

**431st meeting of the Accounts Commission for Scotland**

**Thursday 10 November 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 16 to 19 in private (\* see note).
  4. **Minutes of meeting of 8 September 2016.**
  5. **Minutes of meeting of Financial Audit and Assurance Committee of 22 September 2016**
  6. **Minutes of meeting of Performance Audit Committee of 22 September 2016.**
  7. **Minutes of meetings of Audit Scotland Board of 18 August 2016 and 15 September 2016.**
  8. **Audit Scotland Board update:** The Commission will consider a verbal report by the Chair and Secretary to the Commission.
  9. **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.
  10. **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.
  11. **New financial powers update:** The Commission will consider a report by the Assistant Director of Audit Services.
  12. **Health and social care update:** The Commission will consider a report by the Director of Performance Audit and Best Value.
  13. **The new approach to auditing Best Value: update:** The Commission will consider a report by the Director of Performance Audit and Best Value.
  14. **Briefing: approach to shared risk assessment:** The Commission will consider a report by the Director of Performance Audit and Best Value.
  15. **Audit of Best Value: Falkirk Council:** The Commission will consider a report by the Controller of Audit.
- The following items are *proposed to be considered in private*.\***
16. **Audit of Best Value: Falkirk Council:** The Commission will consider the action that it wishes to take.
  17. **Local government financial overview: draft report:** The Commission will consider a report by the Director of Performance Audit and Best Value.
  18. **Mid-Year Strategy Seminar: Outputs:** The Commission will consider a report by the Secretary to the Commission.
  19. **Commission business matters:** The Commission will discuss matters of interest.

\* It is proposed that items 16 to 19 be considered in private because:

- Item 16 requires the Commission to consider actions in relation to a report by the Controller of Audit. The Commission is then obliged by statute to inform the council in question of its decision, which the Commission does before making the decision public.
- Item 17 proposes a draft audit report which the Commission is to consider in private before publishing.
- Item 18 presents outputs from the Commission's private Mid-Year Strategy Seminar which may include confidential policy matters that the Commission would wish to discuss in private before proceeding.
- Item 19 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:

<b>Agenda Item</b>	<b>Paper number</b>
<b>Agenda Item 4:</b> Minutes of meeting of the Commission of 8 September 2016	AC.2016.9.1
<b>Agenda Item 5:</b> Minutes of Financial Audit and Assurance Committee 22 September 2016	AC.2016.9.2
<b>Agenda Item 6:</b> Minutes of Performance Audit Committee 22 September 2016	AC.2016.9.3
<b>Agenda Item 7:</b> Minutes of meetings of Audit Scotland Board of 18 August 2016 and 15 September 2016	AC.2016.9.4
<b>Agenda Item 9:</b> Report by Secretary to the Commission	AC.2016.9.5
<b>Agenda Item 11:</b> Report by Assistant Director of Audit Services	AC.2016.9.6
<b>Agenda Item 12:</b> Report by the Director of Performance Audit and Best Value	AC.2016.9.7
<b>Agenda Item 13:</b> Report by the Director of Performance Audit and Best Value	AC.2016.9.8
<b>Agenda Item 14:</b> Report by the Director of Performance Audit and Best Value	AC.2016.9.9
<b>Agenda Item 15:</b> Report by the Controller of Audit	AC.2016.9.10
<b>Agenda Item 17:</b> Report by the Director of Performance Audit and Best Value	AC.2016.9.11
<b>Agenda Item 18:</b> Report by Secretary to the Commission	AC.2016.9.12

MEETING: 6 OCTOBER 2016

MINUTES OF PREVIOUS MEETING

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Minutes of the 430<sup>th</sup> meeting of the Accounts Commission held in the offices of Audit Scotland at 102 West Port, Edinburgh, on Thursday, 8 September 2016, at 10.15am

PRESENT: Douglas Sinclair (Chair)  
Alan Campbell  
Sandy Cumming  
Sophie Flemig  
Sheila Gunn  
Ronnie Hinds  
Christine May  
Stephen Moore  
Pauline Weetman  
Geraldine Wooley

IN ATTENDANCE: Paul Reilly, Secretary to the Commission  
Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value (PABV)  
Antony Clark, Assistant Director, PABV [Items 13 and 14]  
Kirsty Gibbons, Communications Adviser [Item 10]  
Anne MacDonald, Senior Audit Manager, Audit Services Group [Items 11 and 12]  
Ashleigh Madjitey, Auditor, PABV [Items 11 and 12]  
Gordon Neill, Senior Manager, PABV [Items 11 and 12]  
Ronnie Nicol, Assistant Director, PABV [Items 11 and 12]  
Peter Worsdale, Audit Manager, PABV [Item 14]

Item No    Subject

1. Apologies for absence
2. Declarations of interest
3. Decisions on taking business in private
4. Minutes of meeting of 11 August 2016
5. Minutes of meeting of Financial Audit and Assurance Committee 25 August 2016
6. Minutes of meeting of Audit Scotland Board of 2 June 2016
7. Update report by the Secretary to the Accounts Commission
8. Update report by the Controller of Audit
9. 2015/16 Monitoring Report on Equalities
10. Health and Social Care Animation Project
11. Audit of Best Value: Angus Council
12. Audit of Best Value: Angus Council
13. Strategic Scrutiny Group: update
14. Follow up work on How councils work: roles and relationships: are you getting it right?
15. Commission business matters

1. Apologies for absence

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

2. Declarations of interest

The following declarations of interest were made:

- Sheila Gunn, in item 4, as a non-executive Director of the Wheatley Group, concerning its relationship with Glasgow City Council.
- Christine May, in item 16, as Vice-Chair of Fife Cultural Trust, in relation to references to arm's length external organisations

3. Decisions on taking business in private

It was agreed that items 12 to 15 should be taken in private for the following reasons:

- Item 12 requires the Commission to consider actions in relation to a report by the Controller of Audit. The Commission is then obliged by statute to inform the council in question of its decision, which the Commission does before making the decision public.
- Item 13 presents an update on discussions with strategic scrutiny partners which may include confidential policy matters that the Commission would wish to discuss in private before proceeding.
- Item 14 proposes a draft audit report, which the Commission is to consider and consult appropriately with stakeholders if necessary before publishing.
- Item 15 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.

4. Minutes of meeting of 11 August 2016

The minutes of the meeting of 11 August 2016 were approved, subject to:

- In relation to item 4, noting advice from the Chair that the Commission would host two events during November for council leaders and chief executives to present and discuss the new approach to auditing Best Value, to which all Commission members would be invited.
- In relation to item 9, agreeing that chairs and chief officers of health and social care integration joint boards be added to the list of guest speakers for committee days.

*Action: Secretary*

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

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

With reference to item 5, the Commission noted advice from the Secretary that the Chair and Deputy Chair had agreed that the Performance Audit Committee would provide oversight of the local government overview report.

6. Minutes of meeting of Audit Scotland Board 2 June 2016

The minutes of the meeting of the Audit Scotland Board of 2 June 2016 were submitted and noted.

It was agreed that future such papers be supplemented by information on any relevant current or updated Board business.

*Action: Secretary*

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 12, in response to a query from Ronnie Hinds, that future reports include an update on relevant EU-related matters.

*Action: Secretary*

- Agreed, in relation to paragraphs 15 and 25, in response to a query from Geraldine Wooley, that the Controller of Audit considers issues around social housing costs.

*Action: Controller of Audit*

- Noted, in relation to paragraph 23, in response to a query from Christine May, advice from the Controller of Audit that he retains a watching brief on the situation with the schools estate in City of Edinburgh schools.
- Noted that, in relation to paragraph 30, first bullet, "Communist" should read "independent".
- Agreed that, in relation to paragraph 38, in response to a query from Ronnie Hinds, that the Wales Audit Office report 'The financial resilience of local authorities in Wales 2015' be brought to the attention of the local government overview team.

*Action: Secretary*

Following discussion, 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.

The Commission:

- Agreed that the Controller of Audit provide more information on the Scottish Welfare Fund.

*Action: Secretary*

- Noted the update.

9. 2015/16 Monitoring Report on Equalities

The Commission considered a report by the Secretary to the Commission presenting for information Audit Scotland's Equalities Update 2015/16.

During discussion, the Commission:

- Noted advice from the Secretary that he would be convening the Commission's working group on equalities to discuss current equalities issues, including the Scottish Government's intention to legislate for gender equality on public boards.
- Agreed that the Secretary raise with Audit Scotland's Diversity and Equalities Steering Group, of which he is a member, issues raised in discussion, namely:
  - Comparisons with other public bodies.
  - Recruitment data in relation to ethnicity.
  - Career development and promotion data in relation to gender.
  - Salary grade data in relation to training.
  - Data in relation to transgender people.
  - More sophisticated comparative data in relation to age bands.
  - Scope for more independent review of progress against equality outcomes.
- Following discussion, the Commission noted the report.

*Actions: Secretary*

10. Health and Social Care Animation Project

The Commission considered a report by the Communications Manager, Audit Scotland, introducing a presentation by the Communications Adviser on an animation and accompanying webpage on Audit Scotland's health and social care work produced on behalf of the Accounts Commission and the Auditor General.

During discussion, the Commission:

- Noted the report and presentation.
- Agreed that the Secretary discuss with Audit Scotland future input from the Commission into such initiatives.

*Action: Secretary*

11. Audit of Best Value: Angus Council

The Commission considered a report by the Secretary to the Commission seeking its consideration of the Controller of Audit's report of the Best Value audit of Angus Council and seeking direction on how to proceed.

Following questions to the Controller of Audit, the Commission agreed to consider in private how to proceed.

12. Audit of Best Value: Angus Council [in private]

The Commission discussed how to proceed in relation to the statutory report by the Controller of Audit on the audit of Best Value in Angus Council.

Following discussion, the Commission agreed:

- To make findings, to be published on 4 October 2016.
- As part of those findings, to note that it will maintain its interest in the progress made by the Council and that the Controller of Audit will continue to monitor progress through the annual audit process and in the new approach to auditing Best Value.

*Actions: Controller of Audit and Secretary*

13. Strategic Scrutiny Group: update [in private]

The Commission considered a report by the Director of PABV on the progress of the Strategic Scrutiny Group.

Following discussion, the Commission:

- noted that further updates on the progress of the Strategic Scrutiny Group will be brought to future Accounts Commission meetings
- noted the report.

*Action: Director of PABV*

14. Follow up work on *How councils work: roles and working relationships: are you getting it right?* [in private]

The Commission considered a report by the Director of PABV seeking the Commission's approval for the proposed outputs from the recent follow-up work on *How councils work: Roles and working relationships*.

Following discussion, the Commission:

- approved the proposed outputs, subject to the report team, in conjunction with the sponsors Douglas Sinclair and Tim McKay, addressing points raised in discussion.
- endorsed the ongoing work around promoting this and other support material to new and returning elected members following next year's local government elections.

*Actions: Director of PABV and Secretary*

15. Commission business matters

There being no further business, the meeting was closed.



MEETING: 10 NOVEMBER 2016

**MINUTES OF MEETING OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE OF  
22 SEPTEMBER 2016**

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Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of Audit Scotland, 8 Nelson Mandela Place, Glasgow on Thursday, 22 September 2016, at 10am.

PRESENT:               Graham Sharp (Chair)  
                              Tim McKay  
                              Douglas Sinclair  
                              Pauline Weetman  
                              Geraldine Wooley

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  
                              Fiona Kordiak, Director, Audit Services  
                              Tim Bridle, Technical Adviser, Audit Strategy [Item 7]  
                              Angela Canning, Assistant Director, PABV [Item 6]  
                              Mark McCabe, Senior Manager, PABV [Item 6]  
                              Martin McLauchlan, Senior Auditor, PABV [Item 6]  
                              Paul O'Brien, Senior Manager, Audit Strategy [Item 8]

1. Apologies for absence
2. Declarations of interest
3. Draft minutes of meeting of 25 August 2016
4. Current Issues from the local authority audits
5. Intelligence from Ombudsman (six monthly report)
6. Local Government Financial Overview – emerging messages
7. Local Government Pension Scheme Update
8. Accounting and auditing update (six monthly report)
9. Any other business

1. Apologies

It was noted that apologies for absence had been received from Ronnie Hinds.

2. Declarations of interest

The following declarations of interest were made:

- Sheila Gunn, in item 3, as a non-executive Director of the Wheatley Group, in relation to its relationship with Glasgow City Council and Glasgow Housing Association.
- Tim McKay, in item 7, as former Chair of Lothian Pension Fund Trustees.
- Douglas Sinclair, in relation to item 7, as a recipient of a pension from the Local Government Pension Scheme.
- Geraldine Wooley, in relation to:
  - item 4, as a close family member is an adviser to the Scottish Government on the Scottish Welfare Fund and other benefits matters (in relation to correspondence received by Audit Scotland in relation to the Fund) and as a former member of Madras School parent council (in relation to a reference in the report to an ongoing planning issue in Fife Council).
  - item 7, as a recipient of a pension from the Local Government Pension Scheme.

3. Minutes of meeting of 25 August 2016

The minutes of the meeting of 25 August 2016 were noted and approved as a correct record.

Arising therefrom, the Committee noted, in relation to item 3 (proposed joint venture model between Glasgow City Council, Wheatley Group and City Building), advice from the Controller of Audit that he anticipated that the matter would be covered in the annual audit report for the Council, and he would keep the Committee updated on the matter.

*Action: Controller of Audit*

4. Current issues from the local authority audits

The Committee considered a report by the Controller of Audit advising of emerging issues and recurring themes, as well as individual issues of interest, arising from audit work in Scottish councils.

During discussion, the Committee agreed:

- That 'Lender Option, Borrower Option' loans be considered for possible work in the work programme and referred to specifically in the forthcoming impact report for the Borrowing and Treasury Management performance audit.
- That further updates on the external auditor's review of Argyll and Bute Council's 2016/17 budget setting process be provided at future meetings as appropriate.

- That the Controller of Audit provide further information on the capital finance methods being used in Aberdeen City Council's new south city academy project.
- That the Controller of Audit provide further information on the business cases behind the exit packages given to three former council officers of Fife Council, as referred to in the draft accounts.
- That the Controller of Audit keep the Committee updated on the suspension of the Executive Director of Land and Environmental Services in Glasgow City Council.
- That the Controller of Audit provide further information on the timing of the new IT contract awarded by Scottish Borders Council to CGI.

*Actions: Controller of Audit*

Thereafter, the Committee noted the report.

5. Intelligence from Ombudsman (six monthly report)

The Committee considered a report by the Secretary to the Commission updating the Committee of intelligence emerging from the work of the Scottish Public Services Ombudsman, Commissioner for Ethical Standards in Public Life in Scotland; Standards Commission; and Information Commissioner.

Following discussion, the Committee:

- Agreed that the Controller of Audit consider how to ensure that a longitudinal perspective of such intelligence features in the intelligence being considered for each council in the new approach to auditing Best Value.

*Action: Controller of Audit*

- Noted the report.

6. Local Government Financial Overview – emerging messages

The Committee considered a report by the Director of PABV proposing the emerging messages for the 2015/16 local government financial overview report.

Following discussion, the Committee agreed:

- To endorse the emerging messages, subject to a small number of revisions and other points to be addressed by the report team in conjunction with the report sponsors.
- That a draft report be taken to the Commission meeting in November, prior to publication in that month.
- That further thought be given to ensuring consistency between the title of this report and the forthcoming local government overview report due for publication in spring 2017.
- To note advice from the Director that dialogue would take place with CIPFA Directors of Finance on the emerging messages in the report.
- That, in relation to non-borrowing debt, the issue be given further consideration in relation to the proposed refresh of the work programme to be considered by the Commission in December.

*Actions: Director of PABV*

7. Local Government Pension Scheme update

The Committee considered a report by the Assistant Auditor General along with a presentation providing an overview of developments within the Local Government Pension Scheme sector together with some key messages in the pension fund unaudited accounts for 2015-16.

Following the presentation and discussion, the Committee:

- Noted that messages would be reflected in the local government financial overview report and the overview team would be liaising with the national Scheme Advisory Board accordingly.
- Agreed that messages be shared with councils, pension fund trustees and the national Scheme Advisory Board, by way of a letter from the Commission Chair.

*Actions: Assistant Auditor General and Secretary*

8. Accounting and auditing update (six monthly report)

The Committee considered a report by the Assistant Auditor General informing the Committee of recent accounting and auditing developments affecting the public sector, particularly local government in Scotland.

During discussion, the Committee noted advice from the Secretary in relation to his ongoing discussions with the Scottish Government on the Commission's proposal to reflect the Financial Reporting Council's revised ethical standard in the Commission's Code of Conduct.

Following discussion, the Commission noted the report.

9. Any other business

There being no further business, the meeting was closed.

**MEETING: 10 NOVEMBER 2016**

**MINUTES OF MEETING OF PERFORMANCE AUDIT COMMITTEE OF 22 SEPTEMBER 2016**

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Minutes of meeting of the Performance Audit Committee of the Accounts Commission held in the offices of held in the offices of Audit Scotland, 8 Nelson Mandela Place, Glasgow on Thursday, 22 September 2016, at 2pm.

PRESENT: Ronnie Hinds (Chair)  
Alan Campbell  
Sandy Cumming  
Christine May  
Douglas Sinclair

IN ATTENDANCE: Paul Reilly, Secretary to the Commission  
Fraser McKinlay, Director of PABV  
Carol Calder, Senior Manager, PABV [Item 6]  
Angela Canning, Assistant Director, PABV [Item 8]  
Antony Clark, Assistant Director, PABV [Items 4 and 7]  
Lorraine Gillies, Senior Manager, PABV [Item 7]  
Mark McCabe, Senior Manager, PABV [Items 6 and 8]  
Cathy MacGregor, Audit Manager, PABV [Item 7]  
Zoe McGuire, Auditor, PABV [Item 7]  
Tricia Meldrum, Senior Manager, PABV [Item 5]  
Rebecca Smallwood, Senior Auditor, PABV [Item 5]  
Natalie Sorbie, Senior Auditor [Item 8]  
Shelagh Stewart, Audit Manager, PABV [item 5]  
Rikki Young, Business Manager, PABV [Item 4]

<u>Item no.</u>	<u>Subject</u>
1.	Apologies for absence
2.	Declarations of interest
3.	Minutes of meeting of 28 April 2016
4.	Work Programme Update
5.	Performance audit: scope – Early Learning and Childcare
6.	Policy briefing: Health, Care and Communities
7.	Performance audit: scope – Self directed support – follow up
8.	Local Government overview: scope
9.	Any other business

1. Apologies for absence

It was noted that apologies for absence had been received from Sophie Flemig and Stephen Moore.

2. Declarations of interest

The following declaration of interest was made:

- Christine May, in items 4 and 8, as Vice-Chair of Fife Cultural Trust, in relation to references to arm's length external organisations

3. Minutes of meeting of 28 April 2016

The minutes of the meeting of 28 April 2016 were noted and approved as a correct record.

Arising therefrom, the Committee noted advice from the Secretary that:

- In relation to item 3, the Chair had written to council leaders, chief executives and audit committee chairs advising them of the publication of the report *Housing benefit audit: initiatives which deliver continuous improvement*, and a copy of the letter was available on the members' extranet portal.
- In relation to item 6, he had agreed with the Commission Chair and Deputy Chair that the Financial Audit and Assurance Committee would oversee the performance audit on equal pay.

4. Work Programme Update

The Committee considered a report by the Director of PABV providing an update of progress of the work programme published on behalf of the Accounts Commission and Auditor General. It also provided an update on recent developments in implementing a more strategic approach to Parliamentary engagement to inform programme development activity.

Following discussion, the Committee agreed:

- Following a query from Sandy Cumming, to note advice from the Director that Audit Scotland's New Financial Powers Working Group continued to monitor developments in relation to the referendum decision that the UK leave the European Union, and that an update from the Group would be presented to the Commission at its next meeting.
- Following a query from Christine May, to note advice from the Director that part of this ongoing monitoring would include implications for employability policy.
- That council borrowing, particularly in relation to innovative financing, be considered in the context of the proposed refresh of the work programme to be considered by the Commission in December.
- Further in this regard to note advice from the Director that this issue would also be addressed in the forthcoming impact report for the *Borrowing and Treasury Management* performance audit
- That links between attainment and the Curriculum for Excellence be considered in the context of the proposed refresh of the work programme.

*Actions: Director of PABV*

Thereafter, the Commission noted the report.

5. Performance audit: scope – Early Learning and Childcare

The Committee considered a report by the Director of PABV seeking approval of the approach to the performance audit *Early Learning and Childcare*.

Following discussion, the Committee approved the approach proposed in the report, including the proposed audit scope leaflet for publishing, subject to the audit team addressing the issues raised in discussion in conjunction with the audit sponsors, Alan Campbell and Geraldine Wooley.

*Actions: Director of PABV*

6. Policy Briefing: Health, Care and Communities

The Committee considered a briefing from the Director of PABV on the Health, Care and Communities cluster. The presentation was delivered by Carol Calder and Mark McCabe (Senior Managers, PABV).

Following discussion, the Committee:

- Noted that the contents of the briefing would be used to inform the proposed refresh of the work programme to be considered by the Commission in December.
- Noted the briefing.

*Action: Director of PABV*

7. Performance audit: scope – Self directed support – follow up

The Committee considered a report by the Director of PABV seeking approval of the approach to the performance audit *Self directed support – a follow up audit*.

Following discussion, the Committee approved the approach proposed in the report, including the proposed audit scope leaflet for publishing, subject to the audit team addressing the issues raised in discussion in conjunction with the audit sponsors, Sandy Cumming and Sophie Flemig.

*Actions: Director of PABV*

8. Local government overview 2017: scope

The Committee considered a report by the Director of PABV seeking approval of the approach to the local government overview 2017.

Following discussion, the Committee:

- Approved the approach proposed in the report, subject to the audit team addressing the issues raised in discussion in conjunction with the report sponsors, Douglas Sinclair and Ronnie Hinds.
- Agreed to recommend to the Commission that, following publication of the report in spring 2017, the Commission review the consistency between the two local government overview products, in terms of content, messages and style.

*Actions: Director of PABV*

9. Any other business

There being no further business, the meeting was closed.

