees. We presented the report Community Planning: an update to Public Audit Committee on 9 March 2016.	
We will publish a report in our How councils work series on roles and responsibilities in councils (spring 2016).	Local government	Inform, consult and collaborate	We will write to or email council leaders and chief executives promoting the key messages and themes. We will develop learning events and promote learning materials as appropriate. We will promote our reports at council and other meetings as appropriate.	From Spring 2016	The report is due to be published in summer 2016.
	COSLA, SLGP and SOLACE	Inform, consult and collaborate	We will write to or email the relevant officials promoting the key messages and themes.		As above.
	Local government	Inform, consult and collaborate	We will seek the views of council chief executives on the process.		As above.
We will engage councils' audit chairs about scrutiny supported by the How Councils Work report on roles and relationships.	Local government	Inform	We will email and hold meeting(s) with audit committee chairs.	Spring 2016	As above.
We will engage with stakeholders on our Shared Risk Assessment process.	Scrutiny partners	Inform, consult and collaborate	We will review the process with our scrutiny partners through meetings of the Strategic Scrutiny Group.	Autumn 2015	

What we will engage about	Who we will engage with	How we will engage		When we will engage	Progress
We will review our Following the Public Pound Code.	Local government	Inform	We will write to councils with the outcome of our review We will share the outcome of our review	Autumn 2015	We wrote to councils in May 2015. Subsequently, a guidance note was sent to local auditors reminding them of their responsibilities in relation to assessing councils' compliance with the FtPP Code. The Commission subsequently agreed in August 2015 that further auditing in this regard be undertaken as part of the new integrated Best Value audit approach. This will allow further engagement as appropriate.
	Scottish government and Scottish Parliament	Inform	We will share the outcome of our review with the Scottish Government and the Local Government and Regeneration Committee	Autumn 2015	We have kept the Scottish Government informed, most recently in a letter to the Cabinet Secretary in May 2015. We wrote to the Local Government and Regeneration Committee on 1 March 2016 setting out progress.
We will publish our annual Direction on statutory performance information.	Local government, COSLA, SLGP and SOLACE	Inform and consult	We will meet and review the work of the Local Government Benchmarking Framework (LGBF) as part of our review of the Direction. We will publish the Direction and share it with councils.	By end of 2015	We met the LGBF board on 14 August 2015 and we fulfill an observer role at meetings of the board. We approved our annual Direction in December 2015, which was published and shared with councils on 18 December.

What we will engage about	Who we will engage with	How we will engage		When we will engage	Progress
Other activities					
We will launch our new website.	All stakeholders	Inform	We will work with Audit Scotland to design and launch our new website, and publicise it amongst stakeholders.	September 2015	We launched our new website in November 2015.
We will appoint new auditors.	Local government	Inform	We will write to council chief executives and directors of finance advising of appointments.	Spring 2016	We approved the provisional appointments of auditors on 10 March 2016, and will consider final recommendations on 12 May.
We will increase the accessibility of our meetings.	All stakeholders	Inform	We will investigate webcasting meetings from our new premises.	By end of 2015	This remains under discussion.
We will launch an online resource on 40 years of the Commission	All stakeholders	Inform	We will work with Audit Scotland to design and launch our new resource, and publicise it amongst stakeholders.	November 2015	We launched the online resource on 12 November 2015.

MEETING: 14 APRIL 2016

REPORT BY: ASSISTANT DIRECTOR OF AUDIT SERVICES

NEW FINANCIAL POWERS UPDATE

Purpose

1. This paper provides an update on key developments surrounding further financial devolution, including Audit Scotland's organisational arrangements in this area.

Background

2. We provided an update to the Accounts Commission in October 2015 on the new financial powers being devolved to the Scottish Parliament. There have been a number of significant developments since then, in particular:
 - The UK and Scottish Governments agreed a revised fiscal framework to accompany the financial powers in the Scotland Bill 2015-16.
 - The Scotland Bill 2015-16 received Royal Assent and became the Scotland Act 2016. This followed a Legislative Consent Motion by the Scottish Parliament.
 - The Scottish Government announced its plans for delivery of new social security powers.
 - The Scottish Fiscal Commission Bill was passed by the Scottish Parliament.
 - Audit Scotland's update report on implementing the Scotland Act 2012 was published and the AGS reported to the Scottish Parliament on the National Audit Office's audit work on preparations for the Scottish rate of income tax.