Minutes of Meeting of **Audit Scotland** held on 18 August 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  
M Taylor, Assistant Director, Audit Services Group  
F McKinlay, Director of Performance Audit and Best Value  
J Gillies, Communications Manager

**OBSERVER:** Judith Strange, Develop Global

<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 2 June 2016
7.	Minutes of the Audit Committee meeting dated 2 June 2016
8.	Minutes of the Remuneration and Human Resources Committee meeting dated 2 June 2016
9.	Review of the Actions Tracker
10.	Q1 Corporate Performance Report
11.	Q1 Becoming World Class Improvement Programme
12.	Q1 Financial Performance Report
13.	Potential Implications of the EU Referendum Results
14.	Becoming World Class (a) Securing World Class Audit: Review of Funding and Fees – Consultation Responses (b) Securing World Class Audit: 2017/18 Budget and Financial Strategy – Initial Proposals (c) Securing World Class Audit: Review of Audit Quality (d) Building a Better Organisation: Property Post Implementation Review (e) Making a Difference: Corporate Communications and Engagement Strategy 2016-18
15.	Corporate Governance Policies and Code of Conduct Review
16.	Proposed Board Meeting Dates 2017
17.	Publication of Board Papers
18.	AOB



19. Date of next meeting

**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, since the previous meeting of the Board, he had held regular meetings with Caroline Gardner, Auditor General for Scotland and Diane McGiffen, Chief Operating Officer, and that he had met prior to this morning's meeting with David Hanlon, to discuss papers scheduled for discussion at item 14(b).

The Chair advised that, in preparation for the Board development event on 30 August 2016, Judith Strange would be observing the meeting and would provide an update on the programme for the event under Any Other Business.

**4. Accountable Officer's Report**

Caroline Gardner provided an update on her activity since the previous board meeting. She advised that the Board would hear later in the agenda about current assessments of the implications of the EU referendum result, which had been the focus of much discussion. She advised that work continued to develop increased support for the Scottish Parliament, and that she had recently met with the new Convenor of the Public Audit Committee and had meetings scheduled with new Cabinet Secretaries and Ministers.

Caroline advised that since the previous board meeting reports had been published on Higher Education, Economic Interventions and Broadband with a joint report with the Accounts Commission on Roads Maintenance..

Caroline advised on communication with new cabinet secretaries following the appointment of the new Scottish Cabinet.

She also advised that Audit Scotland had provided written evidence to the Edinburgh Trams Inquiry covering factual information on the original reports prepared for the previous Auditor General for Scotland.

**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 Ministers had agreed to re-appoint Christine May and Graham Sharp for a further year, to help manage succession planning of Accounts Commission members. He also reported on the recent meeting with South Ayrshire council to discuss the findings of the Best Value report published in June 2016 and that this meeting helped to demonstrate the value of having an ongoing process of examining best value in councils.

He advised that, along with the Deputy Chair, the Secretary to the Accounts Commission and the Controller of Audit, he had met with Kevin Stewart, the new Minister for Local

Government and had welcomed the opportunity to have an early meeting with the new Government team.

**6. Minutes of the meeting dated 2 June 2016**

The Board considered the note of the meeting of the Board on 2 June 2016, which had been previously circulated, and confirmed the note was an accurate record of the meeting, subject to a minor amendment to page 5, line 11, to insert after public sector:

“given that firms may be vulnerable to external risks”.

**7. Minutes of the Audit Committee meeting dated 2 June 2016**

The Board considered the note of the meeting of the Audit Committee on 2 June 2016 and adopted the minute as an accurate record of the meeting.

**8. Minutes of the Remuneration and Human Resources Committee meeting dated 2 June 2016**

The Board considered the note of the meeting of the Remuneration and Human Resources on 2 June 2016 and adopted the minute as an accurate record of the meeting.

**9. Review of the Actions Tracker**

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

**10. Q1 Corporate Performance Report**

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Q1 Corporate Performance report, a copy of which had been previously circulated.

The Board discussed various elements of performance, including follow up of recovery for the National Fraud Initiative. It was agreed that Russell Frith would prepare a report for a future Board meeting on the levels of reporting and roles on fraud.

The Board congratulated trainees on their recent exam success.

Following further discussion, members noted the Q1 Corporate Performance report.

**Action(s):**

- **The Assistant Auditor General, to prepare a report for a future Board meeting on the levels of reporting and roles on fraud. (TBC 2016)**

**11. Q1 Becoming World Class Improvement Programme**

Martin Walker, Assistant Director, Corporate Performance Risk, introduced the Q4 Becoming World Class Improvement Programme report, which had been previously circulated.

Martin invited members to note continued progress against a number of significant milestones during Q1. The Board discussed the development of the Best Value framework

for the Accounts Commission and the recent work with Young Scot to hear young people's views on public services.

The Board noted the report and thanked Martin for the update.

## **12. Q1 Financial Performance Report**

*David Hanlon, Corporate Finance Manager, joined the meeting.*

The Board noted the Q1 Financial Performance Report which had been previously circulated and discussed at the earlier meeting of the Audit Committee.

*David Hanlon, Corporate Finance Manager, left the meeting.*

## **13. Potential Implications of the EU Referendum Results**

*Mark Taylor, Assistant Director, Audit Services Group, joined the meeting.*

Mark Taylor, Assistant Director, Audit Services Group, introduced the report on Potential Implications of the EU Referendum Results, which had been previously circulated.

Mark invited the Board to note the early assessment of the possible implications on the Scottish public finances and bodies. He provided a verbal update on the timetable for the Scottish budget. Following discussion, the Board noted the early assessment of implications of the EU referendum and that Mark would be presenting a similar report focusing on an early assessment of the implications for local government to the Accounts Commission. The Board acknowledged the need to maintain focus on the unfolding implications of the EU referendum and invited reports from Mark and his team as appropriate.

The Board thanked Mark for the report.

*Mark Taylor, Assistant Director, Audit Services Group, left the meeting.*

## **14. Becoming World Class**

### **(a) Securing World Class Audit: Review of Funding and Fees – Consultation Responses**

Russell Frith, Assistant Auditor General, introduced the report on Review of Funding and Fees – Consultation Responses, a copy of which had been previously circulated.

Russell invited the Board to consider the summary of responses received and that a revised fee strategy and fee proposals for 2016/17 audits will be brought forward as part of the overall budget setting arrangements. He reported on meetings that he had held with the local authorities' directors of finance and with the NHS Director of Finance.

The Board noted the report on the consultation on fees and funding, welcomed the overall support for the changes proposed in the consultation and noted the other areas of feedback. The Board also noted that the Assistant Auditor General will prepare a revised fee strategy and fee proposals for 2016/17 audits alongside the overall budget proposals in September.

### **Action(s):**

- **The Assistant Auditor General to prepare a revised fee strategy and fee proposals for the 2016/17 audits to the September 2016 Board meeting. (September 2016)**

**(b) Securing World Class Audit: 2017/18 Budget and Financial Strategy – Initial Proposals**

*David Hanlon, Finance Manager, joined the meeting.*

Russell Frith, Assistant Auditor General, introduced the report setting out the initial proposals for the 2017/18 Budget and Financial Strategy, building on fee discussions at the May and June Board meetings. David Hanlon, Finance Manager, detailed the work that had been undertaken since June reviewing the budget and preparing projections. He tabled a further page of analysis for the Board which summarised costs and fees by sector and the potential for real terms price reductions. He discussed the budget assumptions set out in the report and their implications. David advised that following agreement on the assumptions, further detailed analysis would be undertaken by sector and individual audit.

Caroline Gardner commented that it was important that the Board struck the right balance between efficiency and investment in support to Parliament and quality, given the challenges for Audit Scotland outlined in earlier discussions.

The Board agreed the budget assumptions set out in the report in order to inform the final budget proposal to be approved by the Board in September 2016.

**Action(s):**

- **The Assistant Auditor General to prepare a budget proposal for the September 2016 Board meeting. (September 2016)**

**(c) Securing World Class Audit: Review of Audit Quality**

Russell Frith, Assistant Auditor General, introduced the Review of Audit Quality Report, a copy of which had been previously circulated and which set out a timetable for developing a revised quality framework.

Following discussion, the Board noted the work underway to review audit quality arrangements.

**(d) Building a Better Organisation: Property Post Implement Review**

*Fraser McKinlay, Director of Performance Audit and Best Value, joined the meeting.*

Fraser McKinlay, Director of Performance Audit and Best Value introduced the Property Post Implementation Review report, which had been previously circulated and which covered the move to 102 West Port.

Following discussion, the Board welcomed the report and subject to minor amendment, approved it as the basis for future external reporting.

**(e) Making a Difference: Corporate Communications and Engagement Strategy 2016-18**

*James Gillies, Communications Manager, joined the meeting.*

James Gillies, Communications Manager, introduced the Corporate Communications and Engagement Strategy 2016-18 report, a copy of which had been previously circulated.

Heather Logan advised that she would provide comments on the draft directly to James after the meeting.

Notwithstanding amendments following those comments, the Board approved the draft Corporate Communications and External Engagement and agreed to review the strategy in 2018.

*James Gillies, Communications Manager, and Fraser McKinlay, Director of Performance Audit and Best Value, left the meeting.*

#### **15. Corporate Governance Policies and Code of Conduct Review**

The Board noted the review of governance policies and approved the Financial Regulations, Scheme of Delegation and staff Code of Conduct for a further year.

##### **Action(s):**

- **The Corporate Governance Manager to review the Financial Regulations, Scheme of Delegation and staff Code of Conduct annually and report to the Board. (August 2017)**

#### **16. Proposed Board Meeting Dates 2017**

Diane McGiffen, Chief Operating Officer, advised of work underway in relation to planning the schedule of meetings for 2017 which would take account of the outcomes from the Parliament Audit Committee business planning day in September 2016. Proposed dates would be shared and discussed by members at the Board Meeting on 15 September 2016.

##### **Action(s):**

- **The Chief Operating Officer to provide proposed dates for discussion by members. (September 2016)**

#### **17. Publication of Board Papers**

The Board approved all reports for publication with the following exceptions:

- Item 8 - Minutes of Remuneration Committee (statutory/security/legal - personal information).
- Item 14(b) – 2017/18 Budget and Financial Strategy – Initial Proposals (effective conduct of business - free and frank provision of advice/exchange of views for the purposes of deliberation/conduct of public affairs).

##### **Action(s):**

- **The Assistant Director, Corporate Performance and Risk to arrange to publish the reports on the Audit Scotland website alongside the approved minute. (August 2016)**

#### **22. AOB**

The Chair invited Judith Strange of Develop Global to share the proposed agenda for the Board Development Event on 30 August 2016.

Judith Strange thanked the Chair and members for their time to date and provided an outline for the meeting.

There was no further business.

**23. Date of Next Meeting**

It was noted that the next Audit Scotland Board meeting had been scheduled for **15 September 2016** in the offices of Audit Scotland, 102 West Port, Edinburgh.

Russel Griggs confirmed his apologies for the September meeting, which had been previously notified.

Minutes of Meeting of **Audit Scotland** held on 15  
September 2016 in the offices of Audit Scotland at  
102 West Port, Edinburgh

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

APOLOGIES: R Griggs

IN ATTENDANCE: D McGiffen, Chief Operating Officer  
R Frith, Assistant Auditor General  
M Walker, Assistant Director, Corporate Performance and Risk  
D Hanlon, Corporate Finance Manager  
J Webber, Senior Executive Assistant

<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 18 August 2016
7.	Review of the Actions Tracker
8.	Review of Information Governance Policies
9.	New Financial Powers Update
10.	Securing World Class Audit: Audit Procurement – Post Tender Review
11.	Securing World Class Audit: Budget Proposal 2017/18 and Fee Strategy 2016/17
12.	Publication of Board Papers
13.	AOB
14.	Review of meeting
15.	Date of next meeting

**1. Apologies**

The members noted Russel Griggs apologies for today's meeting.

**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, since the previous meeting of the Board, he had held regular meetings with Caroline Gardner, Auditor General for Scotland and Diane McGiffen, Chief Operating Officer, and that he had met with Russell Frith prior to this morning's meeting to discuss the papers scheduled for discussion at item 11.

**4. Accountable Officer's Report**

Caroline Gardner provided an update on her activity since the previous board meeting. She advised that work continued to develop our support and engagement with the Scottish Parliament, and of her recent meetings with the new Cabinet Secretary for Finance and a number of MSPs.

Caroline advised of her recent speaking commitments, notably at the Holyrood Summer School on 19 August, the University of Strathclyde conference on 12 September, the Fraser of Allandar Institute budget discussion on 13 September and that evening's EY Dinner.

She informed the Board on the work underway to conclude this year's audits and looking ahead to the quality reviews which were due to commence in October alongside the new appointments. The Board noted that an update will be shared with them at their meeting in December 2016.

**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 he had attended to the Scottish Parliament's Local Government and Communities Committee to give evidence on the Local Government Overview report 2016.

He also advised that the Social Work in Scotland report would be published on 22 September and highlighted some of the main issues covered by the report.

**6. Minutes of the meeting dated 18 August 2016**

The Board considered the note of the meeting of the Board on 18 August 2016, which had been previously circulated, and confirmed the note was an accurate record of the meeting, subject to correcting the spelling of Kevin Stewart's surname at item 5.

With regard to the action for Russell Frith under item 10, Heather Logan requested more detail in the report around recovery and how this will be maintained when this comes to the Board in December 2016.



## **7. Review of the Actions Tracker**

An updated version of the Action Tracker was tabled, which had been further revised. The members noted the update provided by the Action Tracker.

## **8. Review of Information Governance Policies**

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the report on the Review of Information Governance Policies, which had been previously circulated.

The Board was invited to note the review and reapprove the policies for Data Protection, Freedom of Information and Records Management for a further year.

The Board considered and duly approved the policies for a further year.

## **9. New Financial Powers Update**

*Mark Taylor, Assistant Director, Audit Services Group, joined the meeting.*

Mark Taylor, Assistant Director, Audit Services Group, introduced the New Financial Powers Update report, a copy of which had been previously circulated.

Mark invited members to note the update on key developments surrounding further financial devolution, including Audit Scotland's organisational arrangements in this area.

Heather Logan sought clarification on Audit Scotland's responsibilities as distinct from the Auditor General for Scotland's to respond to the consultation from the Joint Exchequer Committee in relation to the setting of robust auditing arrangements with respect to the fiscal framework and the Scotland Act 2016. Mark advised that while the timeline for this was not yet finalised we continued to engage with the Scottish Government regarding the developments, including concerns around resourcing, given the considerable scope of the new powers and the need for clarity around the impact this may have for the Auditor General and Audit Scotland.

Turning to internal resource, Mark advised members that the team will focus on the work programme which will identify any additional requirements.

The Chair thanked Mark for the update.

*Mark Taylor, Assistant Director, Audit Services Group, left the meeting.*

## **10. Securing World Class Audit: Audit Procurement - Post Tender Review**

The Board noted the report on Audit Procurement – Post Tender Review, a copy of which had been previously circulated.

Russell Frith advised members that the Audit Strategy team involved were content with the procurement exercise. In response to Heather's query on the matter of conflicts arising, Russell advised the team would consider requesting details of conflicts earlier in the process in the next procurement round.

Caroline informed members that as a member of the interview panel, she felt the process had gone very well, recognising the valuable contribution of Fiona Daley in developing the thinking and providing assurance of the exercise.

The Board welcomed the report and, at the suggestion of Douglas Sinclair, Russell would approach the independent consultant, Fiona Daley, to invite her input to the review in light

of her involvement in the procurement exercise. The Board also noted the proposal to involve Fiona in the quality review work to be taken forward by Elaine Boyd, a report on which is scheduled to come to the Board in December 2016.

**Action(s):**

- **The Assistant Auditor General, to invite input from Fiona Daley on the procurement review process. (October 2016)**
- **The Assistant Director, Audit Strategy, to bring a report to the Board on the quality review work. (December 2016)**

**11. Budget Proposal 2017/18 and Fee Strategy 2016/17**

*David Hanlon, Corporate Finance Manager, joined the meeting.*

Diane McGiffen, Chief Operating Officer, advised the Board of her discussion with the new secretary for the SCPA, who had confirmed that Audit Scotland would not be required to submit a budget proposal this month due to the scheduling of the UK and Scottish budget process. Diane would advise members when written notification of the submission date is received.

Diane invited members to consider and approve the draft Budget Proposal 2017/18, which had been previously circulated.

The Chair commented he had shared a number of minor drafting points with Russell prior to this meeting and invited members to note the documents will be reviewed and refined by the communications team.

Following discussion, the Board approved the budget proposal.

Turning to the Fee Strategy 2016/17, Russell Frith introduced the report, which had been previously circulated.

Douglas Sinclair was interested to know how we were communicating with audited bodies around the new fee arrangements, particularly in light of those organisations which would see an increase in fees.

Caroline advised that with the delay to the submission of the budget and fee strategy our intention would be to advise audited bodies of their likely fees and provide them with the opportunity to respond.

The Chair highlighted the ability to apply a reduction in fee setting across a particular sector to allow a transition to the new fee strategy.

Following discussion, the Board approved the Fee Strategy 2016/17.

On behalf of the members, the Chair thanked Russell, David and their respective teams for their work on the submissions.

*David Hanlon, Corporate Finance Manager, left the meeting.*

**12. Publication of reports**

The Board approved all reports for publication with the following exception:

- Item 11 – Budget proposal 2017/18 and Fee Strategy 2016/17 (draft due for future publication).

**Action(s):**

- **The Assistant Director, Corporate Performance and Risk to arrange to publish the reports on the Audit Scotland website alongside the approved minute. (October 2016)**

**13. Review of meeting**

Diane McGiffen tabled a summary which provided a distillation of matters discussed at the Board development event held on 30 August 2016.

The Chair welcomed the clear summation, acknowledging the positive outcomes from the event.

Diane invited members to discuss the proposal of having separate dates for the Board and Committee meetings and following discussion the Board agreed to trial separate dates for a period of time and to keep this under review.

The members took the opportunity to reflect on the quality of reports and balance of support and challenge of discussions at today's meeting.

**14. AOB**

There was no further business.

**15. Date of Next Meeting**

It was noted that the next Audit Scotland Board meeting had been scheduled for **27 October 2016** in the offices of Audit Scotland, 102 West Port, Edinburgh.

MEETING: 10 NOVEMBER 2016

REPORT BY: SECRETARY TO THE COMMISSION

UPDATE REPORT

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### Purpose

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 extranet site, which provides more detailed news coverage in certain areas.
3. The information featured is also available on the Accounts Commission member portal. Hyperlinks are provided in the electronic version of this report for ease of reference.

### Commission business

#### Publications

4. On 22 September, the Commission published its report on [Social Work in Scotland](#). The report states that councils now spend £3.1 billion on social work providing services to many vulnerable people, but current approaches to providing services will not be sustainable. The report received broad media coverage, featuring prominently in the Times, Scotsman, Herald and Record. Broadcast interest was very strong from STV and many local radio stations, and featured on BBC Radio Scotland's *Good Morning Scotland*. COSLA welcomed the report. Health Secretary Shona Robison described it as "a very useful contribution." The report also attracted significant specialist coverage and stakeholder interest expressed on social media. The findings were also presented at the Scottish Government's Social Work Services Strategic Forum meeting on 27 September. The Forum recognised the report's key message that current approaches to delivering social work services will not be sustainable in the long term and said that this would be a key focus for their future discussions. It has been downloaded 710 times and the podcast 65 times.
5. On 4 October, the Commission published its [Best Value audit report on Angus Council](#). The council is facing significant financial pressures and needs to find savings of £26.5million over the next three years. The report also found that while the 'Transforming Angus' initiative has helped to improve the organisational culture within the council and has contributed to reducing the cost of delivering some services, there are risks that it may not succeed in delivering savings within the required timescales. Angus Council leader Iain Gaul described the report as "fair and positive" and three Commission members will meet with the council in the coming weeks to discuss issues further. The report received significant media coverage with articles in the Scotsman, Courier and National as well as local titles. The report has been downloaded 244 times.

6. In October 2016, the Commission published an impact report on its [School Education](#) report, published in June 2014. The [report](#) also provides a scrutiny supplement which sets out a range of factors considered to be important in creating the right environment to ensure that effective scrutiny can take place.
7. The download statistics (with the increase from last month in brackets) for the reports published by the Commission over the last 12 months are shown below:

Report	Date	Report downloads	Report podcasts
<a href="#">Angus Council: Audit of Best Value</a>	4 Oct 2016	244	0
<a href="#">Social Work in Scotland</a>	22 Sept 2016	1875	271
<a href="#">Maintaining Scotland's roads: a follow-up report</a>	4 Aug 2016	1363 (+976)	208 (+72)
<a href="#">South Ayrshire Council: Audit of Best Value and Community Planning</a>	29 Jun 2016	612 (+225)	0
<a href="#">Accounts Commission annual report 2015/16</a>	26 May 2016	649(+343)	-
<a href="#">Accounts Commission Engagement strategy and engagement plan 2016/17</a>	26 May 2016	331 (+161)	-
<a href="#">Accounts Commission Strategy and annual action plan 2016-21</a>	26 May 2016	343 (+199)	-
<a href="#">Accounts Commission engagement plan 2015/16: Progress report</a>	26 May 2016	91 (0)	-
<a href="#">Accounts Commission Action plan 2015/16: Progress report</a>	26 May 2016	138 (+37)	-
<a href="#">Code of audit practice 2016</a>	26 May 2016	713 (+480)	-
<a href="#">Reshaping Care for Older People – Impact Report</a>	10 May 2016	637 (+211)	-
<a href="#">National Scrutiny Plan</a>	31 Mar 2016	595 (+251)	-
<a href="#">Local Government Overview 2016</a>	17 Mar 2016	3160 (+1460)	253(0)
<a href="#">Changing Models of Health and Social Care</a>	10 Mar 2016	6320 (+1,523)	872(0)
<a href="#">Community Planning update</a>	3 Mar 2016	2766 (+473)	88(0)
<a href="#">City of Edinburgh Council Best Value</a>	25 Feb 2016	1008 (+314)	165(0)
<a href="#">Procurement in Councils – impact report</a>	8 Feb 2016	1122 (+183)	0
<a href="#">Major Capital Investment in Councils - Follow Up</a>	14 Jan 2016	1982 (+389)	167(0)
<a href="#">Argyll and Bute Best Value Audit</a>	17 Dec 2015	1131 (+141)	0
<a href="#">Health and Social Care Integration</a>	3 Dec 2015	9740 (+2,367)	453(0)

### **Other business**

8. Christine May and Graham Sharp have been re-appointed to the Commission for another year. The members were first appointed to the Commission in 2009. Both of these reappointments will be for one year and will commence on 1 October 2016, finishing on 30 September 2017.

9. South Ayrshire Council met on 30 August to consider a response and develop an action plan to address the points raised in the Account Commission's recent [audit of best value and community planning](#), published on 29 June 2016. Members agreed to take the following approach: to agree to continue the tenure of the Best Value Working Group and with its current membership and remit; to approve the response to the audit developed by the Best Value Working Group; to approve an action plan for reviewing and evaluating progress; and to request that a summary of the Council's decisions in respect of the Best Value Audit be submitted to the Accounts Commission. A notice to this end was subsequently approved by me and published by the Council.
10. On 28 October, the Accounts Commission, the Auditor General for Scotland and Audit Scotland submitted a joint response to the Scottish Government's [consultation on Social Security in Scotland](#). The response gave a number of recommendations in the implementing of a new social security system: for outcomes to be easily measurable, transparent and clearly linked to the National Performance Framework; the importance of engaging with service users, there should be robust processes in place for data sharing; accessibility in applying for benefits; transparency in complaints, appeals and reconsiderations as well as value in learning from other organisations that handle and process financial and personal information. The full response can be found in the Appendix.
11. On 14 September, Douglas Sinclair gave evidence to the Local Government and Communities Committee on [An overview of local government in Scotland 2016](#). See paragraph 33 for more details.
12. The Commission held its mid-year strategy seminar on 14 September 2016. A separate paper in this regard is elsewhere on today's agenda.
13. Auditors recently appointed by the Commission for the next five years began their work using the new Best Value framework on 1 October. A report on the progress of the new approach to auditing Best Value is elsewhere on today's agenda. The Chair of the Commission wrote to council leaders, copied to chief executives, on 13 October inviting them to meet the Commission to discuss our new approach to auditing Best Value. (He had previously written to leaders and chief executives on 28 June informing them that the Commission had put in place its new approach.) He also advised that the meetings – aimed at council leaders and chief executives - would provide the opportunity to discuss the Commission's strategy and priorities. All Commission members have also been invited to attend an event. Two events will be held, in Glasgow City Council Chambers on 23 November at 10am to 12 noon, and in COSLA, Edinburgh on 5 December at 1pm to 3pm.
14. On 3 October, the Commission Chair spoke, alongside the Auditor General and the Chair of Audit Scotland, at an all-sector conference of auditors looking ahead to the new audit year. Audit planning guidance in this regard is being published and issued to auditors during November.

### **Auditor General for Scotland**

15. On 27 October, the Auditor General published [NHS in Scotland 2016](#). The report highlights a number of significant challenges for the NHS, including: increasing spending on drugs; the need for NHS boards to make unprecedented levels of savings in 2016/17, and a risk that some will not achieve financial balance; an ageing NHS workforce and difficulties in recruiting and retaining staff in some areas; increasing spending by boards on temporary staff and a lack of workforce planning for new models of care to deliver more community-based services. The report received widespread media coverage and featured on the front pages of The Herald, Scotsman, Telegraph, The Times, Daily Mail and the Metro. It also featured on STV Good Morning Britain and on BBC Good Morning

Scotland, receiving strong political reaction and generating a huge amount of interest on social media. The report has been downloaded 3,854 times and the podcast 84 times. Responding to the report, Health Secretary Shona Robison called the report a "balanced overview" and accepted its recommendations "in full". She reaffirmed the Government's commitments to investing a quarter of a billion pounds in social care, as well as an extra £500 million in primary care services and establishing a new national workforce plan.

16. The Scottish Parliament's Finance Committee has established a tri-partite [review](#) of the Parliament's budget process involving parliamentary and government officials and external experts, including the Auditor General. The groups meet monthly and have had two meetings to date. They plan to produce an interim report on 22 February with the final report being published on 24 May 2017.
17. On 27 September, the Auditor General published a briefing paper on [Scotland's new financial powers](#), outlining the key issues for public finance and the role of audit going forward.

### **Audit Scotland**

18. On 7 October, Audit Scotland officers held a round table discussion *helping shape our equalities ambition*. The discussion was well attended and the group had a wide ranging discussion on some of the equalities and human rights issues and explored ways to better embed equalities ambitions into its work. The main outcome of the discussion was to establish an Equalities and Human Rights Advisory group that meet up to twice a year and to act as a virtual group as necessary.
19. On 4 November, Audit Scotland hosted a visit by the Heads of UK and Ireland Supreme Audit Institutions (UK SAIs). The UK SAIs meet at least twice a year to discuss and share items of mutual interest. These meetings provide a useful forum for the UK and Irish Auditors General to meet. The agenda for the meeting is focused on the implications for the audit organisations of the EU referendum, devolution of financial powers, public audit committee agendas and staff training and development opportunities.

### **Issues affecting local government**

#### ***Scottish Government***

20. On 27 September, the Scottish Government published the [Scottish Household Survey](#), giving an insight into the lives of people living across Scotland. Survey results found that satisfaction in 2015 with three public services, local health services, schools and public transport, was 58 per cent, compared to 62 per cent in 2014. In 2015, 24 per cent of adults agreed that they can influence decisions affecting their local area, the highest level since the question was introduced in 2007. Just over a third (34 per cent) said they would like to be more involved in the decisions their council makes.
21. On 6 September, First Minister, Nicola Sturgeon, delivered the [Programme for Government](#) statement and [A Plan For Scotland: The Scottish Government's Programme For Scotland 2016-17](#). Four key areas of focus for the Scottish Government over the next year will be economic growth, education reform, improving public services and empowering communities. She also set out a number of funding priorities, including plans to invest £150m in schools, as part of the Scottish Attainment Fund, noting that £100m of that funding was coming from reforms to council tax. In addition to this, [fifteen new bills](#) are planned to be introduced over the next year, including a Gender Balance on Public Boards Bill to improve gender representation in the public sector and a Social Security Bill to create a framework for a new social security system.

22. On 14 September, the Scottish Government announced [council ward boundaries](#) ahead of next year's local elections. Ministers rejected five of the Local Government Boundary Commission's recommendations, but accepted all of the others, meaning changes will be made in 25 council areas. Given the government's existing commitment to an Islands Bill this Parliamentary year, Ministers decided to reject recommendations to make changes to the island authorities. Parliamentary Business Minister Joe FitzPatrick said that "in a small number of cases – Argyll and Bute, Dundee City and Scottish Borders - we have listened to local representations and left boundaries as they currently stand, to ensure that strong historic ties in particular areas and communities are maintained."
23. The Scottish Government is holding a [national conference on funeral poverty](#) on 16 November. Funeral directors, local authorities, charities and various other stakeholders will discuss funeral costs and the development of more affordable funeral options. The conference coincides with Citizens Advice Scotland's new report [Cost of Saying Goodbye 2016](#), which highlights an 8% rise in burial and 11% increase in cremation costs in the last year. Costs vary by over £1,500 between Councils, with the City of Edinburgh the most expensive place in Scotland for a burial where charges have increased by 4% to £2,253.
24. The Scottish Government has recently launched a number of consultations including [A Blueprint for 2020: The Expansion of Early Learning and Childcare in Scotland](#) and [Empowering teachers, parents and communities to achieve excellence and equity in education: A Governance Review](#), with closing dates of 9 January and 6 January respectively. I will report on proposed responses to these consultations at the Commission's next meeting.
25. The Scottish Government has provided a response to the Local Government and Regeneration Committee's [inquiry](#) into Arms Length External Organisations in March 2016. The Government made a number of points, including:
  - Definition – "...there is already a definition of ALEO for scrutiny purposes... This was produced by Audit Scotland for the Accounts Commission in its 2011 report on ALEOs and has been used consistently since then... This appears to be generally recognised and understood."
  - Landscape – "The Scottish Government strongly believed that there should be closer integration of public services with public, private and third sectors working together to make the best use of scarce resources... Local government should ensure that any changes to service delivery fully align with post Christie reform principles."
  - Training for board members – "...the Standards Commission for Scotland has produced an advice note for councillors who are nominated and appointed to ALEOs ...and recently invited stakeholders to give their comments on the draft advice note."
  - Community involvement – "...communities should have the same rights to involvement in relation to services delivered by an ALEO on behalf of a council as they would if the service was being delivered directly by the council."

## **Scottish Parliament**

### General

26. On 3 November, the Scottish Parliament [approved legislation](#) to reform the council tax by increasing rates for the top four bands (E-H) (see paragraph 30 below). The Scottish Government proposes that the additional revenue generated will be ring-fenced and



spent on education over the course of the Parliament. Finance Secretary Derek Mackay emphasised that the additional revenue would be put towards tackling the attainment gap and said the changes were "the first step in a journey of reform."

27. The Commission on Parliamentary Reform will carry out an independent review of the functions of the Scottish Parliament. It will investigate the role of Holyrood in scrutinising legislation, the committee system, and the parliament's independence from the Scottish government as well as looking at how engagement with the public can be increased. A report will be presented to the presiding officer in June 2017. The new website for the Commission has also been [launched](#).
28. On 13 October, the Cabinet Secretary for Finance launched a consultation paper for the [draft Referendum Bill](#). The proposals base a future referendum on the Scottish Independence Referendum Act 2013, meaning it will follow the model of the 2014 referendum and will allow 16 and 17 year olds and EU nationals to vote. The question, "Should Scotland be an independent country?" will also be replicated. No date has been selected to hold the vote, with Ministers to appoint a day through regulations. Derek Mackay made [assurances](#) that a referendum would only be held "*if it becomes clear that it is only through independence that Scotland's interests can be protected*". The deadline for responding is Wednesday 11 January 2017.
29. On 31 October, the SPICe information centre published a briefing on [The social impact of the 2016-17 local government budget](#). It assesses "social impact" by analysing how council savings plans are distributed between "Pro-poor", "Neutral" and "Pro-Rich" services. The paper stated that the largest area of council spending is on Pro-Poor services and more than two thirds of all net expenditure is on Pro-Poor, Very Pro-Poor or Neutral-Poor services combined. In addition to this, one tenth of expenditure is on Neutral services, and only 2% of expenditure is on services which are Pro-Rich, meaning that councils have "little option but to make most of their savings from services which are used more by lower income groups".

## Parliamentary Committees

### *Local Government and Communities Committee:*

30. The Local Government and Communities Committee called for written evidence from organisations and individuals to set out their views on Scottish Government's proposals for council tax reform in the [draft Council Tax \(Substitution of Proportion\) Order 2016](#). The main area of reform proposed by the Scottish Government is to increase the ratios of the upper bands (E-H) relative to Band D. This will mean that bills for Band E will increase by 7.5%, Band F by 12.5%, Band G by 17.5% and Band H by 22.5%. No additional bands have been added and the ratios for Bands A-D will remain unchanged. On 18 October, the Commission wrote to the Local Government and Communities Committee explaining its position in not responding formally to the call for evidence as questions were "largely policy matters" but that:

*Nevertheless, we do of course retain an interest in the matter given our responsibility for reporting on the local government audit. We will have a particular interest in the Government's stated intentions to allocate the additional revenue raised to schools. In keeping with our approach of 'following the public pound', we will be considering how the audit process addresses the accountability for these resources. I am happy to keep you informed to this end.*

The letter is available on the Commission members' extranet site.

31. At its [meeting](#) on 7 September, the Committee agreed its [work programme](#). Members agreed to focus on three main priorities: the future of local government finances, the

planning system and empowering local communities. It is intended that the Accounts Commission briefs the committee later in the year on its Financial Overview 2016 (which is elsewhere on today's agenda).

32. The Committee also agreed its approach to the scrutiny of the Scottish Government's Draft Budget 2017-18 in relation to local government. The Committee issued a call for written evidence. In his 18 October letter, the Chair of the Commission stated that again the questions were largely policy matters and thus the Commission would not intend responding formally.
33. At its [meeting](#) on 14 September, members took evidence from Douglas Sinclair, Ronnie Hinds, Fraser McKinlay, Controller of Audit, and Cathy MacGregor, Audit Manager, Audit Scotland on [An overview of local government in Scotland 2016](#). The Committee considered this evidence and agreed to write to the Accounts Commission on issues raised during the discussion. I subsequently wrote back to the Committee with the information, a copy of which is available on the members' extranet site.
34. At its meeting on [21 September](#) and on [28 September](#), the committee took evidence from a number of professionals on the Council Tax (Substitution of Proportion) (Scotland) Order 2016.
35. At its meeting on [5 October](#) and on [26 October](#), the Committee took evidence from a number of professionals on the Local Government Boundary Commission for Scotland's 5th Electoral Review.
36. At its meeting on [2 November](#), the Committee held a one-off roundtable session on how voter turnout can be increased and the lessons learned from the Scottish local government elections in 2012. The Committee set out to hear from academics, organisations encouraging participatory democracy, organisations representing sections of society less likely to vote and organisations who would take a role in encouraging young people to vote. It took evidence on from: the University of Aberdeen; Electoral Reform Society Scotland; Modern Studies Association; UNISON Scotland; Shelter Scotland and Enable Scotland.

*Public Audit Committee:*

37. At its [meeting](#) on 6<sup>th</sup> October, the Committee took evidence on:
  - Section 23 report - Audit of higher education in Scottish universities from Caroline Gardner, Auditor General for Scotland; Antony Clark, Assistant Director, Tricia Meldrum, Senior Manager, and Kirsty Whyte, Audit Manager, Audit Scotland. The Committee agreed to take further oral evidence from the Scottish Government, Scottish Funding Council and Universities Scotland. The Committee also agreed to invite written submissions.
  - Section 23 report - Scotland's colleges 2016: from Caroline Gardner, Auditor General for Scotland; Mark MacPherson, Senior Manager, and Stuart Nugent, Audit Manager, Audit Scotland. The Committee agreed to take further oral evidence from the Scottish Government and the Scottish Funding Council. The Committee also agreed to invite written submissions.
  - Section 22 reports - The 2014/15 audit of Edinburgh College, The 2014/15 audit of Glasgow Colleges' Regional Board from Caroline Gardner, Auditor General for Scotland; Mark Roberts, Senior Manager, and Mark MacPherson, Senior Manager, Audit Scotland; Hugh Harvie, Partner, KPMG; Gary Devlin, Partner, Scott-Moncrieff. The Committee agreed to take further oral evidence from Edinburgh College, Scottish Funding Council and Audit Scotland. The Committee

also agreed to write to the SFC regarding the report on Glasgow Colleges' Regional Board.

*European and External Relations Committee:*

38. The Committee is continuing its inquiry into the EU referendum and its implications for Scotland. At its [meeting](#) on 3 November, the Committee considered evidence from a variety of organisations including: the University of Strathclyde; London School of Economics; the University of Stirling and the University of Edinburgh.

*Finance and Constitution Committee:*

39. At its meetings on [5 October](#) and [26 October](#) the Committee took evidence from a variety of organisations on the [Land and Buildings Transaction Tax \(LBTT\)](#).

**Current activity and news in Scottish local government:**

**General**

40. The revised [National Standards for Community Engagement](#) were formally launched by the Minister for Local Government and Housing, Kevin Stewart, on 29 September. This was the culmination of a 15-month participatory review process undertaken by Scottish Community Development Centre in conjunction with What Works Scotland. The Standards are designed to support best practice in community engagement by public service authorities, third sector organisations, support agencies and community organisations. They will link closely to the statutory guidance on the Community Empowerment (Scotland) Act and are designed to complement a range of other engagement and participation frameworks and tools. A number of statements of support and endorsements from a wide range of organisations were received for the launch, including Audit Scotland, which stated that:

*Engaging with communities and service users on the design and delivery of services is central to delivering best value and improving public services. Our audit judgments take account of how well public bodies are engaging based on recognised best practice.*

**COSLA**

41. On 20 September, COSLA [criticised](#) Education Scotland for failing to include the workload requirements generated by Government agencies in a recent report, stating it was “very disappointing from a local government perspective.” A COSLA spokesperson said:

*“...sending Education Scotland into councils suggests a lack of independence because the reality is that this has to be a real independent look at the facts. It is not about finding a problem to which they already think they have a solution. Finally, we would dispute how anything credible or meaningful can be ascertained in a two week period based on the flimsiest of evidence.”*

**Improvement Service**

42. East Ayrshire and West Lothian councils have been widening their use of [tellmescotland](#), Scotland’s national public information notices (PINs) portal which enables public notices across the country to be published in a single location . In total, 30 councils use the portal to publish a variety of information, such as [planning](#), [licensing](#) and traffic notices. Individuals can [sign up](#) for alerts to find out what is happening in their area.

## ***Individual councils***

43. On 15 September, 27 Scottish councils [appointed](#) a Chief Digital Officer and Chief Technology Officer to lead the newly created Local Government Digital Office, which will set the long term digital direction for local government in Scotland. The new chiefs will work with councils to develop a portfolio of collaborative initiatives and projects that use digital technologies to reduce the cost of services and improve the customer experience. The office will also collaborate with wider public sector partners including the Scottish Government, Society of Information Technology Management (SOCITM), SEEMiS Group, NHS National Shared Services and the Improvement Service (IS) to exchange best practice and develop new shared services.
44. On 12 September, cross party politicians from Stirling Council [met](#) with the UK Government to discuss plans to transform central Scotland into an “economic and cultural powerhouse.” According to Council leader Joanna Boyd, the proposed City Deal aims to focus on improving the wellbeing and prosperity of local people in a bid to boost the areas national and global profile. Council leaders hope to see a commitment to plans in the coming weeks.
45. A number of Scottish councils were finalists and winners at the [Association for Public Service Excellence awards 2016](#):
  - West Lothian Council won best Housing, Regeneration or New Build Initiative
  - Fife Council won Best Efficiency and Transformation Initiative
  - North Ayrshire Council won Best Innovation and Demand Management Initiative
  - South Lanarkshire Council won Best Service Team for construction and building service
  - Aberdeen City Council won Best Service Team for Building Cleaning & Facilities Management Service
46. Highland Council, Aberdeen City Council and Aberdeenshire Councils have [agreed](#) to share procurement services, with a single team working across the three councils. The shared working is expected to achieve savings of more than £24m over the next five years.
47. The 2016 [COSLA Excellence Awards](#) have honoured nine Scottish councils and their partners for outstanding quality of service to the public:
  - West Dunbartonshire Council for Service Innovation and Improvement
  - Stirling and Clackmannanshire councils for Achieving Better Outcomes
  - The City of Edinburgh Council for Tackling Inequalities and Improving Health
  - Angus Council for Strong and Sustainable Communities
  - East Lothian Council for Local Matters
  - Dumfries and Galloway Council was awarded the SOLACE Best Team Award and The Scottish Government Award for Delivering Excellence
  - East Ayrshire Council was awarded the COSLA Chairpersons Award
  - Inverclyde Council was awarded The Excellent People, Excellent Outcomes Award.
48. There have been a number of by-elections since my last report:

- On 22 September, Labour Party candidate Alex McVey was [elected](#) as a councillor for the Coatbridge North and Glenboig ward of North Lanarkshire Council, following the resignation of SNP Councillor Fulton MacGregor.
- On 6 October, SNP candidate Chris Cunningham [gained a seat](#) for the Garscadden/Scotstounhill ward of Glasgow City Council, following the death of Labour Councillor John Kelly.
- On 7 October, Liberal Democrat Party candidate Trish Robertson was [elected](#) as Culloden and Ardersier Ward of Highland Council, following the death of Labour Councillor John Ford.

## **Scrutiny, inspection, regulatory and related bodies**

### ***Scottish Public Sector Ombudsman (SPSO):***

49. On 27 October, the SPSO published its [Annual Report for 2015-16](#). Key themes this year include a record number of recommendations to remedy individual injustices, prevent repeat failings and bring about improvements in public services. Two thirds of these were about the NHS and a fifth about local authorities. The SPSO describes its main achievement in its role to improve public sector complaints handling was in “leading the development of a model complaints handling procedure for the NHS in Scotland, which will be implemented in 2017.”
50. The newsletter [SPSO News – September](#) summarises August 2016 case numbers, outlines investigation 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.

### ***Commissioner for Ethical Standards in Public Life in Scotland:***

51. The Commissioner for Ethical Standards in Public Life has published his [Annual Report and Accounts for 2015/16](#). This report relates to the last year of the 2012 - 2016 strategic plan and looks forward to the first period of the 2016 - 2020 plan. The Commissioner reported that the volume and complexity of conduct complaints remained high during the reporting year. The new strategic plan has identified as a top priority the need to source a complaints management system (CMS) to replace the database on which the complaints investigation team currently relies.
52. Since the previous meeting of the Commission, nine decisions on complaints relating to councillors have been published by the [Commissioner](#). The Commissioner decided that in all cases individuals did not contravene the Councillors’ Code of Conduct. The complaints were against:
  - [Councillor James McCabe](#), North Lanarkshire Council
  - [Councillor Martin Kitts-Hayes](#), Aberdeenshire Council
  - [Councillor Colin Brown](#), Angus Council
  - [Councillor James Robertson](#), North Lanarkshire Council
  - [Councillor David Fairweather](#), Angus Council
  - [Councillors Owen Tierney and Graham Sinclair](#), Orkney Islands Council
  - [Councillors John Beare and David Alexander](#), Fife Council
  - [Councillor Joe Rosiejak](#), Fife Council
  - [Councillor Iain Gaul](#), Angus Council

### **Standards Commission for Scotland:**

53. There have been two hearings by the [Standards Commission for Scotland](#) since my last report:

- At a hearing on 19 October 2016, the Commission censured Councillor Michael Breslin of Argyll & Bute Council. Councillor Breslin had breached the Councillors' Code of Conduct which requires councillors to treat others, including members of the public, with respect. The sanction was imposed as a result of a failure by Councillor Breslin to treat an officer of the Council with respect.
- At a hearing on 17 October 2016, the Commission censured Councillor Paul Mack of Renfrewshire Council. Councillor Mack was suspended from meetings of the Council's Education and Children Policy Board for a period of three months for breaching the Councillor's Code of Conduct. The sanction was imposed as a result of a failure by Councillor Mack to treat the Convener of the Council's Children Policy Board with respect and to comply with a ruling she made at a meeting on at a meeting 20 August 2015.

### **UK Parliament**

#### *Scotland Office*

54. The Scotland Office has published its [Annual Report and Accounts 2015-16](#) as well as [Scottish Parliament election accounts: 2015 to 16](#) and [Scottish Parliament election accounts: 2014 to 15](#).

#### *Scottish Affairs Committee*

55. At its [meeting](#) on 24 October, the Scottish Affairs Committee took evidence from a variety of organisations including: COSLA; NFU Scotland and the Scottish Fishermen's Federation; the Royal College of Nursing; the University of Edinburgh; Universities Scotland and the Scottish Trade Union Congress on Scotland's place in Europe. Most witnesses agreed retaining access to the single market and free movement were paramount and most witnesses were keen that the UK and Scottish Governments work together on regulation, with it being noted that much of the law would be devolved to Scotland. The panel expressed concern about the economic impact of restrictions on migration, as well as the effect on specific sectors, such as health social care and education.

#### *Public Accounts Committee:*

56. On 19 October, the Public Accounts Committee published a [report](#) criticising the Government's attempts to save money through the delivery of shared services. The Report states: "The result is that the two shared service centers considered as part of this inquiry have only delivered £90 million of 'savings' in the first two and a half years of operation but at a cost of £94 million and, therefore, a net cost to the taxpayer of £4 million." The Cabinet Office now estimates that the centres will deliver savings of around £484 million in total by 2023–24, which compares with the anticipated £300- £400 million a year savings set out in the Next Generation Shared Services Strategy in 2012. The Committee has concluded that ongoing failures of governance must be addressed if the centres are to achieve their stated aim of delivering savings to the public purse.