Fiscal framework and the Scotland Act 2016

3. The Smith Commission recommended that the new powers being introduced through the Scotland Bill 2015-16 be accompanied by an updated fiscal framework for Scotland that is consistent with the overall UK fiscal framework. It proposed a set of principles that should be incorporated into the revised framework. A new fiscal framework for Scotland was agreed by the Scottish and UK Governments on 23 February 2016 and published two days later. Both governments agreed that the framework is consistent with the principles in the Smith Commission agreement.
4. Annex A summarises the main points in the fiscal framework agreement. The details of some of the arrangements are still to be finalised. The framework will be reviewed after a five-year transitional period, at the end of 2021/22.
5. The Scottish Parliament scrutinised the fiscal framework, albeit within a compressed timeframe. The Devolution (Further Powers) Committee and the Finance Committee took evidence from the Deputy First Minister, Chief Secretary to the Treasury, and Secretary of State for Scotland in early March. The Devolution Committee published its report on the Scotland Bill on 11 March, and recommended that the Scottish Parliament give its legislative consent to the Bill. This was debated in Parliament on 16 March and a Legislative Consent Motion was passed. The Scotland Bill then finished its progress

through the UK Parliament and received Royal Assent on 23 March 2016, becoming the Scotland Act 2016.

- The Auditor General for Scotland wrote to the convenors of the Devolution and Finance Committees (copied to the Public Audit Committee) on 4 March offering observations on the fiscal framework. The letter highlighted the important role of public audit in the implementation of new financial powers, and referred to the joint paper by the Accounts Commission and AGS on *Public audit in Scotland* (Annex B). The AGS committed to continue to support the Parliament by contributing our views on the arrangements as they are developed and through our audit work, and ensuring that the organisation of Audit Scotland continues to be fully effective.

Exhibit 1: Summary of devolved public expenditure and revenues (2014/15, £ million)

	Before Scotland Act 2012	Before Scotland Act 2016	After Scotland Act 2016
Non Saving Non Dividend Income Tax Liabilities (SRIT devolved from 2016/17, all from 2017/18)	-	4,449	11,196
Land & Buildings Transaction Tax (devolved from 2015/16)	-	478	478
Air Passenger Duty (devolved from 2018/19)	-	-	309
Scottish Landfill Tax (devolved from 2015/16)	-	147	147
Aggregates levy (date of devolution to be decided)	-	-	54
Non-Domestic Rates	1,915	1,915	1,915
Council Tax	1,996	1,996	1,996
Total devolved revenues	3,911	8,985	16,095
Assigned VAT (devolved from 2019/20)	-	-	5,367
Total devolved and assigned revenues	3,911	8,985	21,462
Devolved expenditure excluding housing benefit	38,587	38,587	41,262
Devolved revenue as a % of devolved expenditure (excluding HB)	10.1%	23.3%	39.0%
Devolved and assigned revenue as a % of devolved expenditure (excluding HB)	10.1%	23.3%	52.0%