## Other UK Audit Bodies

### **National Audit Office:**

57. The NAO published on 7 September [Local public service reform in English councils](#) (September 2016). The report investigates a number of issues including financial sustainability in councils, NHS bodies, police forces, demand pressures on public services and council strategies for responding to funding and demand pressures. Findings highlight a 25% fall in local authorities income between 2010/11 and 2015/16 and a 37% fall in central government funding to local authorities in real terms between 2010/11 and 2015/16.

### *Northern Ireland Audit Office:*

58. On 20 September, the NIAO published its [Local Government Auditors Report 2016](#). During 2014-15 councils spent almost £820 million on services, employed over 9,700 full time equivalent staff and utilised assets worth more than £2,000 million. In addition to this, 10 out of 11 councils fully met their introductory performance improvement responsibilities.

## Other general

59. The Fraser of Allander Institute published on 13 September its [annual report and analysis](#) on Scotland's Budget 2016. The report highlights "major fiscal challenges" ahead and suggests that given the Scottish Government's commitment to protect areas such as healthcare and childcare spending, other public services will "take up the slack", facing potential cuts of up to 17% over the next four years. In addition to this, a £1bn cut to the local government grant is predicted by 2020-21. The Chair has invited representatives of the Institute to the Commission's December meeting to discuss the report.
60. [Independent analysis](#) of local government reorganisation options undertaken for the County Councils Network, published on 3 November, has found that creating 27 unitary councils across the whole of England could potentially save £2.9billion. The research comes after the Cities and Devolution Act allowed local councils to propose reforms in their areas that would not require unanimous consent to be implemented. Kent County Council leader Paul Carter, said:  
*"If structural reforms were to take place, a single unitary model not only creates the most efficiencies for frontline services and the greatest scope to lower council tax bills, but also the best platform to transform local services so they are sustainable and fit for the considerable demands for the future."*
61. The Local Government Association has [argued](#) that better resourced council social services could provide better care for patients, as well as easing pressure on hospitals. It calculated that this could save the health and social care system more than £1bn, since hospital admissions were more costly than care options, freeing money to support the care at home market. Research issued to the Treasury to support its claim for increased adult care funding said 26% of hospital admissions could have been avoided if local social services were better resourced.

## Conclusion

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

**Paul Reilly**  
**Secretary to the Accounts Commission**  
**November 2016**

Social Security Consultation  
5th Floor  
5 Atlantic Quay  
150 Broomielaw  
Glasgow  
G2 8LU

28 October 2016

Dear Sir/Madam,

### **Consultation on Social Security in Scotland**

Please find a joint response from the Auditor General for Scotland, Accounts Commission and Audit Scotland to the consultation on social security in Scotland attached. We have not answered the individual questions in detail as many relate to policy choices and decisions. We have instead provided responses covering specific sections of the consultation where appropriate, drawing from our previous audit work.

The Auditor General for Scotland, the Accounts Commission for Scotland and Audit Scotland work together to deliver public audit in Scotland:

The Auditor General for Scotland is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government and health bodies and report to Parliament on their financial health and performance.

The Accounts Commission for Scotland is an independent public body appointed by ministers to hold local government to account. The Controller of Audit post is independent, established by statute and whose functions involve reporting to the Commission on the audit of local government. Audit Scotland provides services to the Auditor General and the Accounts Commission. It is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair and two non-executive members who are appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.

Public audit provides independent assurance that public money is spent properly and is providing value for money. We carry out this work through the annual audits of public bodies, performance audits on specific themes and subjects, best value audits of councils and partnerships, housing benefit audits and the National Fraud Initiative.

We were pleased to contribute to this consultation and I hope you find the attached comments useful. We are happy for the attached response to be published. Please do not hesitate to get in touch if you have any questions.

Yours faithfully,



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## Joint response from the Auditor General for Scotland, Accounts Commission and Audit Scotland to the Scottish Government's consultation on Social Security in Scotland

### Section - Outcomes and user experience

The consultation proposes a set of outcomes and we do not comment on these specifically. The Auditor General, Accounts Commission and Audit Scotland have previously reported on the importance of outcomes being measurable, and clearly setting out how outcomes will be delivered and achieved.<sup>1</sup> It is important to demonstrate how outcomes will, and have been, successfully delivered. Most recently, the Auditor General set out in her report on the audit of the 2015/16 Scottish Government Consolidated Accounts the need for greater alignment of resources and actions, including those of public organisations, to the National Performance Framework.<sup>2</sup>

All outcomes set for social security should be clearly linked to the National Performance Framework. In addition, budgets and planned spending should be transparently linked with the outcomes that are to be achieved.

It will be important for the proposed outcomes to be reviewed and amended as appropriate on the back of this consultation process, taking the views of all stakeholders into consideration.

In terms of user experience, it will be important for all users' needs to be taken into consideration when designing systems and processes. This will include the benefit claimant and those acting on their behalf as well as the people who will use and administer the system and process claims. We note that the Scottish Government recently announced that 2,000 benefit claimants will be involved in the designing and testing of the new system.

We have previously reported on the importance of designing systems around the users' needs in relation to ICT projects and programmes.<sup>3 4</sup> As the delivery of social security in Scotland will require investment in digital technologies it is important that the public and users get the full benefits of this investment. Engaging with the end user from the outset and throughout will be important.

Ensuring robust data sharing processes are in place between all related and administering bodies will help to enhance the user experience and create efficiencies. This will help minimise the amount of data requiring input by the user, it will also help in authentication and verification of claims. Of course such approaches will need to meet relevant data protection requirements.

### Section - Delivering Social Security in Scotland

However the social security benefits are to be delivered and administered, there are number of considerations. It will be important for a joined up and coordinated approach from the outset. All key stakeholders should be involved in discussions from the start and throughout the process.

Setting up a new agency to deliver policies and services can be complex. It will be important for the new agency to learn from the establishment of other public bodies, for example Revenue Scotland.

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1 [Scotland's Public Finances: A follow-up audit](#): Progress in meeting the challenges, June 2014, [Community planning](#): An update, March 2015.

2 [The 2015/15 audit of the Scottish Government Consolidated Accounts](#), September 2016

3 [Managing ICT contracts: An audit of three public sector programmes](#), August 2012

4 [Managing ICT contracts in central government: An update](#), June 2015

Mechanisms should be put in place to ensure the knowledge and expertise gained from the establishment of Revenue Scotland and other bodies is used and learned from. This will be important not only for establishing processes and procedures but for implementing the new digital services for social security in Scotland.

Good links and communication between the Scottish Government (in the first instance) and the new social security agency and local authorities will be crucial. All delivery agents should be consulted and engaged with at an early stage. Learning from past experience, and using the skills and knowledge of the people who currently deliver and administer UK wide social security benefits will be important in designing appropriate systems and processes.

More specifically on digital systems, lessons should be learned from previous ICT and digital programmes in Scotland and the rest of the UK and beyond. As noted in the previous section we have made a number of recommendations in the past for the management and implementation of ICT programmes. Most recently, our update report on the Common Agricultural Policy Futures programme made a number of recommendations that apply to all ICT and digital programmes.<sup>1</sup> For example, it is vital that the right digital, programme and contract management skills are put in place right at the start of the programme. It will also be important to ensure that the programme benefits are clearly defined from the outset, and as previously noted, considering the end users' needs throughout.

We note that the Scottish Government has put arrangements and processes in place to support central government bodies in the implementation and management of ICT and digital programmes.

Consideration needs to be given to all forms of delivery and engagement with the end user/claimant. A digital solution will not be appropriate in every case. There may need to be face to face contact, and some claimants will need more support with applications than others. Accessibility of the system should be designed around the end users' needs, and tested accordingly. Given the potential for interaction between reserved and devolved functions, and between tax and social security, it is important that the citizen's overall experience is as seamless and easy to navigate as possible.

As noted in the previous section, robust processes should be put in place for data sharing; this will help to enhance the user experience.

## **Section - Independent advice and scrutiny**

Independent advice and scrutiny is always important, particularly when public money is involved. Public Audit provides assurance that public money is spent properly and is providing value for money. This helps create a strong and effective system of accountability and transparency which supports the best use of public money and public interest. Taken together with effective public and parliamentary scrutiny, this contributes to strong and transparent oversight of public funds.

The Auditor General for Scotland, Accounts Commission and Audit Scotland support the Parliament and others to hold government to account and improve the use of public money. We also work with a number of other scrutiny bodies throughout Scotland. Under current arrangements we audit Housing Benefit subsidy claims and conduct performance audits of individual council's arrangements for administering these. We would anticipate the Auditor General to be appointed as the auditor for the proposed social security agency. The Accounts Commission for Scotland, as the organisation responsible for the audit of Local Government in Scotland, will have a direct interest in the audit and reporting arrangements should councils be involved in any aspects of delivery.

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<sup>1</sup> [Common Agricultural Policy Futures programme: An update](#), May 2016

Existing arrangements for the independent scrutiny of all aspects social security delivery and administration should be considered before deciding what new or additional arrangements should be put in place. At least until the agency is established and the administration arrangements finalised, there may be a period where the Department of Work and Pensions (DWP), which is audited by the National Audit Office, administers some Scottish social security expenditure. If that is the case then arrangements will need to be put in place to ensure that the Scottish Parliament obtains audit assurance about that expenditure and is able to scrutinise it. The Scottish Parliament is also likely to require information and assurance about the interaction between reserved and devolved functions in tax and social security, and the citizen's experience of this.

### **Sections on specific benefits**

When implementing all the new social security benefits it will be important to have clear and transparent eligibility criteria for all benefits. The public should find it easy to apply and there should be targets in place regarding the timescales and accuracy of decisions made.

Similarly, arrangements for appeals and reconsiderations should be transparent, easily accessible and understandable. Again, the speed of these types of decisions should be monitored.

As noted in previous sections, data sharing arrangements with DWP, HMRC etc. should be in place to reduce the need for documentary evidence for each claim. However, it is important that evidence is obtained to support all claims whether received via data sharing or in documentary form. The accepted types of supporting evidence should be clearly communicated and understandable for both administrators and the public.

### **Section - Complaints, reviews and appeals**

Arrangements for complaints, appeals and reconsiderations should be transparent, easily accessible, and easy to understand. The speed of these decisions should be monitored as should the types of issues being raised by claimants to help inform improvement plans. Decision makers reviewing appeals, reconsiderations and appeals should be independent from the original decision.

### **Section - Residency and cross-border issues**

Appropriate rules should be put in place and these should be transparent, easily accessible and understandable.

The programme should consider data-sharing arrangements with Revenue Scotland, DWP and HMRC. Given that HMRC has undertaken an exercise to establish Scottish tax payers for the purpose of administering the Scottish rate of income tax, potentially valuable lessons could be learned and information about this shared.

### **Section- Managing overpayments and debt**

It will be important for robust and transparent arrangements to be put in place for managing overpayments and debt recovery. Current arrangements should be assessed to ensure they are fit for purpose for the new social security benefits.

The classifications of overpayment errors should be clearly defined and explained along with the recovery procedures. These should be transparent and clearly understandable.

Overpayments caused by claimant error should be recovered using all means available and should be cost effective. This includes through on-going deductions from benefits, invoice, debt recovery, and direct payment from wages and arrestments. Decisions on the most appropriate manner of recovery in each case should reflect the circumstances of individuals and the overpayment, and be underpinned by relevant policies.

## **Section- Fraud**

Arrangements should be developed to allow effective data matching to take place to help prevent and detect fraud. This includes arrangements for participation by the agency and other relevant bodies in the National Fraud Initiative (NFI).<sup>1</sup> Audit Scotland coordinates this major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Cabinet Office to identify fraud and error. These exercises help support participating bodies demonstrate to the public that public money has been spent properly, are undertaken every two years and are linked to the statutory audits of the participating bodies. Claimant information from the new system should be included in NFI exercises from the outset to maximise the potential to identify fraud and error.

Fraud officers should work together and share information with public sector bodies. For example, someone fraudulently claiming a devolved benefit may also be fraudulently claiming a reserved benefit or council tax reduction.

There should be a clear social security fraud policy with associated procedures and code of practice for all officers. Regular training should also be provided.

There may be value in learning from other organisations with experience of undertaking counter-fraud activity in respect to welfare benefits; for example, local authorities and DWP.

## **Section- Safeguarding your information**

As noted in previous sections, information should be shared wherever possible to improve efficiency, prevent fraud and reduce the burden on claimants subject to the relevant access controls being in place. The users' needs and ability should be at the forefront of the design of systems and processes but appropriate controls will be needed to safeguard data and information.

There may be value in learning from other organisations that handle and process financial and personal information; for example, Revenue Scotland.

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<sup>1</sup> [The National Fraud Initiative in Scotland](#), June 2016

**MEETING: 10 NOVEMBER 2016**

**REPORT BY: MARK TAYLOR, ASSISTANT DIRECTOR, AUDIT SERVICES**

**NEW FINANCIAL POWERS UPDATE**

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### **Purpose**

1. This paper provides an update on key developments surrounding further financial devolution.

### **Background**

2. We provided an update to the Accounts Commission in April 2016 on the new financial powers and the work of the new financial powers steering group. Significant developments since then include:
  - The Scotland Act 2016 became law.
  - A new Scottish Parliament and minority Scottish Government was established following the election.
  - The UK voted to leave the EU, leading to significant changes in the UK Government.
  - The Scottish Government is consulting on policy, delivery and operational issues for devolved social security powers.
  - The Scottish Government has announced that the 2017/18 Draft Budget will be delayed until after the UK Autumn statement (expected 23 November). It is due to be published on 15 December and will be for one year only.
  - The Scottish Parliament's Finance Committee has established a tri-partite review of the Parliament's budget process involving parliamentary and government officials and external experts, including the Auditor General for Scotland.
3. The remit of Audit Scotland's new financial powers (NFP) steering group has been extended to include other constitutional change, such as considering the implications of the EU referendum result. Our existing cluster arrangements support our understanding of the policy environment and support the development of the forward work programme. Work is underway within the PIE (Public finances, investment and economy) cluster to widen involvement in the NFP programme. This aims to widen the pool of individuals directly involved, to build their knowledge and skills, and to provide further capacity for the development of the programme and for monitoring the wider issues around constitutional change.

### **Fiscal Framework and Scotland Act 2016**

4. The Scotland Act 2016 was enacted on 23 March 2016. The provisions of the act will largely come into force when HM Treasury make commencement regulations. The timetable for this is as set out in the fiscal framework agreement. Extended powers over income tax and borrowing, and new resource powers will commence from 1 April 2017. The timetable for the transfer of social security powers has yet to be agreed.

On 15 March 2016 the Scottish and UK governments published a technical annex to the fiscal framework. It describes in more detail how the key elements of the framework will be implemented and will operate.

### **Social security powers**

5. The Scottish Government has established a programme to implement the social security powers in the Scotland Act 2016. Its key priority for this programme is the safe and secure transfer of benefits from Westminster to Scotland. No decision has been announced, but it is likely to mean the introduction of the less complex benefits first - learning from this before implementing more complex ones.
6. Initial work underway includes:
  - Preparing budget proposals, which will include the investment required for social security implementation, alongside longer-term administration costs and options for future investment.
  - Consulting on the content of a Social Security Bill (see paragraph 30).
  - Developing options for the structure of the new social security agency. Ultimately, this is likely to consider whether there should be significant roles for other partners including local authorities.
7. We anticipate that activity in the next year is likely to include:
  - Policy development for the earlier introduction of the simpler benefits as well as planning of longer-term policy development.
  - Establishing implementation plans for the benefits to be introduced earlier in the programme.
  - Development of the Social Security Bill, which is planned to be introduced as part of the Programme for Government 2016/17.
  - Progressing the development of the social security agency, including establishing relationships with relevant bodies.
  - Designing processes and systems.
  - Setting the longer-term direction for social security policy.
8. David Wallace has been appointed as the Executive Director for the implementation of the new social security agency. David was the Chief Executive of Disclosure Scotland prior to his appointment. Work to set up the agency continues.
9. In October 2016 the Scottish Government announced that 2,000 people from across the country who currently receive a benefit which will be devolved to Scotland, or who have received it in the last year, will be involved in designing and testing the new system. Groups of users are to be established from spring 2017.

### **Scottish Fiscal Commission**

10. The Scottish Fiscal Commission Act 2016 received Royal Assent in April. This establishes the Scottish Fiscal Commission and provides for its functions, including the preparation of economic and devolved tax forecasts. The Commission is expected to be established as a non-Ministerial Department from April 2017. In advance of this it is

operating on a non-statutory basis. Professor Charles Nolan (University of Glasgow) has been appointed by the Cabinet Secretary as a member of the Commission until 31 March 2017. He replaces Professor Andrew Hughes Hallett who resigned in June 2016.

A full-time team is progressing the programme to establish the Commission as an organisation. Sean Neill has been appointed as interim Chief Executive. He was previously head of the Fiscal Responsibility Division within the Scottish Government.

## New Parliament and Government

11. Following elections, the fifth session of the Scottish Parliament commenced in May 2016. A new Government and Parliamentary committees were then established, with new committees beginning to meet from mid-June. The committee structure has been aligned to ministerial responsibilities. Responsibilities most related to the new financial powers are set out in the table below.

Ministers		Committees
Cabinet Secretary for Finance & the Constitution <b>Derek Mackay</b>		Finance & Constitution Committee Convener – <b>Bruce Crawford (SNP)</b>
Cabinet Secretary for Economy, Jobs & Fair Work <b>Keith Brown</b>	Minister for Transport and the Islands <b>Humza Yousaf</b>	Economy, Jobs & Fair Work Committee Convener – <b>Gordon Lindhurst (Conservative)</b>
Cabinet Secretary for Communities, Social Security & Equalities <b>Angela Constance</b>	Minister for Social Security <b>Jeane Freeman</b>	Social Security Committee Convener – <b>Sandra White (SNP)</b>
Cabinet Secretary for Culture, Tourism & External Affairs <b>Fiona Hyslop</b>	Minister for UK Negotiations on Scotland's Place in Europe <b>Michael Russell</b>	Culture, Tourism, Europe & External Relations Committee Convener – <b>Joan McAlpine (SNP)</b>

12. The First Minister announced the Programme for Government on 6 September. This contained the following bills (alongside the budget bill), relevant to the new powers. The first three are likely to be of particular interest to the Accounts Commission:
- Social Security Bill - to be introduced by the end of this Parliamentary year. It will set out the over-arching legislative framework for social security in Scotland.
  - Islands Bill - to help the islands to build a more prosperous and fairer future for their communities. It will be introduced in the first year of Parliament. A new Islands Strategic Group will meet for the first time in the autumn.

- Gender Balance on Public Boards Bill - to require positive action to be taken to redress gender imbalances on public sector boards under new competence transferred to the Scottish Parliament through the Scotland Act 2016.
  - Air Passenger Duty Bill - to set out the scope and structure of the tax and make provisions for the management and collection of the tax, which is planned to come into effect in April 2018. The Scottish Government has stated its intention to half the level of APD over the course of the next Parliament.
  - Railway Policing Bill - to transfer railway policing powers to Police Scotland and the Scottish Police Authority.
  - Forestry Bill - to ensure the Scottish Government has control over all aspects of forestry through the transfer of powers from forestry commissioners to Scottish Ministers. Scotland Act orders will be used to wind up the Commissioners as a cross-border public authority.
13. In addition to these bills, the programme makes the commitment to hold consultations on a number of issues including:
- Electoral reforms - what electoral reforms Scottish Citizens would like to see taken forward.
  - Crown Estate - how communities can benefit from the devolution of the management of the Crown Estate in Scotland.

### **Scottish Parliament's budget process**

14. The Scottish Government has announced that the Draft Budget 2017/18 will be delayed until after the UK Autumn Statement (expected 23 November), and is due to be published on 15 December 2016. The Cabinet Secretary for Finance and Constitution proposed that delaying the budget would be the most effective way of *“managing the risks and volatility presented by the relationship between the Autumn Statement, related Office of Budget Responsibility forecasts and the Scottish Budget”*.
15. The Scottish Parliament’s Finance Committee considered the impact of this proposal over the summer. During a Parliamentary debate on the budget timetable on 4 October, the convener of the Finance Committee expressed concern that the delay will narrow the window available for Parliamentary scrutiny. He also highlighted that the Committee would find it unacceptable if the Scottish Government did not publish as much scenario planning information as possible in advance of the draft budget. During the debate the Cabinet Secretary gave an undertaking to provide *“high-level scenario planning ... within the required timescale”*.
16. The Local Government and Communities Committee has agreed to undertake pre-budget scrutiny looking at what has actually been spent in 2015/16 and (to the extent possible) in the current budget year 2016/17. It has invited individuals and organisations to submit written evidence on local government and housing supply budgets.
17. The Scottish Parliament’s information service (SPICe) is currently undertaking joint research with Glasgow University assessing where the cuts to local government budgets are falling in the 2016/17 budgets. This work has a particular emphasis on whether changes to council budgets are likely to impact disproportionately on any particular groups. This research is due to be presented to the Local Government and Communities committee in November 2016.



18. The Finance Committee Convener announced in June 2016 that Parliament will lead a tri-partite review of the Scottish Parliament's budget process including the Finance Committee, the Scottish Government and external financial experts. The Auditor General has agreed to be part of this group. The first meeting was on 29 September 2016, and it will meet monthly until May 2017. The group has been asked to bring forward proposals for a revised budget process. Findings are anticipated prior to summer recess 2017 for consideration by ministers and the Parliament with implementation in time for the 2018/19 budget.

### **Implications of EU referendum result**

19. On 23 June 2016 the UK electorate voted by 52% to 48% to leave the European Union (EU). In Scotland the electorate voted by 62% to 38% to remain in the EU, with a majority in favour of remain in all Scottish council areas. The Secretary to the Accounts Commission's update report in August 2016 outlined the early implications of this, highlighting the uncertainties for audit work that are likely to continue for an extended period of time. The implications for the Scottish public finances are likely to arise at the same time as the new financial powers in the 2012 and 2016 Scotland Acts are being introduced.
20. COSLA and individual councils are actively considering the impact of the referendum result on local government. For example, in the week following the referendum Highland Council considered a paper by council officers on the potential implications for the local economy. In October 2016 Glasgow City Council, the Glasgow Economic Leadership Board, and Glasgow Chamber of Commerce published a joint report on the potential impact of leaving the EU on Glasgow's economy. This report anticipates significant economic challenges in the short to medium term.
21. In August 2016 the Chancellor of the Exchequer guaranteed HM Treasury funding for projects supporting economic development across the UK, including programmes administered by devolved administrations that rely on EU funding ([see here](#)). The assurances set out by the Treasury include:
  - All structural and investment fund projects, including agri-environment schemes, signed before the Autumn Statement (expected 23 November) will be fully funded, even when these projects continue beyond the UK's departure from the EU. Local authorities are significant recipients of such funding currently.
  - Where UK organisations bid directly to the European Commission on a competitive basis for EU funding projects while we are still a member of the EU, for example universities participating in Horizon 2020, the Treasury will underwrite the payments of such awards, even when specific projects continue beyond the UK's departure from the EU.
22. Subsequently, on 4 October 2016, the UK Government provided "further certainty" for EU funded projects ([see here](#)). The Chancellor of the Exchequer announced that the government will guarantee EU funding for structural and investment fund projects, including agri-environment schemes, signed by the point at which the UK departs the EU and which continue after the UK has left the EU. The UK Government's announcement also considered EU funding managed by the Devolved Administrations:

"Where the devolved administrations sign up to structural and investment fund projects under their current EU budget allocation prior to Brexit, the (UK) government will ensure they are funded to meet these commitments."
23. Essentially, the Chancellor's guarantee indicates that all non-competitive EU funding is guaranteed by the UK Government if spending is committed before the UK leaves the

EU. Details of how this will work in practice remain to be clarified. One of the aims of the Scottish Government and other public bodies is likely to be to maximise the drawdown of the EU funding ahead of the UK leaving the EU. This will mean committing as much of the available European funds as possible whilst complying with the EU's spending regulations before the UK leaves the EU. In many cases, to successfully commit EU funding also requires match funding (often on a fifty-fifty basis) from the Scottish public sector to be in place.

24. More generally, the overall Scottish Budget will be affected by the economic and fiscal implications of the outcome of the EU referendum, and the tax and spending decisions of the UK and Scottish Governments in response to these.

### **Fraser of Allander Institute reports**

25. The Fraser of Allander Institute published its report on Scotland's Budget on 13 September 2016. This provided an overview of what the implications of Scotland's new financial powers, and the decision to leave the EU, could have on Scotland's budget. A number of scenarios were presented including what the impact could be on unprotected areas of the Scottish Government spending including local government. The Institute concluded that local government could face a funding reduction of around £1 billion by 2020/21.
26. The Scottish Parliament's Culture, Tourism, Europe and External Relations Committee commissioned the Fraser of Allander Institute to model the long-term economic implications of the UK leaving the EU. Its report was published on 6 October 2016. It concluded that leaving the EU is predicted to have a negative impact on Scotland's economy, but the impact on Scotland is estimated to be smaller than for the UK as a whole.

### **Consultations**

27. A number of Parliamentary committees have launched consultations to inform their future work programmes, much of which are pertinent to the new powers. A summary of these and relevant Government consultations is included at Appendix A. We are reviewing our general approach, to be clear about when and how we respond to such consultations.
28. The Accounts Commission, along with the AGS and Audit Scotland, provided a joint response to the Scottish Government's consultation on social security in October 2016. This highlighted that the Accounts Commission will have a direct interest in the audit and reporting arrangements for social security, should councils be involved in any aspects of delivery. This is referred to in the Secretary's report on today's agenda.

### **Audit reporting**

29. In September 2016, Audit Scotland published a [briefing paper](#) summarising the new powers, the audit role, and some key issues for Parliament to consider in its scrutiny of the implementation and management of the new powers.
30. Work is underway on a performance audit for the AGS on *Managing New Financial Powers*. This will examine how well the Scottish Government and others are implementing or preparing to introduce the new powers. This will include reviewing the Scottish Government's progress in securing appropriate skills and capacity and the effectiveness of the Scottish Government's arrangements for managing Scotland's public finances overall as new financial powers are introduced. Reporting is currently anticipated in March 2017.

31. We have also started our work reviewing the National Audit Office's 2015/16 audit of the implementation of the Scottish Rate of Income Tax, in accordance with the memorandum of understanding we have with them. This enables us to provide assurance to the Parliament on this work. Reporting is currently anticipated in November 2016.

### **Conclusion**

32. The Accounts Commission is asked to note the content of this report.

**Mark Taylor**  
**Assistant Director, Audit Services**  
**2 November 2016**

## Appendix A- Summary of recent consultations

Consultations and Calls for Evidence	Issued by	Close	Responded
<a href="#">Consultation on Government Expenditure &amp; Revenue Scotland (GERS) 2015-16</a> : The consultation seeks users' views on changes to methodologies and links to the wider financial information published by the Government.	Scottish Government	12/07/16	Yes
<a href="#">A Consultation on proposals to establish the interim body to manage The Crown Estate assets in Scotland post-devolution</a>	Scottish Government	26/08/16	No
<a href="#">Land and Buildings Transaction Tax (LBTT) call for evidence</a> : Finance Committee inquiry considering the operation of LBTT in its first full year, including forecast revenues in comparison to outturn figures.	Finance Committee	26/08/16	No
<a href="#">Scotland's relationship with the EU call for evidence</a> : the European and External Relations Committee inquiry into the implications for Scotland's relationship with the EU of the referendum result. In order to support that inquiry work, the Committee has agreed to issue a call for evidence on a range of issues relating to the implications of the referendum result for Scotland.	European and External Relations Committee	05/09/16	No
<a href="#">A Scottish approach to taxation call for evidence</a> : As a result of the devolution of taxation powers via the Scotland Act 2012 and 2016 the structure of devolved public finance will shift from a focus upon expenditure to consideration of revenue-raising and the principles which should underpin the Scottish approach to taxation.	Finance Committee	30/09/16	No
<a href="#">Scrutiny of Draft Budget 2017-18</a> : It is anticipated that the Scottish Government's draft budget will not be published until later this year. The Committee has agreed to undertake pre-budget scrutiny looking back at what has actually been spent in 2015-16 and (to the extent possible) in the current budget year 2016-17. Organisations and individuals are invited to submit written evidence to the Committee setting out their views on local government and housing supply budgets.	Local Government and Communities Committee	24/10/16	No . The consultation is policy-based. See the Secretary's report for details of the Chair's letter to the Committee Convener.
<a href="#">Consultation on the social security including policy, delivery and operational issues</a> : seeking views on the Scottish Government's paper, A New Future for Social Security in Scotland, which was published in March 2016. This will then enable the views of stakeholders to be reflected in primary legislation to be introduced to the Scotland Parliament by June 2017.	Scottish Government	28/10/16	Yes



MEETING: 10 NOVEMBER 2016

REPORT BY: DIRECTOR OF PERFORMANCE AUDIT AND BEST VALUE

HEALTH AND SOCIAL CARE AUDIT AND INSPECTION – UPDATE

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### Purpose

1. This report summarises the current arrangements for the audit and inspection of health and social care integration. It sets out the links between the range of national and local activity that is planned by the Accounts Commission, the Auditor General for Scotland, and Healthcare Improvement Scotland and the Care Inspectorate, and the planned timetable for future audits.

### Background

2. Health and social care integration is one of the most important changes to public services in Scotland since the creation of the new Scottish Parliament in May 1999. The Public Bodies (Joint Working) (Scotland) Act 2014 introduced a significant programme of reform affecting most health and care services, affecting over £8 billion of public money. The reforms aim to ensure services are well integrated and that people receive the care they need at the right time and in the right setting, with a focus on community-based and preventative care.
3. As a result of the legislation, 31 integration authorities (IAs) were created, responsible for the commissioning of local health and social care services. At a minimum, all are required to integrate adult services, but some have also taken the opportunity to integrate children's services and social work criminal justice services. These IAs became operational at different times throughout 2015 and 2016. The three Ayrshire authorities, for example, becoming responsible for commissioning services in April 2015, but the vast majority did not become operational until April 2016.
4. The Accounts Commission and the Auditor General for Scotland published a report on health and social care integration in December 2015. This highlighted a number of emerging risks which need to be addressed if integration is to fundamentally change the delivery of health and care services. Recent review work by the Scottish Government <sup>1</sup> has highlighted some important areas where progress is being made by health and social care partnership, such as:
  - All Partnerships completed strategic commissioning plans by 1<sup>st</sup> April 2016.
  - Strategic Planning Groups have been established in each Partnership.
  - All Partnerships have undertaken a strategic needs assessment that considers needs, population dynamics and projections, service activity, supply and demand and gaps in provision to inform their strategic commissioning plan.
  - Many plans emphasise the key role of primary care services in health and social care integration and some explore the need to develop stronger and more innovative links with primary care.

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<sup>1</sup> Scottish Government, 'Overview of strategic commissioning plans produced by Integration Authorities for 2016 – 2019', October 2016.

- Housing is recognised in most plans as a key component of effectively shifting the balance of care to community based services.
5. However, some significant issues still need to be resolved. These include:
- Complex decision-making and governance arrangements: IAs can have different priorities from their local NHS board, reporting arrangements between NHS boards and IAs need to improve in some areas, and there can be a lack of clarity about local operational and strategic responsibilities.
  - Delays and difficulties in agreeing budgets: IAs in five NHS areas did not have an agreed budget at the start of 2016/17 and none had agreed budgets for future years.
  - The lack of meaningful strategic plans: few have clear targets for redesigning services or consider their financial impact.
  - Significant workforce issues, with the need to integrate resource planning and training for the voluntary sector and carers as well as NHS and social care staff.
  - The need to develop localities and involve a wide range of local stakeholders, such as GPs, carers, and the voluntary sector, in helping to reshape services.

### **Audit and inspection arrangements for health and social care integration**

6. The responsibilities for auditing and inspecting IAs are complex, with four key players involved:
- The **Accounts Commission** is responsible for appointing auditors to IAs and so has an interest in their financial management and governance arrangements. As local government bodies, IAs are also covered by the duty of Best Value as set out in the Local Government in Scotland Act 2003. The Accounts Commission has the power to audit the extent to which IAs, as local government bodies, are discharging their Best Value duty.
  - Health and social integration is a significant national policy development. Under section 23 of the Public Finance and Accountability (Scotland) Act 2000, the **Auditor General for Scotland** working jointly with the **Accounts Commission** has an audit interest in the effectiveness of its implementation at a national and local level, and in its impact on NHSScotland.
  - The **Care Inspectorate** and **Healthcare Improvement Scotland** are responsible for scrutinising and supporting improvement in health and care services. Under sections 54 to 56 of the Public Bodies (Joint Working) (Scotland) Act 2014, they are now responsible for reviewing the extent to which the planning, organisation and co-ordination of services complies with the principles of integration and contribute to the national health and wellbeing outcomes. As a result, they are expected to introduce a new approach to the Joint Strategic Inspections of Adult Services in 2017. As well as reviewing operational aspects, these are planned to evaluate wider aspects such as leadership, clinical and care governance, and outcomes.
7. All of these bodies are committed to working collaboratively to avoid duplication of effort and maximise the collective impact of their work. This is done through the shared risk assessment process and the work of the strategic scrutiny group.

## **The Commission's strategy for national performance audit work on Health and Social Care integration**

8. The Commission is committed to three-staged approach to assessing and jointly reporting with the Auditor General for Scotland on progress with implementation of health and social care integration:
  - The first report, published in December 2015, highlighted emerging risks and made a series of recommendations on the action needed by the Scottish Government and the integration authorities which were being established.
  - A second audit, due to be carried out in 2017/18, is planned to assess the progress made after the first full year of formal integration. Much of the audit is expected to look at the progress made in addressing the earlier audit recommendations, assessing the effectiveness of, for example, governance arrangements, budget-setting, and strategic planning. But, the audit will also look at any emerging evidence on changes in service delivery and the impact on service users.
  - The third phase of the audit work will continue to look at the effectiveness of governance and management arrangements, both locally and nationally. However, it is anticipated that the focus of this audit will be more on the impact of the policy of integration, assessing the extent to which integration has led to a significant shift from acute and reactive services towards more community-based, preventative, and sustainable services. The audit will also seek to assess the impact of these changes on improving outcomes for services users.

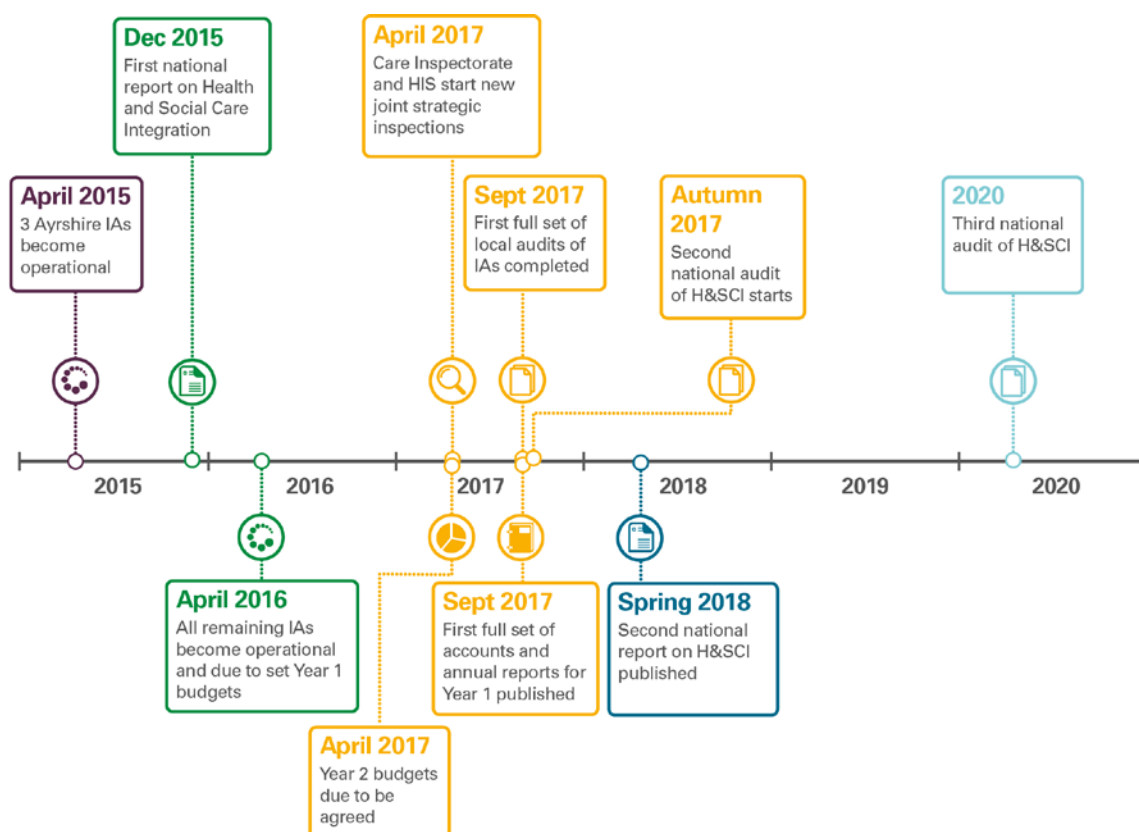
### **Arrangements for annual audit**

9. IAs are established as local government bodies, with their external auditors appointed by the Accounts Commission. In the vast majority of cases, the first set of annual accounts and audit reports will be published by the end of September 2017.
10. As part of the planning guidance for 2016/17, auditors will be expected to assess local progress in:
  - establishing effective governance arrangements
  - agreeing overall budgets timeously for each IA
  - publishing meaningful strategic plans, with clear proposals on changes to service delivery and targets for outputs and outcomes
  - agreeing budgets and strategic plans for localities
  - shifting resources from acute to community-based care.
11. The work of local auditors will then be used to help inform the second national performance audit of health and social care integration, due to be carried out in 2017/18. Sponsors are yet to be appointed to this audit.
12. At this stage, local audits are expected to focus on the financial, governance, and managerial aspects of integration. Over time, however, as these arrangements mature, the Commission may want to consider broadening the scope of local audits to also explicitly include the wider aspects of Best Value and the impact of integration on outcomes for service users. The new approach to auditing Best Value has been designed with other local government bodies in mind for that specific reason.
13. The planned timetable for the Commission's local audit work within IAs and national joint audit work with the Auditor General for Scotland is set out in Exhibit 1, below.



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## Exhibit 1: Timeline for integration authorities and audit reporting



## Conclusion

14. The Commission is invited to note:

- the continuing challenges facing the successful integration of health and social care
- the planned introduction of new Joint Strategic Inspections of health and social care by Healthcare Improvement Scotland and the Care Inspectorate, and
- the planned timetable for the Commission's local audit work within Integration Authorities and the national joint audit work with the Auditor General for Scotland during 2017/18
- alongside the planned audit work, progress with health and social care integration will continue to be monitored routinely through the work of the health, care and communities cluster.

**Fraser McKinlay**  
**Director of Performance Audit and Best Value**  
**2 November 2016**

**MEETING: 10 NOVEMBER 2016****REPORT BY: DIRECTOR OF PERFORMANCE AUDIT AND BEST VALUE****THE NEW APPROACH TO AUDITING BEST VALUE - UPDATE**

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**Purpose**

1. The purpose of this report is to provide an update on the work to develop and implement the new approach to auditing Best Value, since the Commission's meeting in June. It invites the Commission to note the progress made and also note that the implementation of the approach has now begun.

**Background**

2. At its June meeting, the Commission noted the progress made on development work and approved an overall framework for the new approach. On 28 June, the Commission Chair wrote to the leaders of all councils advising them of this decision, enclosing a summary of the overall framework and confirming the councils scheduled for Best Value Assurance Reports during the first year.
3. At its meeting on 26 October, the Commission's Best Value Working Group (comprising the Chair and the Chairs of the two Commission Committees) requested a further progress report be brought to the November Commission meeting.

**Review of the Statutory Guidance**

4. A verbal update was provided to the Commission in June about a meeting (on 3 June) with the Scottish Government and COSLA on the need for a review of the statutory guidance in relation to Best Value. The meeting was attended by the Chair, Deputy Chair, Commission Secretary and the Controller of Audit. Since that meeting, the Scottish Government has committed to write to the four councils in the Scottish Local Government Partnership and to the other 28 councils (jointly with COSLA) about the continued importance of the duty of Best Value and the intent to review the statutory guidance. The Commission Secretary continues to lobby the Scottish Government and COSLA to expedite the matter.

**Commission working group**

5. In May 2016, Commission members participated in a workshop on the new approach to auditing Best Value. At its meeting in June, the Commission agreed that its Best Value Working Group should continue discussions with the Auditing Best Value (ABV) development team on some aspects considered at the workshop on its behalf. These include for example: improvement, in particular the issue of pace and what sufficient pace looks like; the timeline for planning and reporting; and how this integrates with the Commission's strategic planning cycle.
6. The Working Group met in June, August and October and has discussed progress on the development work and has provided direction to the ABV development team on the Commission's expectations in relation to issues such as reporting, pace and depth of continuous improvement and stakeholder engagement.
7. These meetings have proved valuable and the Working Group has agreed to continue to meet beyond October 2016, into the implementation phase of the new approach.

## **Development and implementation activity**

8. The work to develop the new arrangement for auditing Best Value has progressed significantly over the summer and has now moved into its implementation phase. The ABV development team will continue its work, supporting the implementation and providing a hub for the ongoing refinement of the arrangements.
9. Over the summer and autumn, the ABV development team have continued to engage with external stakeholders about the new approach. This has included, for example, presentation and discussion sessions with the Scottish Local Government Chief Internal Auditors group and the Scottish Performance Management Forum. Meetings, alongside the new appointed auditors, have also taken place with the chief executives of each of the six councils where a Best Value Assurance Report is planned for year one. The response of external stakeholders, including the council chief executives, remains positive about the direction of the new approach.
10. Engagement about the new approach with all appointed auditors and staff has also continued over the same period. The emphasis of this engagement has shifted from consultation and involvement in the development of the new arrangements, to guidance on implementation and establishing the integrated working arrangements.
11. A significant focus for the team has been developing the tools for auditors in preparation for the beginning of the new appointments. The ABV development team have contributed to this year's Annual Planning Guidance for auditors, with a focus on ensuring the new approach and the Commission's Strategic Audit Priorities are clearly reflected. The draft guidance is currently distributed for consultation and will be issued this month. The team have developed a manual setting out the arrangements for the new approach, including the requirements in terms of planning, managing information and intelligence, auditing and reporting. The manual also sets out assessment guidance for auditors. This encompasses the requirements of the duty of Best Value, the Commission's Strategic Audit Priorities and highlights the Commission's focus on the pace, depth and continuity of improvement. The manual is now available to all auditors and will continue to be reviewed and updated as the arrangements develop and improve over time.
12. The team has also established a Local Government Extranet for sharing information and intelligence amongst auditors about the sector and individual councils. The extranet is accessible to all Audit Scotland staff and to the firms with local government appointments. The longer term ambition is that it becomes a portal also shared with our scrutiny partners.
13. To support the integrated working of auditors from across Audit Scotland's business groups and the firms, PABV staff have been aligned to local audit teams. Each Audit Services Group 'superteam' (led by an Assistant Director) and each firm has a PABV senior manager assigned to it as the lead PABV contact. In addition, PABV staff have been aligned with each council audit. This approach will contribute to embedding a more integrated approach to auditing local government and sharing intelligence. Planning meetings involving the integrated teams have already begun for many council audits.

## **Next steps**

14. The Commission's Best Value Working Group plan to next meet following the Commission's stakeholder engagement events, on 23 November and 5 December.
15. Implementation of the new arrangements will continue to be rolled out across all of the council audits and work has commenced for the delivery of the first Best Value Assurance Reports.

16. Work on refining reporting arrangements is ongoing, and will be discussed in early course by the Best Value Working Group. Features of the new approach include:
- The first Best Value Assurance Reports will begin to be presented to the Commission following the local government elections in 2017.
  - The first Annual Audit Reports that will reflect the wider scope of the audit and the new approach to auditing Best Value are due in September 2017.
  - The Controller of Audit's annual Assurance and Risks Report to the Commission at the beginning of 2018 will be the first to reflect the wider scope of audit and the new approach and the Commission's Strategic Audit Priorities.

### **Recommendations**

17. The Commission is invited to:
- a) Note the progress made on the new approach to auditing Best Value since the Commission meeting in June.
  - b) Note that implementation of the new approach has now begun, with Best Value Assurance Reports being presented to the Commission following the local government elections in 2017.

**Fraser McKinlay**  
**Director of Performance Audit and Best Value**  
**2 November 2016**

**MEETING: 10 NOVEMBER 2016**

**REPORT BY: DIRECTOR OF PERFORMANCE AUDIT AND BEST VALUE**

**SHARED RISK ASSESSMENT 2017/18**

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### **Purpose**

1. The purpose of this report is to inform the Accounts Commission of the proposed approach to, and timetable for, the 2017/18 Shared Risk Assessment (SRA) process.
2. The report sets out how the SRA has been refocused this year to:
  - Better align it with the Commission's new approach to auditing Best Value.
  - Reflect Education Scotland's response to the National Improvement Framework for Education.
  - Reflect the shared interest that the Care Inspectorate, Healthcare Improvement Scotland, the Accounts Commission and Auditor General for Scotland have in relation to integration joint boards and health and social care integration.
  - Reflect the Strategic Scrutiny Group's interest in promoting greater operational collaboration between local government scrutiny partners.