Source: Table A.8 Government Expenditure and Revenue Scotland (GERS) 2014/15

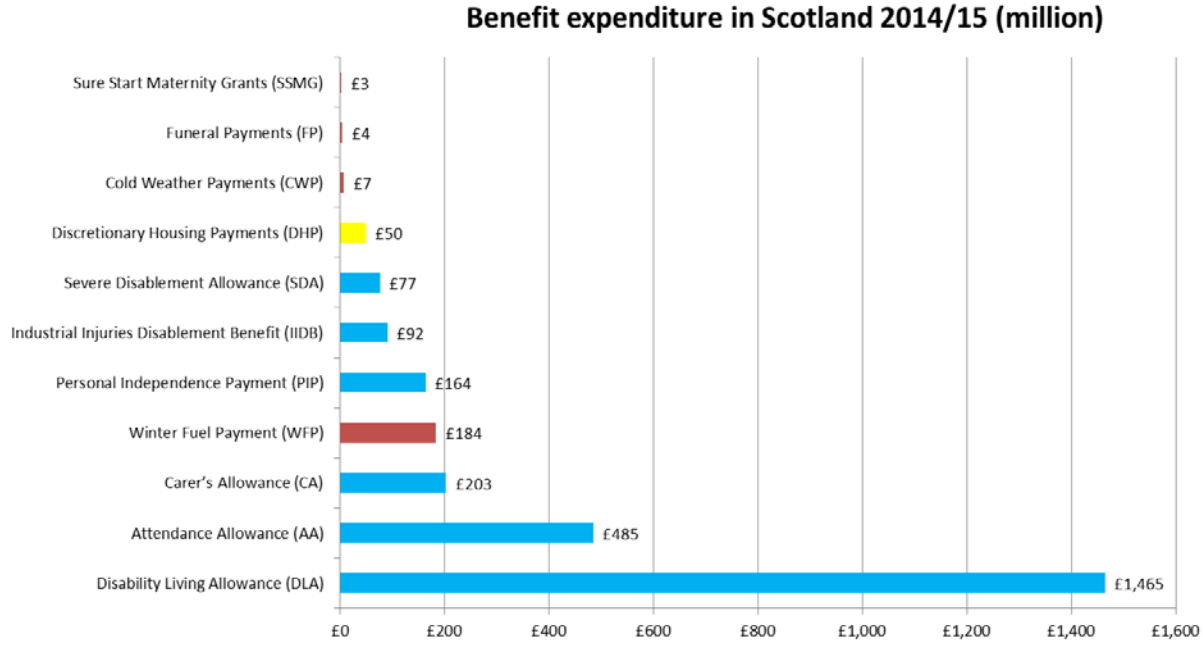
Note - Housing benefit is accounted for as Scottish Local Government Spending, as Scottish Councils make payments to recipients. As it is set by the UK Government and funded by the DWP it is not devolved and is excluded from the amounts above. In 2014-15 the relevant amount was £1,776 million. If included this would reduce the proportion of expenditure funded by devolved and assigned revenues to 50%.

- The proposals for further devolution contained in the Scotland Bill 2015 and the accompanying fiscal framework represent a substantial increase in the financial powers of devolved Government in Scotland. Exhibit 1 shows the aggregate effect. The proportion of devolved spending funded by devolved and assigned revenues will rise from 10% prior to the provisions of the Scotland Act 2012 to over 50% once the provisions of the 2016 Act are fully implemented.

Social security powers

8. The Scottish Government is starting to plan for the delivery of the 11 benefits that will be devolved through a new Scotland Act. These new social security powers are estimated to be worth around £2.7 billion a year. Exhibit 2 shows the expenditure on these 11 benefits in Scotland in 2014/15. They are split across three main groups:
- those for carers, disabled people and those who are ill (blue)
 - currently part of the Regulated Social Fund (red)
 - other benefits (yellow).

Exhibit 2: Expenditure on the benefits to be devolved to Scotland (2014/15 levels)



9. On 1 March 2016, the Scottish Government set out its initial plans for the delivery of the social security powers in a debate in the Scottish Parliament. The main aim of the Scottish Government is a smooth transition to the devolved arrangements, ensuring that the correct payments will be made to claimants on time. The Scottish Government's plans include:
- the introduction of a Scottish social security bill in the first year of the new Parliament
 - the establishment of a new agency to deliver the social security powers
 - initially, delivering the devolved benefits through the Department for Work and Pensions (DWP) to help ensure a smooth transition and avoid delays for claimants.
10. The Scottish Government will also have the power to create new benefits. Any additional social security expenditure beyond the amounts devolved (indexed) will require to be funded from devolved resources.
11. The Scottish Government has not set out any timescales for the implementation of the new social security powers, or details of how each of the new powers will be administered. It has committed to publish a fully costed business case detailing how the new powers will be delivered later this year.

12. Although these new powers provide the Scottish Government with an opportunity to develop a social security system that is appropriate for Scotland, there are a number of potential issues and risks in delivering the devolved benefits. These include:
 - knowledge, skills and capacity in the Scottish Government to manage the change
 - changes to existing IT systems or the development of a new system
 - data sharing between DWP, HMRC and the new Scottish social security agency
 - introducing an additional layer of complexity to the social security system
 - communication with claimants.
13. Audit Scotland will monitor progress in the planning and implementation of the devolved social security powers. This will have implications for our work, including the audit of a new agency and considering the additional fiscal risk attached to this area. The extent to which Scottish local authorities may or may not be involved in the administration of devolved benefits remains subject to discussion and decision. Clearly, the Accounts Commission's direct interest will reflect local government's involvement.

Scottish Fiscal Commission Act

14. The Scottish Government introduced the Scottish Fiscal Commission Bill to Parliament in September 2015. The Finance Committee issued a call for evidence on the Bill in October, to which Audit Scotland submitted a response and gave oral evidence to the Committee on 4 November 2015.
15. The Bill was passed on 10 March 2016. The Scottish Fiscal Commission Act 2016 enables the Scottish Government to establish the Scottish Fiscal Commission (SFC) as a corporate body that will have the status of a non-ministerial department. The statutory functions of the SFC will include publishing reports at least twice in each financial year that set out:
 - its five-year forecasts of receipts from devolved taxes, non-domestic rates and income tax attributable to a Scottish rate
 - its assessment of the reasonableness of Scottish ministers' projections of their borrowing requirements.
16. The new fiscal framework sets out a wider remit for the SFC, including preparing independent forecasts of welfare spending, revenues from fully devolved taxes and income tax, and onshore GDP in Scotland. The Scottish Fiscal Commission Act gives Scottish Ministers regulation-making powers to expand the SFC's functions now the new Scotland Act is in place, subject to the approval of the Scottish Parliament.
17. The SFC will not have a role in monitoring compliance with the limits set out in the fiscal framework agreement or the overall sustainability of the Scottish public finances.

Reporting on the Scotland Act 2012 and Scottish rate of income tax

18. In December 2015, Audit Scotland published the report *Implementing the Scotland Act 2012: an update*. The report found that Revenue Scotland successfully implemented the two devolved taxes on time, and that the Scottish Government and Her Majesty's Revenue and Customs (HMRC) are working well together in preparing for the introduction of the SRIT. It also found that the Scottish Government has made good progress in modifying its existing arrangements to accommodate the new powers, but

that some arrangements to manage the powers beyond 2015/16 will need to be fully developed quickly following agreement of the fiscal framework.

19. The Comptroller and Auditor General (C&AG) and Auditor General for Scotland (AGS) made their first annual reports to the Scottish Parliament on arrangements to collect the Scottish Rate of Income Tax in November 2015. On 27 January 2016, the Public Audit Committee held an evidence session on these reports with the AGS, the C&AG and HMRC.

Organisational arrangements

20. The AGS and Accounts Commission are responsible for setting out public audit's position on matters relating to the new financial powers. This includes determining Audit Scotland's response to any new financial powers, including the approach to auditing the new powers, and agreeing any relevant audit work to be undertaken by Audit Scotland.
21. Audit Scotland's New Financial Powers Steering Group (NFPSG), which was established in July 2015, supports the AGS and Accounts Commission in this role. The NFPSG meets quarterly and has met four times to date. The Steering Group is supported by an operational team comprising staff from across Audit Scotland.
22. Audit Scotland's budget for 2016/17 includes £100,000 for staff costs to provide capacity to respond to any requirements relating to the Scotland Act 2016. This is being used to fund a full-time position to coordinate our work on the new financial powers, and resources to build expertise and capacity within Audit Scotland's existing staff. A project plan for the new financial powers project has been developed and progress is reported to the NFPSG. Staff engagement is a key aspect of this and two recent knowledge cafes were very well attended and received.
23. We will ensure that the Accounts Commission is kept up to date through six monthly briefings, and provide additional updates on significant developments where necessary.

Conclusion

24. The Accounts Commission is asked to note this update report.

Mark Taylor
Assistant Director of Audit Services
5 April 2016

Annex A

Area	Fiscal framework agreement
Funding the Scottish Government's budget	<ul style="list-style-type: none"> • Changes in the Scottish Government's block grant will continue to be determined via the operation of the Barnett Formula. • The Barnett Formula will continue to apply to changes in UK government spending on areas that are devolved. • The Scottish Government will retain all devolved and assigned Scottish tax revenues.
Block grant adjustment	<ul style="list-style-type: none"> • The block grant to the Scottish Government will be adjusted to reflect the introduction of devolved and assigned revenues, and the transfer of responsibility for welfare. • The adjustments will involve two elements: an initial block grant baseline adjustment (a deduction in relation to tax and an addition in relation to welfare) and an indexation mechanism. The indexation method will be operated separately for each element of tax and spend and applied annually. • The initial baseline deduction will be equal to the UK government's tax receipts generated from Scotland / spending on welfare payments in Scotland in the year immediately prior to the devolution of powers. • For tax, during a transitional period to the end of 2021/22, the block grant adjustment will be effected by using the Comparable Model (Scotland's share), which will be reconciled to achieve the outcome delivered by the Indexed Per Capita method. This will ensure that the Scottish Government's overall level of funding will be unaffected if Scotland's population grows differently to the rest of UK. • For welfare, the indexation mechanisms will be the Barnett formula.
Value Added Tax (VAT)	<ul style="list-style-type: none"> • Receipts from the first 10p of the standard rate of VAT and the first 2.5p of the reduced rate of VAT in Scotland will be assigned to the Scottish Government from 2019/20. • The assignment of VAT will be based on estimated expenditure in Scotland on goods and services that are liable for VAT. The full details of this methodology and arrangements for production of VAT revenue forecasts are still to be developed.
Capital borrowing	<ul style="list-style-type: none"> • The statutory aggregate limit on borrowing for capital expenditure will be increased to £3bn (from £2.2bn). • The annual limit on the amount of borrowing for capital expenditure will be increased to 15% of the overall borrowing cap, which is equivalent to £450 million a year.