### **Background**

3. Following the publication of the Crerar report in September 2007, the Scottish Government stated its aim of establishing a simplified and more coherent approach to delivering local government scrutiny. A key aspect of that agenda was to better coordinate and streamline scrutiny activity.
4. In March 2008, the Accounts Commission was asked by the Scottish Government to take on a gate-keeping and coordination role for the scrutiny of local government. The local government Strategic Scrutiny Group (SSG) made up of the key local government scrutiny bodies, chaired by the Accounts Commission, was subsequently established to set priorities and oversee development activity linked to this new role. The Convention of Scottish Local Authorities (COSLA), the Scottish Government, and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) were, and remain, observers on the group.
5. During 2009, the SSG successfully oversaw the introduction of the SRA process (based on a single corporate assessment framework). Since then, the SSG has had responsibility for overseeing the SRA process, through which the main local government scrutiny bodies work together to agree risk-based and proportionate scrutiny plans for Scotland's 32 local authorities.
6. As well as promoting proportionate and risk-based scrutiny activity the SRA also promotes effective coordination and scheduling of scrutiny activity, including 'joined-up' audit and inspection where appropriate. It is the main vehicle for targeting local government Best Value audit activity on behalf of the Accounts Commission and is also being used to promote a 'joined-up' approach to the audit and inspection of integration joint boards (IJBs).

7. The process is managed locally by 32 local area networks (LANs). Each LAN is made up of representatives of each of the main local government scrutiny bodies (Appointed auditors (Audit Scotland and firms), Care Inspectorate, Education Scotland and Scottish Housing Regulator). The LAN meets and shares relevant risk, audit and inspection and performance intelligence, which is then used to determine a proportionate and risk-based scrutiny programme for the council. The majority of LANs have been led by Audit Scotland, but there is a 'mixed-economy' of LAN leadership, with senior staff from Education Scotland and the Care Inspectorate also holding LAN Lead roles. This reflects the 'shared enterprise' approach adopted by the Accounts Commission in both designing and implementing the SRA process. Some changes are proposed to LAN membership during 2017/18 which are set out later in this report.

### **The strategic context for the 2017/18 SRA process**

8. There are four significant strategic developments that have informed the design of the 2017/18 SRA process. These are:
  - i. the Accounts Commission's new approach to auditing Best Value and its key strategic audit priorities
  - ii. the Strategic Scrutiny Group's commitment to promoting greater operational collaboration amongst scrutiny partners
  - iii. the Scottish Government's Programme for Government 2016-17
  - iv. the integration of health and social care.
9. These four strategic developments have all been taken into consideration in the design of the 2017/18 SRA process. They are each covered in turn below.

#### ***Accounts Commission new approach to auditing Best Value and key strategic priorities***

10. The Accounts Commission has been clear throughout the development of its new approach to auditing Best Value that the SRA process should continue to act as the main vehicle for targeting local government Best Value audit activity on its behalf.
11. The Commission has also been equally clear that the SRA process will need to adapt to reflect the major changes that the Commission is introducing in its new approach to auditing Best Value. In particular, the Commission has been keen to see a strengthened focus within the SRA process on key issues of strategic interest to the Commission, including:
  - pace, depth and continuity of improvement
  - the quality of governance and scrutiny within councils, and
  - the quality of services experienced by the public and the outcomes achieved by councils for their communities.
12. How this will be achieved in the 2017/18 SRA process is set out in more detail in the later sections of this report.

#### ***The Strategic Scrutiny Group's commitment to promoting greater operational collaboration amongst scrutiny partners***

13. The Strategic Scrutiny Group (SSG) established a short-life working group to help it identify how external scrutiny should adapt in response to Scotland's public service reform agenda, including how scrutiny can best support improved outcomes and more citizen-focused public services. The group also considered how the SSG can drive more

efficient and effective use of resources across the scrutiny sector through streamlining scrutiny approaches, strengthening collaboration and consistently embedded risk-based and proportionate scrutiny approaches. This aspect of the short-life working group's work relates directly to the operation of the SRA process.

14. The short-life working group's report was considered by the SSG in August of this year and the Commission was briefed on this report in September. That report set out an ambitious agenda for change and improvement aimed at delivering a scrutiny system that is recalibrated towards a stronger focus on the impact and outcomes achieved by public services. It also proposed a set of specific practical changes to deliver a more improvement-focused, efficient and effective system of scrutiny in Scotland.
15. When the short-life working group was considered at the SSG's August meeting there was agreement that all of the scrutiny bodies which participate in the SRA process would ensure that they capitalise fully on the opportunities that 2017-18 SRA process presents to implement more 'joined-up' collaborative scrutiny at local level, for example, through joint Best Value audit and inspection work in relation to leadership and scrutiny, collaborative work on educational improvement, joint work on the delivery of improved service outcomes, etc.

### ***The Scottish Government's Programme for Government 2016-17***

16. The Scottish Government's Programme for Government 2016/17 contains a mix of commitments being taken forward in the first year of the new Parliament and longer term commitments to be achieved in the five-year Parliamentary session. Some of these commitments are likely to have significant implications for both councils and scrutiny bodies. These include:
  - The commitment, as a defining mission of the Scottish Government, to "close the poverty-related attainment gap", through:
    - a review of school governance
    - reducing unnecessary workload for teachers
    - specific funding streams such as The School Attainment Fund, Challenge Fund and School Programmes
  - The proposed Bill, alongside implementation of the Community Empowerment Act, to decentralise local authority functions and budgets and "democratise oversight to local communities"
  - Reform of the Council Tax
  - Commitments to develop the social service workforce
  - The commitment to double available early learning and childcare
  - The proposed Circular Economy and Zero Waste Bill.
17. Whilst the impact of these proposals remain unclear, they have been considered as part of the development of the 2017/18 SRA process, not least as part of the context within which engagement with councils over local and national risks will take place. The Programme for Government's proposals on changes to schools, early learning and childcare, integration of refugees, the life chances of children in care and the implications of devolution of local government to communities, all provide scope for inclusion in the SRA 2017/18.

### ***Health and social care integration***

18. Health and social care integration is one of the most important changes to public services in Scotland since the creation of the new Scottish Parliament in May 1999. The Public Bodies (Joint Working) (Scotland) Act 2014 introduced a significant programme of

reform affecting most health and care services, affecting over £8 billion of public money. The reforms aim to ensure services are well integrated and that people receive the care they need at the right time and in the right setting, with a focus on community-based and preventative care.

19. As a result of the legislation, 31 integration authorities (IAs) were created, responsible for the commissioning of local health and social care services. At a minimum, all are required to integrate adult services, but some have also taken the opportunity to integrate children's services and social work criminal justice services. These IAs became operational at different times throughout 2015 and 2016. The three Ayrshire authorities, for example, becoming responsible for commissioning services in April 2015, but the vast majority did not become operational until April 2016.
20. The responsibilities for auditing and inspecting IAs are complex, with four key players involved:
  - The **Accounts Commission** is responsible for appointing auditors to IAs and so has an interest in their financial management and governance arrangements. As local government bodies, IAs are also covered by the duty of Best Value as set out in the Local Government in Scotland Act 2003. The Accounts Commission has the power to audit the extent to which IAs, as local government bodies, are discharging their Best Value duty.
  - Health and social integration is a significant national policy development. Under section 23 of the Public Finance and Accountability (Scotland) Act 2000, the **Auditor General for Scotland**, working jointly with the **Accounts Commission**, has an audit interest in the effectiveness of its implementation at a national and local level, and in its impact on NHSScotland.
  - The **Care Inspectorate** and **Healthcare Improvement Scotland** are responsible for scrutinising and supporting improvement in health and care services. Under sections 54 to 56 of the Public Bodies (Joint Working) (Scotland) Act 2014, they are now responsible for reviewing the extent to which the planning, organisation and co-ordination of services complies with the principles of integration and contribute to the national health and wellbeing outcomes. As a result, they are expected to introduce a new approach to the Joint Strategic Inspections of Adult Services in 2017. As well as reviewing operational aspects, these are planned to evaluate wider aspects such as leadership, clinical and care governance, and outcomes.
21. All of these bodies are committed to working collaboratively to avoid duplication of effort and maximise the collective impact of their work.
22. Healthcare Improvement Scotland is a member of the SSG but it is not represented on LANs, as this is a local authority-focused process. This means that the Care Inspectorate and Audit Scotland (in their role as appointed auditors of IJBs) both have a critical role in gathering, understanding and interpreting information in relation to IJBs and feeding this into the SRA process. The joint input of these two bodies through the SRA process will be used to inform future scrutiny and improvement support activity for IJBs.

## **Changes to LAN leadership and LAN membership for the 2017/18 SRA round**

### ***Local Area Network (LAN) Leads***

23. The SRA process is a shared enterprise between all of the scrutiny bodies that participate in the Strategic Scrutiny Group. This means that leadership of LANs has operated as a 'mixed-economy' for several years. This has involved Audit Scotland, the Care Inspectorate and Education Scotland all holding LAN leadership roles.



24. This arrangement will continue during 2017/18, but with the change that as part of the new five year audit appointments we have invited each of the private sector audit firms to take on the LAN lead role at one of the councils in their audit portfolio. This is consistent with the Commission's commitment to integrating audit processes across the range of audit work applied in local government as part of the new approach to auditing Best Value. It will also offer some efficiency opportunities as the engagement with senior officers and members that newly appointed auditors will be undertaking to 'understand the business' at each council in the first year of their new appointment is similar to the types of engagement that LAN leads undertake as part of the SRA process.
25. Appendix 1 sets out the new LAN lead appointments for the 2017/18 SRA round.

### ***LAN membership***

26. The SRA process involves all of the main local government scrutiny bodies: Audit Scotland (and private sector audit firms), the Care Inspectorate, Education Scotland and the Scottish Housing Regulator. These organisations have formed the core membership of local area networks (LANs) to date.
27. Other bodies with a secondary interest in local government (Healthcare Improvement Scotland, HMFSI and HMICS) do not participate in LANs, but instead share intelligence at national level to inform the scheduling of scrutiny activity at Scotland's 32 councils and for inclusion in the national scrutiny plan that is published each year by the Strategic Scrutiny Group. The Care Inspectorate contributes intelligence to the LANs from joint inspections which have been carried out in partnership with HIS and HMICS and ensures that the SRA is taken into account when determining the scope of joint inspections in the forthcoming year.
28. These arrangements will continue as part of the 2017/18 SRA process, although as a consequence of budget reductions and reduced staff resources the Scottish Housing Regulator (SHR) has had to review the extent of its participation in the SRA process.
29. This means that whilst SHR will continue as an active LAN member, SHR colleagues will not attend all LAN meetings, due to limited organisational capacity.
30. SHR will continue to carry out its risk assessment of housing and homelessness services and gather evidence for the risk assessment template, attend LAN meetings where they identify risks and propose scrutiny work and where they have not identified risk they will confirm this to the LAN lead and agree their non-attendance. If the LAN lead requests SHR's attendance because of complex cross-cutting issues which require direct discussion and participation then they will attend.
31. SHR will continue to attend the operational scrutiny group and national planners and schedulers meetings.
32. This approach is broadly similar to the arrangements that exist with Healthcare Improvement Scotland, HMFSI and HMICS and should not compromise the effectiveness of the 2017/18 SRA process.

### **Changes to the 2017/18 SRA process to reflect the Commission's new approach to Auditing Best Value**

33. Since its initial introduction the SRA process has successfully acted as a means for providing a proportionate and risk-based audit approach to Best Value and has also supported the delivery of 'joined-up' Best Value auditing between Audit Scotland's Performance Audit and Best Value (PABV) team and local appointed auditors. That meant that no fundamental changes were required this year in respect of those aspects of the SRA process.

- 34. The key factors that needed to be considered in aligning the SRA process with the new approach to auditing Best Value were ensuring that the 2017/18 SRA process gives sufficient coverage to priority areas of interest for the Commission.
- 35. This has been achieved through a two-staged approach of:
  - i. gathering Best Value-related baseline information from outgoing appointed auditors in summer 2016 to inform the 2017/18 SRA process
  - ii. reflecting the Commission's Strategic Audit Priorities for local government audits in the evidence and risk assessment template that will be applied as part of the 2017/18 SRA process.

**Best Value audit intelligence to inform the 2017/18 SRA process**

- 36. As part of the process of preparing the ground for the introduction of the new Best Value audit process during 2017/18, Audit Scotland asked the outgoing local authority appointed auditors to provide baseline Best Value intelligence on each of Scotland's 32 councils. Auditors were asked to go beyond a description of arrangements in place, to form conclusions and judgements about the effect and impact of these arrangements, drawing on their cumulative knowledge acquired over the five year audit appointment to 2015/16.
- 37. This intelligence has been used to support the planning for the programme of Best Value audit work, but will also provide an important source of evidence for the SRA process that will take place in Winter 2016/17.
- 38. As the new approach to auditing Best Value will place more emphasis on driving improvement in councils, auditors were asked to ensure that they gave sufficient attention to the forward looking aspect of the council's capacity for improvement (Exhibit 1).

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**Exhibit 1: Things auditors were asked to consider when gathering baseline Best Value audit intelligence**




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Source: Audit Scotland

## ***Accounts Commission Strategic Audit Priorities for local government audits***

39. At its mid-year Strategy Seminar on the 14th September the Commission agreed five Strategic Audit Priorities that it would like to see built into this year's audit work that is undertaken on its behalf. These priorities are:
- The clarity of council priorities and quality of long-term planning to achieve these.
  - How effectively councils are evaluating and implementing options for significant changes in delivering services.
  - How effectively councils are ensuring members and officers have the right knowledge, skills and time to lead and manage delivery of the council priorities.
  - How effectively councils are involving citizens in decisions about services.
  - The quality of council public performance reporting to help citizens gauge improvement.
40. These five priorities represent high level issues that the Commission considers are particularly important and reflect the analysis and conclusions set out in the Commission's Strategy. These Strategic Audit Priorities will be reviewed each Spring during the Commission's strategy seminar.
41. The Commission is keen to ensure that these audit priorities should be considered by all auditors involved in local government work, both locally and nationally. It is not anticipated that all of the Strategic Audit Priorities will be covered in all audit work. However, it is expected that these new arrangements will begin to result in information and conclusions being evident to varying degrees in audit reports across all the work carried out on the Commission's behalf as the new approach matures.
42. For local annual audit work across all 32 councils, strategic audit priorities should be considered as an integrated part of the SRA, five year Best Value and annual planning processes. For that reason, we will be updating the evidence template for the 2017/18 SRA process to ensure that it aligns with the Commission's strategic audit priorities, as well as ensuring that it provides sufficient coverage of the Commission's broader Best Value interests around pace and depth of improvement.
43. The Commission's strategic audit priorities and the links between the SRA process 2017/18 and the new approach to auditing Best Value will both feature as important themes in the training for new LAN leads and LAN members that will be held later in the year.

### **Engagement with councils**

44. One of the major successes of the SRA process has been the impact that effective engagement with councils has had in enabling LANs to understand the broader strategic context within which councils operate.
45. To reinforce the importance of effective engagement with councils, the SRA guidance highlights the need for engagement between LAN leads and councils to take place at the following stages of the SRA process:
- An initial set-up discussion with the chief executive.
  - Feedback to the chief executive on emerging issues after the LAN has held its local 'round table' meeting.
  - Feedback to the chief executive following any national quality assurance processes have taken place.
  - A discussion on the draft Local Scrutiny Plan with the chief executive (or nominee).

46. Many LANs go well beyond this minimum level of engagement through, for example, regular meetings with the council CMT throughout the year to discuss:
- How the council is planning to address the strategic challenges facing the area.
  - How the council and its partners are working together to implement key aspects of public service reform (eg community planning, health and social care integration, the Community Empowerment Act).
  - The outcomes of significant pieces of external audit and inspection.
  - Performance trends and areas where further improvement is required.
47. We will be reinforcing the value of this broader ongoing engagement with councils as part of the training of new LAN leads and LAN members that will be held later in the year.
48. Elected members are always involved in scrutinising the local scrutiny plan at audit committees or full Council meetings. In addition, as part of the initial planning phase of the 2017/18 SRA process LAN leads will agree with the council chief executive arrangements for any broader engagement with local elected members. At times this has in the past led to LAN leads meeting with senior elected members to discuss the nature and significance of the risks that the SRA has identified in the council.

### **Timing of this year's SRA process**

49. For the last two years the timetable of the SRA process has been set so that all 32 local scrutiny plans and the national scrutiny plan can be published before the start of the financial year in which the proposed scrutiny activity will take place (i.e. before the end of March). The 2017/18 process will follow the same pattern, i.e. publication of the national scrutiny plan and the 32 local scrutiny plans will take place before the end of March 2017.
50. The SRA timetable does not align well with the timetable that the Care Inspectorate and Healthcare Improvement Scotland need to follow when planning their programme of joint strategic inspections of services for children and families; and services for older people. The programme for these inspections needs to be agreed by the Care Inspectorate and Healthcare Improvement Scotland well in advance of the SRA March publication deadline. This means that work is required at national level through the schedulers and planners group to identify potential areas of scrutiny overlap and agree appropriate responses, i.e. either rescheduling work or adopting 'joined-up' approaches to local scrutiny activity.
51. Joint discussions are taking place between Audit Scotland, the Care Inspectorate and Education Scotland about developing a more strategic longer-term approach to the SRA process and joint scrutiny planning.

### **Conclusion**

52. The Commission is invited to:
- a) consider this report
  - b) endorse the approach to, and timetable for, the 2017/18 shared risk assessment (SRA) process.

**Fraser McKinlay**  
**Director of Performance Audit and Best Value**  
**2 November 2016**

## Appendix 1: LAN Lead Allocations (2017/18)

<b>Council</b>	<b>Appointed auditor</b>	<b>New LAN Lead (2017/18)</b>
<b>Aberdeen City Council</b>	KPMG	Andy Shaw, Director, KPMG
<b>Aberdeenshire Council</b>	Audit Services Group	Gillian Woolman, Assistant Director, ASG, Audit Scotland
<b>Angus Council</b>	Audit Services Group	Gillian Woolman, Assistant Director, ASG, Audit Scotland
<b>Argyll &amp; Bute Council</b>	Audit Services Group	David McConnell, Assistant Director, ASG, Audit Scotland
<b>Clackmannanshire Council</b>	Audit Services Group	Fiona Mitchell-Knight, Assistant Director, ASG, Audit Scotland
<b>Dumfries and Galloway Council</b>	Grant Thornton	Antony Clark, Assistant Director, Performance Audit and Best Value, Audit Scotland
<b>Dundee City Council</b>	Audit Services Group	Fiona Mitchell-Knight, Assistant Director, ASG, Audit Scotland
<b>East Ayrshire Council</b>	Deloitte	Donald MacLeod, Education Scotland
<b>East Dunbartonshire Council</b>	Audit Services Group	Fiona Mitchell-Knight, Assistant Director, ASG, Audit Scotland
<b>East Lothian Council</b>	Audit Services Group	Gillian Woolman, Assistant Director, ASG, Audit Scotland
<b>East Renfrewshire Council</b>	Audit Services Group	David McConnell, Assistant Director, ASG, Audit Scotland
<b>Edinburgh Council</b>	Scott-Moncreiff	Nick Bennett, Partner, Scott-Moncreiff
<b>Eilean Siar</b>	Audit Services Group	Brian Howarth, Assistant Director, ASG, Audit Scotland
<b>Falkirk Council</b>	Ernst Young	Stephen Reid, Partner, Ernst and Young McPherson
<b>Fife Council</b>	Audit Services Group	Brian Howarth, Assistant Director, ASG, Audit Scotland
<b>Glasgow City Council</b>	Audit Services Group	David McConnell, Assistant Director, ASG, Audit Scotland
<b>The Highland Council</b>	Grant Thornton Joanne Brown	Joanne Brown, Director, Grant Thornton
<b>Inverclyde Council</b>	Audit Services Group	Brian Howarth, Assistant Director, ASG, Audit Scotland

<b>Council</b>	<b>Appointed auditor</b>	<b>New LAN Lead (2017/18)</b>
<b>Midlothian</b>	Ernst Young	Sally Shaw, Care Inspectorate
<b>Moray Council</b>	Audit Services Group	Brian Howarth, Assistant Director, ASG, Audit Scotland
<b>North Ayrshire Council</b>	Deloitte	Donald MacLeod, Education Scotland
<b>North Lanarkshire Council</b>	Audit Services Group	Moira Cummings, Education Scotland
<b>Orkney Islands Council</b>	Audit Services Group	Gillian Woolman, Assistant Director, ASG, Audit Scotland
<b>Perth and Kinross Council</b>	KPMG	Ronnie Nicol, Assistant Director, Performance Audit and Best Value, Audit Scotland
<b>Renfrewshire Council</b>	Audit Services Group	David McConnell, Assistant Director, ASG, Audit Scotland
<b>Scottish Borders Council</b>	Audit Services Group	Gillian Woolman, Assistant Director, ASG, Audit Scotland
<b>Shetland Islands Council</b>	Deloitte	Stewart Maxwell, Education Scotland
<b>South Ayrshire Council</b>	Deloitte	Pat Kenny, Director, Deloitte LLP
<b>South Lanarkshire Council</b>	Audit Services Group	Fiona Mitchell-Knight, Assistant Director, ASG, Audit Scotland
<b>Stirling Council</b>	Audit Services Group	David McConnell, Assistant Director, ASG, Audit Scotland
<b>West Dunbartonshire Council</b>	Audit Services Group	Fiona Mitchell-Knight, Assistant Director, ASG, Audit Scotland
<b>West Lothian Council</b>	Ernst Young	Judith Tait, Care Inspectorate

**MEETING: 10 NOVEMBER 2016**

**REPORT BY: SECRETARY TO THE COMMISSION**

**AUDIT OF BEST VALUE: FALKIRK COUNCIL**

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### **Purpose**

1. The purpose of this paper is to introduce the Controller of Audit's report on the Best Value follow-up audit at Falkirk Council. The Commission is invited to consider the report and decide how it wishes to proceed.

### **Background**

2. At its meeting in August 2015, the Commission considered a report by the Controller of Audit on Best Value in Falkirk Council, which covered the extent to which the council is meeting its statutory duty, with a focus on governance and accountability, and improving and transforming public services.
3. In its findings published on 27 August 2015 (attached in Appendix), the Commission expressed significant concerns that the council's approach to the financial challenges faced was inadequate. The Commission said that the council had a great deal to do to provide assurance it can deal with the financial challenges ahead, and requested the Controller of Audit to report back on progress by the end of 2016.
4. A follow-up review was carried out between April 2016 and June 2016 to consider the action the council has taken. Conclusions from this audit work are provided in the 2015/16 Annual Audit Report (AAR). A copy of the AAR is included within the Controller of Audit's report.

### **The report**

5. The attached report to the Commission is made by the Controller of Audit under section 102(1) of the Local Government (Scotland) Act 1973 (as amended by subsequent legislation including the Local Government in Scotland Act 2003).
6. The legislation enables the Controller of Audit to make reports to the Commission with respect to:
  - the accounts of local authorities audited under the Act;
  - any matters arising from the accounts of any of those authorities or from the auditing of those accounts being matters that the Controller considers should be considered by the local authority or brought to the attention of the public;
  - the performance by a local authority of their statutory duties in relation to best value and community planning.
7. A copy of the report is being sent to the Council, which is obliged to supply a copy to each elected member of the Council and to make additional copies available for public inspection. Once the Controller of Audit's report is sent to the Council it is effectively in the public domain.

## **Procedure**

8. The legislation provides that, on receipt of a Controller of Audit report, the Commission may do, in any order, all or any of the following, or none of them:
  - direct the Controller of Audit to carry out further investigations;
  - hold a hearing;
  - state its findings.
9. Findings may include recommendations and the persons to whom those recommendations may be made include Scottish Ministers, who have powers to make an enforcement direction requiring an authority to take such action as is specified in the direction.
10. Members of the audit team will be present at the Commission's meeting and will be available to answer questions on the evidence presented in the report.

## **Conclusion**

10. The Commission is invited to:
  - a) consider the report by the Controller of Audit on the audit of Best Value of Falkirk Council; and
  - b) decide how it wishes to proceed.

**Paul Reilly**  
**Secretary to the Commission**  
**2 November 2016**



## **Appendix 1: Commission's findings on Best Value Report, Falkirk Council,**

**August 2015**

1. The Commission accepts this report by the Controller of Audit on Best Value audit work in Falkirk Council.
2. While Falkirk Council provides generally good services, it has identified the need to make savings of £46 million over the next three years. The Commission has significant concerns that the council's approach to this challenge is inadequate to ensure that service standards are maintained and improved.
3. The council needs to make a step-change in its pace of improvement. A continuing reliance on small-scale savings projects, service reductions and service charge increases is not sufficient. The council needs to be more ambitious, coherent and clearer in its savings plans. These plans need to reflect its priorities and what impact they will have on services. The Business Transformation Project needs to be more strategic and stronger leadership is needed for this to happen. Councillors need to provide strategic direction for the project, and senior managers need to ensure that options on the future delivery of services are clearly articulated to members. Members' decision-making also needs better support from the council's performance management system.
4. The Commission welcomes that, after an unacceptable and protracted period of ineffective scrutiny in the council, members are participating in new arrangements. The council needs to demonstrate that scrutiny is now effective.
5. The council has a great deal to do to provide assurance that it can deal with the financial challenges ahead. The Commission therefore requires the Controller of Audit to report back on progress by the end of 2016.

# Falkirk Council

## Best Value Audit

ACCOUNTS COMMISSION 

Prepared for the Accounts Commission by the Controller of Audit

November 2016

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.

# Contents

<b>Controller of Audit Report</b> .....	<b>4</b>
Background .....	4
Audit assessment .....	5
The council's response to the Best Value report.....	5
Scale and pace of change .....	6
Scrutiny .....	10
Performance management and reporting .....	11
Conclusions.....	11
<b>Appendix 1</b> .....	<b>Error! Bookmark not defined.</b>
Annual Audit Report 2015/16 .....	13
<b>Appendix 2</b> .....	
Update of the council's Best Value Improvement Plan.....	14
<b>Appendix 3</b> .....	<b>17</b>
Falkirk Council Key Facts .....	17

# Controller of Audit Report

## Background

1. This report updates the Accounts Commission on the council's progress following a previous [Best Value audit report](#) in August 2015. That report considered the extent to which the council was meeting its statutory duty of Best Value, with a focus on governance and accountability, and improving and transforming public services. In its findings on my report, the Commission expressed significant concerns that the council's approach to the financial challenges it faced was inadequate. The Commission said the council needed to make a step change in its pace of improvement and that the council had a great deal to do to provide assurance it can deal with the financial challenges ahead. The Commission requested a progress report by the end of 2016.
2. A follow-up review was carried out between April 2016 and June 2016 to consider the action the council has taken. Conclusions from this audit work are provided in the 2015/16 Annual Audit Report (AAR) to me as Controller of Audit and elected members (Appendix 1), which includes an action plan of recommendations for the council. I have cross-referenced the relevant paragraphs of the AAR and the management response to the recommendations made throughout this report.
3. These conclusions provide the basis for this report, which focuses on the main areas highlighted by the Commission in August 2015. The report is structured in four parts:
  - the council's response to the Best Value report (paragraphs 9 to 10)
  - scale and pace of change (paragraphs 11 to 27)
  - scrutiny (paragraphs 28 to 32)
  - performance management and reporting (paragraphs 33 to 35).
4. The 2015/16 AAR was issued by the auditor to council officers in mid September. Officers presented an extract of the Best Value key messages contained within the AAR (paragraphs 130 to 139) in a report to members at the full council meeting on 21 September 2016. At that meeting, members were asked to note an update on the council's Best Value Improvement Plan and the emerging Best Value themes from the Accounts Commission's Local Government Overview report, published in March 2016. Members were asked to agree that the Provost, the Leader of the Council, and the Leader of the Opposition would consider how the council should respond to the Best Value key messages, with a report to full council at a later date.
5. It is unusual for a full council meeting to consider only part of an annual audit report in advance of its full consideration by the Audit Committee. There is a risk that the Best Value key messages presented to council could be taken out of context, and members did not have an opportunity to explore the issues in any depth. Auditors were unaware of the paper going to the full council, and so did not have an opportunity to discuss the key messages with members at that time. Officers advised that they had committed to present a Best Value

Improvement Plan update to members at the September 2016 full council meeting. They felt that it was appropriate for the summary of Best Value findings and management's responses to accompany this update, given that the information was available to officers at the time.

6. The full AAR was considered by the Audit Committee on 26 September. Members of the committee acknowledged the serious nature of the key messages and noted the timescales for the Controller of Audit report to the Commission. They also stated that an agreed response to the issues raised should be reported to all elected members at the earliest opportunity.

## Audit assessment

7. The auditor found that a significant amount of activity has taken place at Falkirk Council in response to the 2015 report within the relatively short time since the previous Best Value audit. However, the approach taken has made limited progress in making the step change in improvement required. The council acknowledges it needs to do things differently, but translating this into more radical change has not yet happened. The council recognises this and has recently taken steps to increase capacity by appointing a manager for its improvement programme.
8. The scale of the challenges facing all councils is increasing. Falkirk Council needs to approach these challenges differently as its actions to date are unlikely to deliver the change required. Elected members and officers need to work together to agree clear priorities. It is the Corporate Management Team's (CMT) responsibility to lead a focused and coordinated approach to deliver these effectively. Senior officers need to provide challenge and hold each other to account to deliver the changes required. The CMT acknowledges the need for a fresh approach and is looking at the culture and leadership in some other councils. The CMT now needs to agree on how it will apply the lessons learned to drive change. It should continue to seek external views or assistance where this can help.

## The council's response to the Best Value report

9. In its August 2015 report, the Accounts Commission made a number of recommendations for areas of improvement. The council initially considered the Best Value report at a special meeting in September 2015. At this meeting, members agreed that officers should bring forward an outline action plan, for implementation by March 2016, to the statutory meeting on 7 October 2015. The council formally considered the Commission's findings at the October meeting and agreed a number of actions including:
  - acknowledging the need to find savings of £46 million over the next three years
  - adopting the Best Value improvement plan, with a progress update to be provided in March 2016
  - agreeing terms of reference for a new Cross-Party Budget Working Group with representation across all parties
  - that the Leader of the Council and Opposition would provide political leadership on the Business Transformation Board

- to note that a review of standing orders was currently underway.
10. The Best Value Improvement Plan sets out how the council will address each area of improvement identified within the Best Value report. The improvement plan is high level, with a focus on achieving specific actions rather than ensuring that the actions lead to the improvements required. The actions themselves lack depth and are not well embedded within the council's overall approach to business. Officers presented a progress update to members in March 2016 and September 2016 (Appendix 2). However, there is no review process in place to measure the impact and effectiveness of actions taken. Officers acknowledge this and plan to address this in response to the conclusions in the AAR.

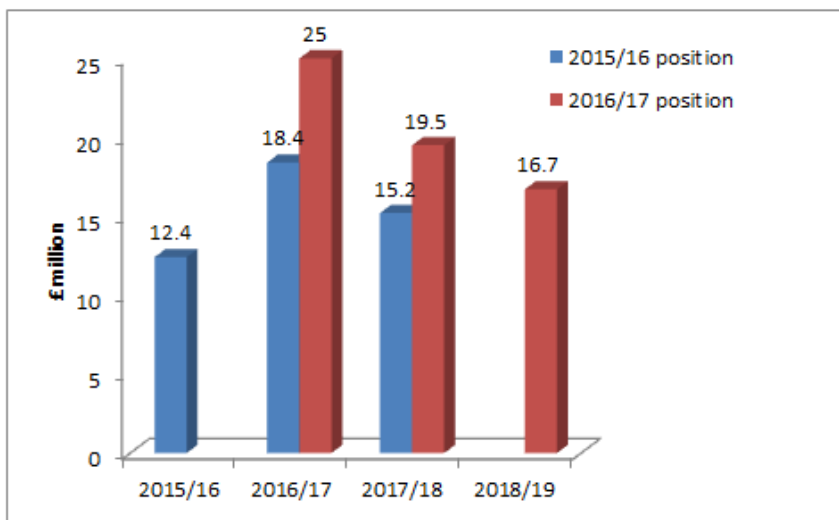
## Scale and pace of change

### Financial planning and sustainability

11. The council reported a net overspend of £0.557 million in 2015/16, however there were a number of significant over and underspends which contributed to this position (paragraphs 33 to 37 of the AAR). While the overall financial position at the end of the year did not vary significantly from budget, there is a trend over several years of large under and overspends within the council. There is a risk that the council's budget does not accurately reflect costs, leading to uncertainty over the financial position. The council needs to review its process for preparing the budget to ensure that all costs and income are accurately anticipated. In its management response to the AAR, the council states that it has an integral work stream themed 'rebasings' in the revenue budget process to address this.
12. The Commission said that the council needed to make a step change in its pace of improvement, and that a continuing reliance on small-scale savings projects, service reductions and service charge increases was not sufficient. Paragraphs 54 to 58 of the AAR set out the council's approach to financial planning during 2015/16. It set a one-year budget for 2016/17 of £330 million in February 2016, with a budget gap of £25 million identified for the year ahead. Proposals to bridge this gap were set out within the council's budget report. The council has continued to rely on relatively small-scale savings, service reductions and increased charges, and the use of the uncommitted general fund to bridge this £25 million budget gap. This approach is not sustainable in the longer term.
13. The financial challenges facing the council have worsened in the last year. In 2015/16, it forecast a three-year budget gap of £46 million; in 2016/17 the forecast three-year gap rose to £61 million ([Exhibit 1](#)). The increased gap in 2016/17 is largely due to a reduction in the levels of revenue funding from the Scottish Government, which reduced by £6.52 million, from £279.06 million to £272.54 million. The council now needs to make savings in excess of £36 million over the next two years to 2018/19. This presents a significant challenge. The council is considering a number of options to bridge this gap, including service savings, strategic reviews, budget rebasing, changes to terms and conditions, a council tax increase and the use of reserves.

14. For 2017/18, the council has identified it needs to make savings of around £19.5 million. It expects services savings of £15 million to contribute to bridging this gap. In October 2016, officers presented members with proposals for £10.64 million savings options that services have identified to date. The council still has to agree measures to deliver the remaining £8.86 million of savings required. The council needs to do things differently if it is to achieve a balanced budget while managing the impact on services. It needs to identify clear priorities and develop medium term and longer-term financial planning to manage this effectively.

### Exhibit 1: Three-year budget gaps identified in 2015/16 and 2016/17



Source: Falkirk Council

15. The council has not yet developed medium and longer-term financial strategies and plans. It stated that the late, one-year financial settlement from the Scottish Government had prevented planning beyond a single year. Officers presented a medium-term financial strategy to elected members in June 2016. However, the information in this remains high level and relates to 2017/18 only. A short-term financial settlement is expected again this year, however some councils continue to develop longer-term plans which consider a range of funding and income levels.
16. Uncertainty over future funding and income is an issue for all councils in the current environment, which means forward planning is more important than ever. The council needs to take a longer-term, more strategic approach. This should include scenario planning for a range of options as there is a risk it will not be well placed to address these challenges.
17. There is little evidence that the budget setting process and savings plans are closely linked to corporate outcomes or priorities for improvement. Paragraphs 90 to 92 of the AAR show that the council's strategic planning is currently in a period of transition. As a result, members and officers do not have a shared understanding of the council's priorities. The council needs to identify and agree clear priorities, so that it can target resources consistently and effectively to deliver improved outcomes for local communities.



18. In its management response to the AAR, the council states that it is developing an updated financial framework to inform the budget planning process for 2017/18. The response recognises that scenario planning needs to be part of this (page 47 of the AAR). The council also states that its priorities will be reviewed internally and externally as part of its contribution to the Community Planning Partnership's Strategic Outcomes and Local Delivery Plan (page 50 of the AAR). The council should develop its priorities as a matter of urgency, and ensure that this review fully considers all aspects of the council's responsibilities. Without clear priorities, there is a risk that the council cannot implement the required change effectively.
19. The council set up a Cross-Party Budget Working Group in October 2015 to support the budget setting process, which includes representatives from all parties. The group has met on four occasions to consider the 2017/18 budget process. Members of that group worked well together during the 2016/17 budget setting process. They have reflected on the need to work more openly and collaboratively throughout the year to ensure the group adds more value going forward.

### **Business transformation and improvement activity**

20. The Commission said that the council needed more ambitious, coherent and clearer savings plans that reflect its priorities and the impact on services. It also said that more strategic and stronger leadership of the Business Transformation project was needed.
21. The council's approach to business transformation and improvement activity is set out in paragraphs 59 to 63 of the AAR. In October 2015, the council revised membership of the Business Transformation Board to involve elected members. Members have worked well together, providing a good level of scrutiny and challenge. However, the effectiveness of this has been limited by the lack of detailed reporting on the overall project by senior officers.
22. In February 2016, the council approved strategic reviews to help identify potential savings within the 2017/18 budget. In the management response to the AAR, the council states that these reviews provide the opportunities for a significant step change in how the council operates, and they are expected to contribute to the savings necessary to meet the challenges ahead (page 51 of the AAR). The council has initiated these reviews but is yet to identify specific savings for most of them ([Exhibit 2](#)). Officers will present a progress update to members in December 2016.

## Exhibit 2: Progress of strategic reviews, October 2016

Review	Current stage	Anticipated savings	Target completion date
<b>Property portfolio</b>	<ul style="list-style-type: none"> <li>Assessment of service needs undertaken. Analysis of asset performance complete</li> <li>Locality model for future provision identified</li> <li>Locality and property asset reviews underway</li> </ul>	<p>The council's operational property estate costs £22m p.a.</p> <p>A target of 15% * (£3.3m)</p>	<p>Initial assessment report and budget options for 2017/18 to Members in December 2016.</p> <p>Further phases of review to proceed in 2017</p>
<b>Social work services</b>	<ul style="list-style-type: none"> <li>Options appraisal for re-ablement in home care underway</li> <li>Developing discharge assessment model</li> <li>Early stage work underway on locality model</li> <li>Review of eligibility criteria</li> <li>Partial implementation of real time monitoring Tec within internal service provision</li> <li>Engagement for new tender with providers underway</li> </ul>	IJB have been asked to identify c£2m savings.	Implementation across full area during 17/18
<b>Alternative delivery models</b>	<ul style="list-style-type: none"> <li>4 stage process of review and implementation.</li> <li>Prioritised list of functions to be reported to Members in December.</li> </ul>	Combined value of service areas is in the region of £25m. Potential savings of c10% (£2m) maybe realised, dependent upon detailed option appraisal work.	2018/19
<b>External funding</b>	<ul style="list-style-type: none"> <li>A review has been carried out on savings over a five year period.</li> <li>Priority to be assigned to organisation and proposals to members will follow.</li> </ul>	15% approx. £600K	November 2016
<b>Income generation</b>	<ul style="list-style-type: none"> <li>Participation in a collaborative piece of work with other Councils – looking at opportunities to raise income</li> <li>Comparing fees and chares with other councils</li> <li>Review of all material area of income / spending on- going</li> <li>Review linked to the Councils concessions policy</li> </ul>	General 5% increase nets c£1m	December 2016

\*however constraints to statutory requirement in the schools estate (58% of budget) and tacking maintenance requirement will impact on savings

Source: Falkirk Council

23. The council has a number of other improvement activities in place. These include a revised programme of service reviews and self-assessments, staff improvement groups, reviewing the top 20 areas of spend, and engagement with other councils. However, there is no overall process in place to monitor this activity and it is not clear how change initiatives are aligned and integrated with the budget-setting process and strategic priorities.
24. The council needs to do more to identify and track the savings and benefits expected as a result of its improvement activities and strengthen linkages with the budget setting process. In its management response (page 48 of the AAR), the council states that it will review its improvement programme to ensure consistency in language, linkages to priorities and the budget-setting process.
25. The council is aware of the need to manage improvement activity better. In partnership with the Improvement Service, the council has recently appointed a manager on an 18 month contract to oversee the day-to-day management of its improvement programme. The manager is employed and supported by the Improvement Service but the post is fully funded by the council. Senior officers will need to support the improvement programme manager and provide strategic leadership and direction to deliver the change required (paragraphs 63 and 137 of the AAR).

## Workforce management

26. The Commission recommended that workforce changes fully reflect comprehensive workforce strategies and plans. The council currently has 5848 full-time equivalent employees. Between June 2014 and June 2016, the workforce reduced by 449 full-time equivalents (seven percent). These reductions were agreed in the absence of workforce strategies and plans. In October 2016, the council advised that a further reduction of 228 full-time equivalents may be required by 2018/19. Paragraphs 73 to 77 of the AAR show that the council is in the early stages of developing workforce planning arrangements. It has approved a revised workforce strategy and is developing workforce plans for services. The council needs to ensure that workforce reductions are aligned with its workforce strategy and plans, and improvement activities.
27. In its management response to the AAR, the council states that these workforce plans will inform actions to be taken to support the budget strategy (page 49 of the AAR). The council should also ensure these plans are used to identify opportunities for more joined-up planning across services and ensure that changes in one area do not have unintended consequences for other services.

## Scrutiny

### Governance

28. The Commission said that the council needed to demonstrate that its scrutiny arrangements were working effectively. Elected members are now participating fully in revised scrutiny structures including two scrutiny committees. Paragraphs 87 to 89 of the AAR consider corporate governance within the council. There is evidence of a growing maturity in political relationships. Members are demonstrating an awareness of the need to put political disagreements aside and work together to provide the best possible services for local people. Overall, the revised arrangements seem to be operating effectively and members should continue to build on this.
29. In September 2015, the council initiated a review of standing orders, particularly those relating to the order of, and conduct at business meetings. In March 2016, the council considered proposals for amendments to standing orders. It agreed a number of these proposals including changes to the general principles of council meetings, voting on appointments and dealing with deputations. A new standing order was also inserted to formalise the Leader's business meetings.
30. The council needs to provide elected members with clear information and training to develop their scrutiny role and understand the issues facing them when making decisions. Officers have improved the information provided to members by introducing a revised reporting template. They have also provided training on a range of issues including mandatory treasury management training which was attended by all elected members and sessions on performance management and effective questioning, which 45 percent of members attended. Some of this training has been delivered with the Improvement Service.

## Transparency

31. Paragraphs 111 to 115 of the AAR comment on the council's approach to transparency. The council's performance panel is responsible for scrutinising performance but its meetings continue to be held in private. Transparency has, however, improved, with key reports and a rolling action log now available alongside the panel minutes on the council's website. Members have taken the decision to continue to hold these meetings in private as they believe that it aids the discussions.
32. In better performing councils, scrutiny of performance is held in public to ensure openness and transparency. The council should aim to move towards this, building on the maturing working relations between members and encourage more debate and questioning to be carried out in public.

## Performance management and reporting

33. The 2015 Best Value report said that the council needed to improve the performance information it reports to members and the public. The council's approach to performance management is detailed in paragraphs 151 to 173 of the AAR. It has developed a new performance reporting template with improved narrative and benchmarking information to provide context on what is being reported.
34. Despite recent changes in performance management arrangements, there continues to be limited evidence that performance reporting is making improvement happen. The council has not developed tracked action plans as previously recommended. Therefore no assurance is provided to members on how improvement actions are followed up, whether they have been delivered on time or had the impact intended.
35. In its management response (page 52 of the AAR), the council has recognised that it needs to develop a more consistent approach to making improvements through performance reporting. It will develop tracked action plans to ensure that it makes improvements where poor performance is identified.

## Conclusions

36. The council has taken steps to address the issues raised in the last Best Value report in 2015, but the pace of change remains slow. The council still needs to identify how it will make the significant savings needed over the next two years and develop financial strategies and plans for the longer-term. There are a number of improvement activities running in parallel within the council, but it is not clear that these are aligned to priorities and the budget setting process. This is a significant gap. To improve the pace of change, the council needs to identify and agree clear priorities as a matter of urgency. The CMT needs to lead a focused and coordinated approach to deliver these.
37. The AAR contains a number of recommendations for improvement for the council (pages 46 to 52 of the AAR) which I support, as Controller of Audit. The council needs to:

- identify and clearly communicate its strategic priorities and ensure that all activity is aligned with these priorities
- review the process for preparing the budget to ensure all costs and income are more accurately anticipated
- develop its approach to medium term and longer-term financial planning which:
  - takes into account uncertainties around future funding and income
  - includes scenario planning for a range of options
- ensure all improvement activities are aligned with strategic priorities and the budget setting process, and that senior officers support the improvement programme manager, by providing strategic leadership and direction to deliver the change required
- ensure that workforce reductions are informed by detailed workforce plans and that budgets reflect any planned workforce changes
- provide timely and complete performance information to councillors and the public to promote effective challenge and drive improvement, and introduce tracked action plans to ensure that improvement happens where poor performance is identified.