Area	Fiscal framework agreement
Revenue borrowing	<ul style="list-style-type: none"> • The Scottish Government can borrow up to £600m each year within a statutory overall limit for revenue borrowing of £1.75bn from 2017/18, for the following reasons: <ul style="list-style-type: none"> - for in-year cash management, with an annual limit of £500m - for forecast error in relation to devolved and assigned taxes and demand-led welfare expenditure arising from forecasts of Scottish receipts/expenditure and corresponding UK forecasts for the Block Grant Adjustments, with an annual limit of £300m - for any observed or forecast shortfall in devolved or assigned tax receipts or demand-led welfare expenditure incurred where there is, or is forecast to be, a Scotland-specific economic shock, with an annual limit of £600m. • Revenue borrowing will continue to be from the National Loans Fund, and the repayment period will be between 3 and 5 years, as determined by Scottish Ministers at the time of borrowing.
Scotland Reserve	<ul style="list-style-type: none"> • A new Scotland Reserve will replace the cash reserve established through the Scotland Act 2012 and the Budget Exchange Mechanism, from 2017/18. • The Scotland Reserve will enable the Scottish Government to smooth all types of spending and manage tax volatility and determine the timing of expenditure. • The Scotland Reserve will be capped in aggregate at £700m. Annual drawdowns from the reserve will be limited to £250m for resource and £100m for capital. There are no annual limits for payments into the Scotland Reserve.
Social security	<ul style="list-style-type: none"> • Any new benefits or discretionary payments introduced by the Scottish Government must provide additional income for a recipient and not result in an automatic offsetting reduction by the UK government in their entitlement elsewhere in the UK benefits system. • The UK government's Benefit Cap will be adjusted to accommodate any additional benefit payments introduced by the Scottish Government.
Forecasting and the Scottish Fiscal Commission	<ul style="list-style-type: none"> • The Scottish Fiscal Commission will prepare independent forecasts of demand-driven welfare spending, revenues from fully devolved taxes and income tax, and onshore GDP in Scotland. • The Scottish Fiscal Commission Bill gives Scottish Ministers regulation-making powers to expand the Commission's functions once the new Scotland Act is in place, subject to the approval of the Scottish Parliament.

Area	Fiscal framework agreement
No detriment	<ul style="list-style-type: none"> • The Smith Commission stated that there should be no detriment as a result of UK government or Scottish Government policy decisions post-devolution. Specifically, where either government makes a policy decision that affects the tax receipts or expenditure of the other, the decision-making government will either reimburse the other if there is an additional cost, or receive a transfer from the other if there is a saving. • These financial consequences of policy decisions have been termed 'policy spillover effects'. The main categories of these can be divided into: <ul style="list-style-type: none"> - Direct effects – financial effects that will directly and mechanically exist as a result of the policy change - Behavioural effects – financial effects that result from people changing behaviour following a policy change. • The UK and Scottish Governments have agreed to account for all direct effects. • Behavioural effects that involve a material and demonstrable welfare cost / saving or impact on tax revenues will be taken into account where these are in exceptional circumstances. • Any decision or transfer relating to a spillover effect must be jointly agreed by both Governments. Without a joint agreement, no transfer or decision will be made.
Crown estate	<ul style="list-style-type: none"> • The Scottish Government will take on responsibility for managing the Crown Estate assets in Scotland and will assume full responsibility for all associated liabilities relating to them, at a date to be agreed. • Responsibility for the Coastal Communities Fund will be devolved to the Scottish Government. • A baseline deduction to the Scottish Government's block grant will be equal to the net revenues generated by the Crown Estate assets in Scotland in the year immediately prior to the transfer. A baseline addition will be made for the funding of the Coastal Communities Fund equal to the UK government spending in the year immediately prior to devolution.
Governance	<ul style="list-style-type: none"> • The Joint Exchequer Committee (JEC), which includes representatives of the UK and Scottish Governments, will govern the completion, implementation, operation and review of the fiscal framework. • The Joint Exchequer Committee Officials (JEC(O)) will see its remit expanded to include detailed implementation and

Area	Fiscal framework agreement
	<p>operation of the financial provisions of the forthcoming Scotland Act 2016. JEC(O) will oversee, at official level, the delivery of the fiscal framework.</p>
Review	<ul style="list-style-type: none"> • The fiscal framework arrangements will be reviewed following the UK and Scottish Parliament elections in 2020 and 2021 (and periodically thereafter). The review will include the method for adjusting the block grant, which is not assumed beyond the five year transitional period. • The review will be informed by an independent report with recommendations presented to both governments by the end of 2021. • A joint review of the operation of the Scottish Government's fiscal framework will be completed, agreed and published by the end of 2021/22. The two governments will jointly agree the future method of block grant adjustment as part of the review. The Joint Exchequer Committee will jointly agree conclusions, recommendations and revisions of the review.
Timescales	<p>The powers being devolved by the Scotland Bill 2015-16 will come into effect as follows:</p> <ul style="list-style-type: none"> • Full devolution of income tax rates and thresholds - April 2017 • New capital and revenue borrowing powers - April 2017 • Scotland Reserve - April 2017 • Revenues from courts and tribunals to be retained by the Scottish Government - April 2017 • Air Passenger Duty - April 2018 • VAT assignment to Scottish Government - April 2019 • Social security powers - to be agreed • Aggregates Levy - to be agreed once current state aid and other outstanding legal issues have been resolved
Costs	<ul style="list-style-type: none"> • The UK Government will transfer funding to support a share of the associated implementation and running costs for the functions being devolved. • The UK government will provide £200 million to the Scottish Government to support the implementation of new powers. This will be a one-off transfer, supplementing the block grant. • The UK government will make a baseline transfer of £66 million to the Scottish Government to cover the ongoing administration costs associated with the new powers. This annual transfer will be indexed through the normal application of the Barnett formula.

Area	Fiscal framework agreement
	<ul style="list-style-type: none"> The Scottish Government will reimburse the UK government for costs incurred as a result of the implementation and administration of the new income tax powers, and for 'switching off' Air Passenger Duty and Aggregates Levy in Scotland. Both governments will share equally all costs incurred as a result of the implementation and administration of VAT assignment.
Reporting	<ul style="list-style-type: none"> Both Governments will publish an annual report on the functions and duties being devolved under the forthcoming Scotland Act 2016 and the accompanying fiscal framework. These reports will be provided to both the UK and Scottish Parliaments.
Dispute resolution	<ul style="list-style-type: none"> Any disagreements that cannot be settled at working level will be referred to senior officials (at Director level or above), including consideration at JEC(O). If no resolution can be reached, the matter becomes a formal dispute and would be referred to Ministers to be raised and discussed at a meeting of JEC. If it becomes clear that there is a dispute that cannot be resolved between Ministers, there is an automatic pause placed on the disputed finances, i.e. no decisions or actions can be taken by either government in relation to the disputed amount until the dispute is resolved. If no agreement can be reached then there would be no fiscal transfer between the governments.
Additional annex	<ul style="list-style-type: none"> Both governments have agreed to publish an annex to the fiscal framework agreement covering the operational and governance aspects as soon as possible.

Annex B

Dear Convener

The proposals for further devolution contained in the Scotland Bill 2015 and the accompanying fiscal framework represent a substantial increase in the financial powers of the Scottish Parliament. The Smith Commission agreed that the Scottish Parliament should seek to expand and strengthen the independent scrutiny of Scotland's public finances in recognition of the additional variability and uncertainty that further tax and spending devolution will introduce into the budgeting process. As Auditor General, I am committed to supporting the Parliament in developing world class arrangements for holding government to account and improving the use of public money.

I recognise the timetable for Parliamentary scrutiny of the fiscal framework is necessarily compressed. I offer a number of observations below that I hope that the Committee finds helpful in concluding its current enquiries and in the related considerations of the new Parliament. I have also written in similar terms to the Finance Committee. Both letters have been copied to the Public Audit Committee.

Fiscal framework and wider Scottish public finance system

In 2015 Audit Scotland provided written evidence to the Finance Committee for its inquiry into Scotland's Fiscal Framework. This highlighted a number of key elements of such a framework including:

- Fiscal rules
- Medium term budgetary framework
- Budgetary procedures including effective scrutiny
- Sound fiscal reporting
- Fiscal institutions.

I recognise that some key elements are present in the agreement between the UK and Scottish Governments. In particular it provides for specific rules on capital and resource borrowing, and for the new Scottish Reserve. It also sets out the respective roles of the Office of Budget Responsibility and the Scottish Fiscal Commission (SFC) as fiscal institutions, including the role the SFC will have in preparing forecasts.

The fiscal framework agreed between the governments is critical. It is also underpinned by the wider system for the Scottish public finances. In my assessment it is essential this is further developed to reflect increased fiscal responsibility. I look forward to sharing my views on this with the new Parliament in due course. In the meantime I would also highlight my continuing interest in two important and related issues:

- the financial sustainability and management of the Scottish public finances and the important role of audit in reporting independently on this. This supports Parliament's own responsibilities for the oversight of the public finances.
- as set out in my reports on Developing Financial Reporting, my strong view is that the case for comprehensive, transparent, reliable and timely reporting of Scotland's public finances, as part of a strong fiscal framework, has never been stronger. A key element of this is an overall account of the revenues, expenditure, assets and liabilities of the Scottish public sector as a whole.

Underpinning all of this is a need for transparency to enable Parliament, Government and the wider public to see the basis on which decisions are being made and to be able to understand the assumptions underlying changes in revenues and expenditures from one year to another. The agreement on the fiscal framework sets out how areas such as the block grant adjustments will work, and further technical detail is anticipated in due course. The continuing role of the Barnett formula is also highlighted.

In my view it is critical that the details of how these mechanisms operate in practice each year is clearly and objectively reported by the Scottish Government, covering all material elements of the Scottish budget including:

- movements in the Scottish block grant arising from the application of the Barnett formula, baseline adjustments to the block grant for each relevant component set out in the fiscal framework agreement, indexation of block grant adjustments
- any adjustments in relation to policy spillover effects
- movements and balances in the Scottish Reserve
- relevant revenue and expenditure forecasts including income tax, assigned VAT, devolved taxation and social security spending
- the impact of capital and resource borrowing.

In relation to the principle of no detriment for policy spillover effects, Audit Scotland highlighted that the UK and Scottish Governments should be clear on the direct effects that can be readily measured but should only consider behavioural or other indirect effects if there is evidence of these being significant. This approach appears to be embodied in the fiscal framework and I welcome this.

Finally, I note that there is no specific provision for the review/ uprating of borrowing and reserve limits in the agreement on the fiscal framework in the transition period to 2021/22. The equivalent powers in the Scotland Act 2012 were subject to provisions for such a review. I anticipate that both Governments would wish to keep this under review.

Public audit in Scotland

Public audit provides independent assurance that public money is spent properly and provides value for money. It helps create a strong and effective system of financial accountability and transparency, which improves the use of public money in the public interest. The principles of public audit ensure that auditors can carry out their work free of interference and raise issues of concern in the public domain. Taken together with effective public and parliamentary scrutiny, this contributes to strong and transparent oversight of public funds.

I work closely with the Accounts Commission (which audits local government) and Audit Scotland. Our recent joint paper *Public audit in Scotland* sets out the shape, principles and themes of public audit. It reflects the changing context for public audit in Scotland, including the new devolved financial powers in place and proposed. I believe we have a strong platform for successful delivery of the additional audit responsibilities that flow to us from the further devolution of financial powers and any other responsibilities that may become necessary.

We have established arrangements to ensure that public audit plays a full part in the success of the new financial powers coming to Scotland. We will continue to support the Parliament by contributing our views on the arrangements as they are developed and through our audit work. We will also make sure that the organisation of Audit Scotland continues to be fully effective in this new environment.

We have significant experience of the implementation of devolved powers, arising from the initial devolution arrangements and, more recently, the implementation of the new powers in the Scotland Act 2012. I look forward to continuing to work with the Committees of the new Parliament to strengthen the Parliament's oversight of Government in line with the recommendation of the Smith Commission and to support scrutiny of the implementation of the new financial powers.

Yours sincerely,

Mark Taylor
Assistant Director, Audit Services
5 April 2016