# Appendix 1

Annual Audit Report 2015/16

# Appendix 2

## Update of the council's Best Value Improvement Plan

Source: Falkirk Council, Full Council Meeting 21 September 2016

### 1. Scale and Pace of Change






Action	Progress	Status	Due Date	Responsible Person
The Council will update its Workforce Strategy for approval by Members.	Workforce Planning Framework now in place which provides guidance and a template for a consistent approach to developing Workforce Plans across the Council. All Services now working on Plans with a view to completing Service level Plans by October and a Council wide Plan by December 2016.	✓	31-Mar-2016	Head of Human Resources & Business Transformation
A new Business Transformation Board will be established to enhance the governance of this programme with the Leader of the Council and the Opposition providing political leadership. Minutes will be made available to the Cross Party Budget Working Group.	Business Transformation Board reviewed in 2015 and membership now includes both the Leader of the Council and the Leader of the Opposition as members of the Board. They both started attending Board meetings on 9 November 2015. Meetings continue to be held, as previously reported, with this revised membership. Meetings took place in March, May, June and August. A schedule of meetings is in place for the remainder of the year including ones in September, October and December.	✓	30-Nov-2015	Head of Human Resources & Business Transformation
A Cross Party Budget Working Group will be established.	The Cross Party Working Group first met on 22 October 2015 and continues to meet regularly. The Working Group has considered a paper which reviewed the 2016/17 Budget and looked forward to the 2017/18 process. Work is now progressing with the 17/18 Budget process.	✓	31-Dec-2015	Chief Finance Officer
Officer involvement in the Business Transformation project will be realigned to support the new Board.	Officer involvement has been amended to reflect the concerns of Audit Scotland.	✓	30-Nov-2015	Head of Human Resources & Business Transformation
The Council will prepare a short term financial plan (2 years) and medium term financial plan (5 years) and a long term financial plan (10 years).	The Council already has a short term financial plan but work is currently progressing with Services & the Research Unit to develop a more robust medium term (5 year) plan. An intelligent & selective approach will be adopted for timeframes beyond that. The short and medium term financial framework will inform the 2017/18 Budget round and will be reported to Members. Due date for this action changed from 31 March 2016 to 31 March 2017.	▶	31-Mar-2017	Chief Finance Officer

## 2. Scrutiny




Action	Progress	Status	Due Date	Responsible Person
All Councillors will continue to participate constructively in the Council's governance arrangements.	<p>Since November 2015 opposition members have participated in policy development panels and scrutiny panels established since then. Currently there are four active Policy Development Panels:</p> <ul style="list-style-type: none"> <li>• Open Space Strategy</li> <li>• Falkirk Community Trust;</li> <li>• Civic Licensing; and</li> <li>• Inclusion and Additional Support Needs.</li> </ul> <p>In the case of the latter three Panels all have cross party membership. The Scrutiny Panel on the Outcomes of Looked after Children will report to Scrutiny Committee on 17 November 2016. A Scrutiny Panel which will look at complaints outcomes will meet in October and will be chaired Councillor Bird.</p>	✓	31-Dec-2016	Chief Governance Officer
Council considers that its scrutiny arrangements meet best practice principles and that holding the Performance Panel in private while making its reports and minutes public is appropriate for our circumstances and enhances the effectiveness of the Panel.	No action required	✓	30-Oct-2015	Chief Governance Officer
Training and development opportunities will be made available to councillors to enhance their scrutiny skills and guidance will be drawn up to assist constructive engagement with the scrutiny process.	A mock committee meeting will be arranged in conjunction with the Improvement Service to allow Members to put into practice the principle of the scrutiny training held prior to the recess. Members requested, in June, a briefing on the Community Empowerment (Scotland) Act and its implications for Falkirk Council. This was held on 30 August 2016. A briefing for Members on CITRIX was held on 22 August 2016.	●	31-Mar-2016	Chief Governance Officer
The Council will continue to hold its Performance Panel in private but publish on its website the reports submitted to the Panel and the minutes of the meetings.	The agendas including reports and minutes are published on the Council's website. The papers for the meetings since 19 November 2015 up to and including the most recent meeting on 11 August 2016 are available on the website.	✓	31-Dec-2016	Chief Governance Officer
The Council will consider the information and training needs of Members through the Personal Development Plan process and by providing specific training and development opportunities on scrutiny, budgeting and performance management.	<p>Training Needs Analysis for all Members was completed by April 2016. Personal Development Plans (PDPs) have been extended and work is ongoing in the preparation of these Plans to include training identified in the TNA process. A training programme will be developed to cover all identified individual training needs. This training is in addition to the following training sessions previously held:</p> <ul style="list-style-type: none"> <li>• Performance Management - 2 February 2016</li> <li>• Treasury Management - February / April 2016</li> <li>• The Role of the Audit Committee - 15 May 2016</li> <li>• Financial Planning/Budgeting - 23 May 2016</li> <li>• Effective Scrutiny - 26 May 2016</li> <li>• Community Empowerment (Scotland) Act - 30 August 2016</li> </ul>	✓	31-Mar-2016	Chief Governance Officer
A review of other Councils' experience with local protocols will be carried out to establish how effective they are deemed to be with a report back to Council on the outcome of that review.	A report on the outcomes of a review of other Councils' experience with local protocols will be considered by the Provost, Leader of the Council, Leader of the Opposition and the Chief Executive on 23 September 2016. The report includes a summary of protocols provided by other local authorities and highlights the principal issues which could be considered for inclusion in a local protocol, should this be pursued.	●	31-Mar-2016	Chief Governance Officer



### 3. Performance management & reporting

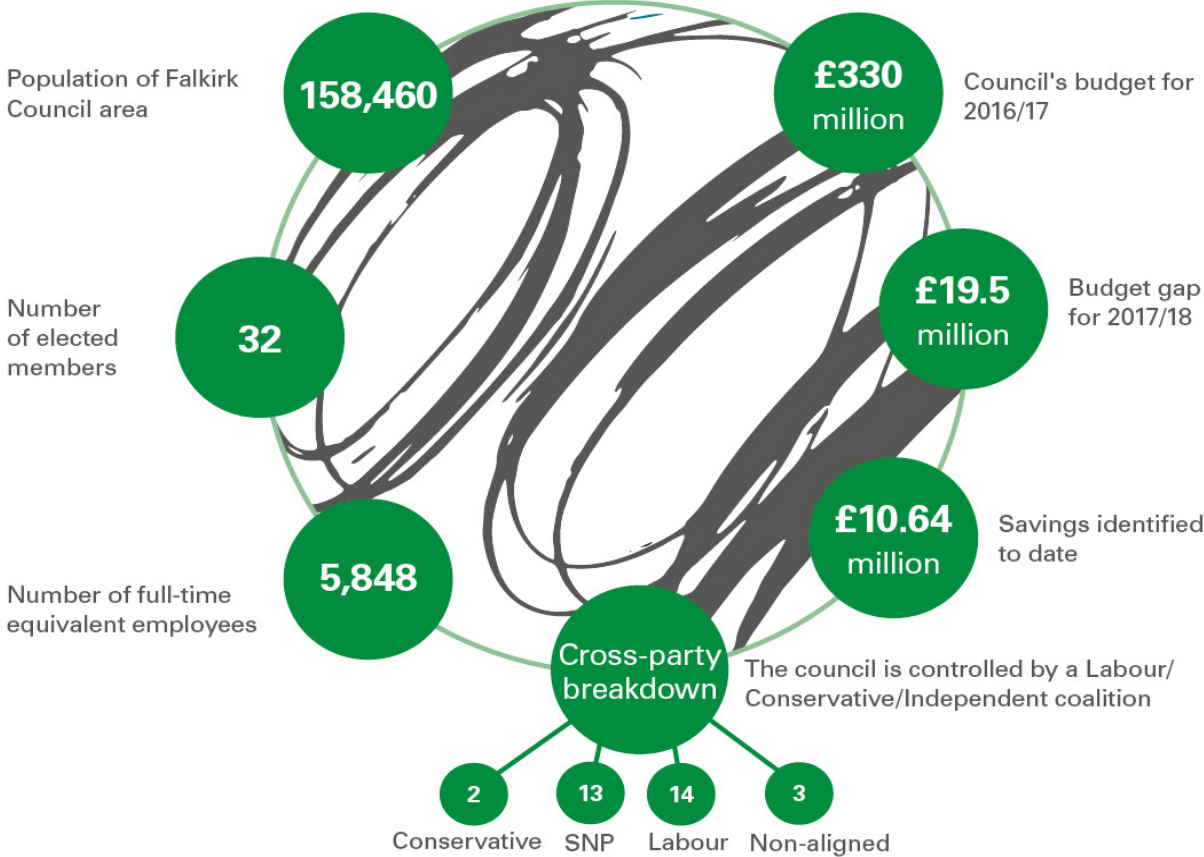
Action	Progress	Status	Due Date	Responsible Person
A programme of reviews and self assessments will be submitted to the Performance Panel by March 2016.	A programme of reviews and self assessments was agreed by the Performance Panel in May. Progress updates are included in a subsequent action. This action is now complete.		31-Mar-2016	Head of Policy, Technology & Improvement
A systematic programme of service reviews and self-assessments will be undertaken to influence the Council's budget strategy and improvement agenda.	Assessment dates for the agreed programme presented to Members in May 2016 have been circulated to Services. One self assessment is ongoing with an action plan scheduled to be developed in quarter four of 2016. The remaining 2016 self assessments are scheduled to commence in quarter four of 2016, with action plans following in quarter one of 2017.		31-Mar-2019	Head of Policy, Technology & Improvement
The Council's new guidance on Performance Management will be rolled out.	The performance management framework is now in use within Services. This action is now complete.		31-Dec-2015	Head of Policy, Technology & Improvement
Take forward actions agreed by Scrutiny Committee in October 2015 on public performance reporting.	Scrutiny Committee agreed improvement actions to be progressed by Services. These included reviewing the recommendations in the Audit Scotland report and reviewing information published under the SPI1 & SPI2 indicators. In addition, the Council's website has been updated to link to the most recent LGBF indicators and Service information submitted to the Performance Panel under the revised reporting framework has been published in the performance section of the website. The complaints report for 2015/16 will be published shortly. A single document that captures the range of reporting arrangements in place throughout the Council has been produced and this is being used to develop a format for an annual performance report covering the Council's important indicators.		31-Mar-2016	Head of Policy, Technology & Improvement
Performance reports will be developed through the Performance Panel to reflect the good practice outlined. These reports will in turn, be published on the Council's website.	The report template is used by Services to report to the Performance Panel. This action is now complete.		31-Mar-2016	Head of Policy, Technology & Improvement

#### Key

Status	Description
	Action is completed. However as with all work of this nature we would expect continuous review to ensure what has been delivered is fit for purpose etc.
	On target to meet the due delivery date.
	Is behind schedule and has not met deadline. However work is on going to deliver the task.

# Appendix 3

## Falkirk Council Key Facts



# Falkirk Council

2015/16 Annual audit  
report to Members and  
the Controller of Audit

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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies ([www.audit-scotland.gov.uk/about/ac/](http://www.audit-scotland.gov.uk/about/ac/)). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General ([www.audit-scotland.gov.uk/about/](http://www.audit-scotland.gov.uk/about/)).

The Accounts Commission has appointed Fiona Mitchell Knight as the external auditor of Falkirk Council for the period 2011/12 to 2015/16.

This report has been prepared for the use of Falkirk Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

# Contents

Key messages.....	3
Introduction.....	5
Audit of the 2015/16 financial statements .....	6
Financial management and sustainability.....	14
Governance and transparency.....	26
Best Value.....	32
The audit of Falkirk Temperance Trust.....	39
Appendix I: Significant audit risks .....	40
Appendix II: Summary of Falkirk Council local audit reports 2015/16.....	44
Appendix III: Summary of Audit Scotland national reports 2015/16 .....	45
Appendix IV: Action plan .....	46

# Key messages

## Audit of financial statements

- Unqualified auditor's report on the 2015/16 financial statements.
- Unqualified auditor's report on the Falkirk Temperance Trust administered by the council.

## Financial management and sustainability

- The council has managed its spending broadly within budget in 2015/16 but there are a number of significant over and underspends within this. The council needs to focus on effective remedial action in areas of overspend and minimise unbudgeted costs.
- The 2016/17 budget was approved by the council in February 2016. The 2016/17 budget was set at £329.632 million with a budget gap of £25 million. Part of the strategy to bridge this budget gap includes the use of the uncommitted general fund. This approach is not sustainable in the long term.
- A budget gap of £36 million over the next 2 years to 2018/19 has been identified by the council. This presents a considerable challenge and the council will need to do things differently if it is to achieve a balanced budget. There should be a clear link between savings plans and strategic priorities. We found little evidence of this.
- Medium and long term financial planning is not well developed. The council should prepare for a range of scenarios due to the uncertainty over future funding and income.

## Governance and transparency

- The council's scrutiny arrangements have improved, with members participating across a range of scrutiny activities.
- The council has governance arrangements in place that support openness and transparency.
- Effective systems of internal control were in place during 2015/16.
- Arrangements for the prevention and detection of fraud are adequate and have been strengthened by the establishment of a corporate fraud team.

## Best Value

- In the 2015 Best Value report the Accounts Commission raised significant concerns about the council's approach to Best Value and, in particular, the approach to addressing the financial challenges. A follow-up report was requested by the end of 2016.
- The Best Value follow-up audit has found that despite a significant amount of activity taking place in response to the recommendations in the report, the pace of change at the council is still slow. The council has a number of improvement activities working in parallel but it is not clear how these relate to the council's strategic priorities and the budget setting process. The recruitment of a change manager demonstrates an awareness of the need to do more but this person will need to be supported at the highest level.



Outlook

- The council needs to agree clear priorities. The corporate management team needs to work differently and lead a coordinated approach to deliver them.
- Performance reporting processes have improved but there is little evidence to suggest that performance management drives improvement within the council.
- The financial challenges facing the council have continued to increase with a 3 year budget gap of £46 million between 2015/16 and 2017/18 increasing to £61 million over the same timeframe between 2016/17 and 2018/19. This is in the context of a rising demand for services.
- Falkirk Council will need to increase its pace of improvement and change the way it delivers services to respond to these pressures. Reliance on small-scale savings and workforce reductions will not be sufficient.
- The council's response to the findings of the Best Value follow-up audit will be critical to driving change and improvement in the future.

# Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Falkirk Council. The report is divided into sections which reflect our public sector audit model.
2. The management of Falkirk Council is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based
  - demonstrating Best Value in how it delivers its services .
3. Our responsibility, as the external auditor of Falkirk Council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at [Appendix II](#) and [Appendix III](#), include recommendations for improvements.
6. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Falkirk Council understands its risks and has arrangements in place to manage these risks. The council and corporate management team should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of Falkirk Council will be Ernst and Young LLP. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

# Audit of the 2015/16 financial statements

<b>Audit opinion</b>	<ul style="list-style-type: none"><li>• We have completed our audit of the council and its group and issued an unqualified independent auditor's report.</li></ul>
<b>Going concern</b>	<ul style="list-style-type: none"><li>• The financial statements of the council, its group and the associated charitable trust have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council, its group and charitable trust's ability to continue as a going concern.</li></ul>
<b>Other information</b>	<ul style="list-style-type: none"><li>• We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.</li></ul>
<b>Charitable trusts</b>	<ul style="list-style-type: none"><li>• We have completed our audit of the 2015/16 financial statements of the Falkirk Temperance Trust administered by Falkirk Council and issued an unqualified independent auditor's report.</li></ul>
<b>Group accounts</b>	<ul style="list-style-type: none"><li>• Falkirk Council has accounted for the financial results of two subsidiaries and two associates in its group accounts for 2015/16. The overall effect of consolidating these balances on the group balance sheet is to decrease total reserves and net assets by £1.481 million.</li></ul>
<b>Whole of government accounts</b>	<ul style="list-style-type: none"><li>• The council submitted a consolidation pack for audit on the 30 August 2016. This has been audited and the certified return will be submitted to the NAO by the statutory deadline.</li></ul>



## Submission of financial statements for audit

10. We formally received the unaudited financial statements on 20 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.
11. In 2015/16, for the first time, local government group accounts are required to include the financial results of the Health and Social Care Integration Joint Boards (IJBs) in their area, where material. The Falkirk IJB was established on 3 October 2015 but did not become fully operational until 1 April 2016. IJB financial transactions for 2015/16 are not material and therefore have not been consolidated into the council's group accounts.

## Overview of the scope of the audit of the financial statements

12. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 18 April 2016.
13. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

14. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix I](#) sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.
15. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

16. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
17. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

18. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Falkirk Council we set our planning materiality for 2015/16 at £6.415 million (1% of gross expenditure). Performance materiality was calculated at £3.208 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.
19. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and revised materiality to £5.948 million. This was based on 1% gross expenditure excluding a one off transaction associated with the revaluation of council houses. Performance materiality was calculated at £2.974m.

## Evaluation of misstatements

20. All misstatements identified during the audit, which exceeded our clearly trivial threshold of £59,000, have either been amended in the financial statements or recorded as an unadjusted error.
21. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements in most instances. The effect of these adjustments is to reduce net assets by £6.430 million and the general fund balance by £2.900 million. Significant findings have been outlined in Table 1 below.

22. Unadjusted errors, if corrected, in the financial statements would have the cumulative effect of increasing net assets by £0.070 million. This is not material in respect of our audit.

## The Local Authority Accounts (Scotland) Regulations 2014

23. Paragraph 9 of the 2014 Regulations requires a local authority to publish on its website a public notice detailing the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. Although the public inspection notice was published in the local press, it was not placed on the council's website. This is a breach of the Regulations and although it does not impact on our audit opinion we are required to bring this to your attention. The council should ensure that this requirement is met in future years.

## Significant findings from the audit

24. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
  - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
  - Significant difficulties encountered during the audit.
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
  - Written representations requested by the auditor.

- Other matters which, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
25. The following table details those issues that, in our view, require to be communicated to those charged with governance.

**Table 1: Significant findings from the audit**

## Significant findings from the audit in accordance with ISA260

### Falkirk Community Stadium Limited Investment

The council holds a long term investment in Falkirk Community Stadium Limited (FCSL) that was valued at £9.340 million in the unaudited accounts. This relates to outstanding loans of c£6m and an original investment of c£3m, which following a de-merger of the company in 2009 were backed by FCSL's assets. These assets were revalued in May 2016 by the District Valuer but the results were not reflected in the unaudited accounts. The valuation provides evidence of conditions that would have existed before the balance sheet date and therefore this is classified as an adjusting post balance sheet event. The Code requires investments to be reviewed for impairment and written down to their recoverable cost at the balance sheet date. The valuation of this investment as indicated by the recent valuation of FCSL is £5.810 million. Officers have agreed to reflect this in the accounts. The overall impact is a reduction in the 'surplus on the provision of services' on the comprehensive income and expenditure statement of £3.530 million and an equal reduction in 'long term investments' on the balance sheet. The charge is reversed out through the statutory adjustments between the accounting and funding basis so there is no impact on the general fund balance.

***Resolution: Officers have agreed to amend the accounts to reflect the recent valuation of this investment.***

### Employee related claims

As reported in previous years, the ultimate cost to the council of the claims made under the Equal Pay Act 1970 remains uncertain and it is likely that resolution of the issue will take some time. As the tribunal process unfolds, the extent of the council's eventual liability will become clearer. The council's Equal Pay provision at 31 March 2016 is considered to adequately reflect the potential liability at this time. Actual settlements are subject to the outcome of several national test legal cases. The council have disclosed a contingent liability for further liabilities that may arise pending the outcome of the test legal cases.

***Resolution: The potential equal pay liability will continue to be reviewed on an annual basis.***

## Significant findings from the audit in accordance with ISA260

### Valuation of council house dwellings

The valuation of council house dwellings has featured in our Annual Audit Reports over the five years of our audit appointment. The council's housing stock was revalued at 1 April 2015. The valuation method introduced is the existing use value – social housing (EUV-SH) based on the Beacon method of valuation. Previously, the council had used the discounted cash flow valuation methodology. As a result of the change in valuation methodology the value of council housing stock increased significantly from £55 million at 31 March 2015 to £337.2 million at 31 March 2016. We reviewed the valuation report prepared by the District Valuer (DV) and the accounting treatment in the 2015/16 accounts presented for audit. We discussed our conclusions with the council, and recommended a change for the full revaluation to go through the revaluation reserve rather than distort the cost of services in the year, as was the council's original treatment. The council agreed a number of audit adjustments to effect this change. The overall impact on the comprehensive income and expenditure statements is a £115.114 million reduction in the 'surplus on the provision of services' offset by an equal increase in 'other comprehensive income'. This is reflected in the balance sheet as a £115.114 million increase on the revaluation reserve and an equal reduction on the capital adjustments account balance. There is no impact on the bottom line of the financial statements.

***Resolution: Officers have agreed to amend the accounting treatment of the revaluation of council dwellings.***

## Significant findings from the audit in accordance with ISA260

### Treatment of non-enhancing capital expenditure

Following the adoption of the EUV-SH Beacon method the council has had to reconsider its approach to accounting for non-enhancing capital expenditure in relation to council dwellings. This is expenditure that is necessary to preserve the life of the asset but does not add to its value. For new builds and buy backs the new average value of a dwelling for the relevant housing management area has been used, with any expenditure above this value being classified as non-enhancing. In the case of most other works (e.g. roofing, roughcasting, kitchen/bathroom replacements) 90% of the expenditure has been capitalised. There are also instances where the full cost is treated as non-enhancing, where there is clearly no value added (e.g. carbon monoxide detectors, isolator switches). The rationale for this approach is to recognise expenditure that is maintaining the value of the council dwellings and offsets some of the depreciation charge for the year.

***Resolution: A full revaluation of council dwellings will be carried out at least every 5 years. We are satisfied that the council has taken a reasonable approach to accounting for non-enhancing expenditure in the intervening years and has applied this consistently in 2015/16. This is an area subject to a significant amount of judgement and so it has been disclosed in Note 4 to the accounts (critical judgements in applying accounting policies).***

### International Accounting Standard (IAS) 19 pension liability

The pension liability represents the difference between the expected future payments to be made to former employees of the council and their spouses in the form of pension payments and the underlying value of pension fund assets to meet this cost. The calculation of the liability is assessed by professional actuaries each year and is an estimated figure. There has been a £78.243 million reduction in the net pension liability from £381.288 million at 31 March 2015 to £303.045 million at 31 March 2016. This is largely due to rising bond yields, which have been partially offset by a lower than expected return on assets. The rising bond yields leads to a higher discount rate (i.e. the net price of inflation) which leads to a lower value being placed on liabilities. The next triennial valuation will take place in 2017 with new contribution rates in place from 1st April 2018. It is expected that new contribution rates will reduce the difference between the pension liability and the underlying assets.

***Resolution: The triennial valuations of the pension fund inform future decisions to help ensure that the pension fund remains adequately funded. We rely on the work of the council's actuaries, Hymans Robertson, to obtain our assurances on the IAS 19 accounting entries.***

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## Future accounting and auditing developments

### Health and social care integration

26. From 1 April 2016 all IJBs will be accountable for the provision of health and social care. IJBs will be required to produce financial statements in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom. Where material the financial results of the local IJB will need to be reflected in the council's group accounts in 2016/17. The council will need to include the IJB in its plans for the preparation and audit of the 2016/17 group accounts, including consideration of assurance arrangements relating to the annual governance statement.

### Highways network assets

27. The 2016/17 local government accounting Code will adopt a new measurement requirement for the valuation of the highways network asset. It will be measured on a depreciated replacement cost basis. This will have a significant impact on the value of local authority balance sheets.
28. Finance staff have been working alongside the council's roads service to ensure that this information is in place. Falkirk Council has adopted the Society of Chief Officers in Transportation in Scotland (SCOTS) reporting tool to calculate the value of its highways network assets. Officers have taken action to minimise the amount of estimation used to measure these assets. In particular, polygonisation techniques have been adopted to get an

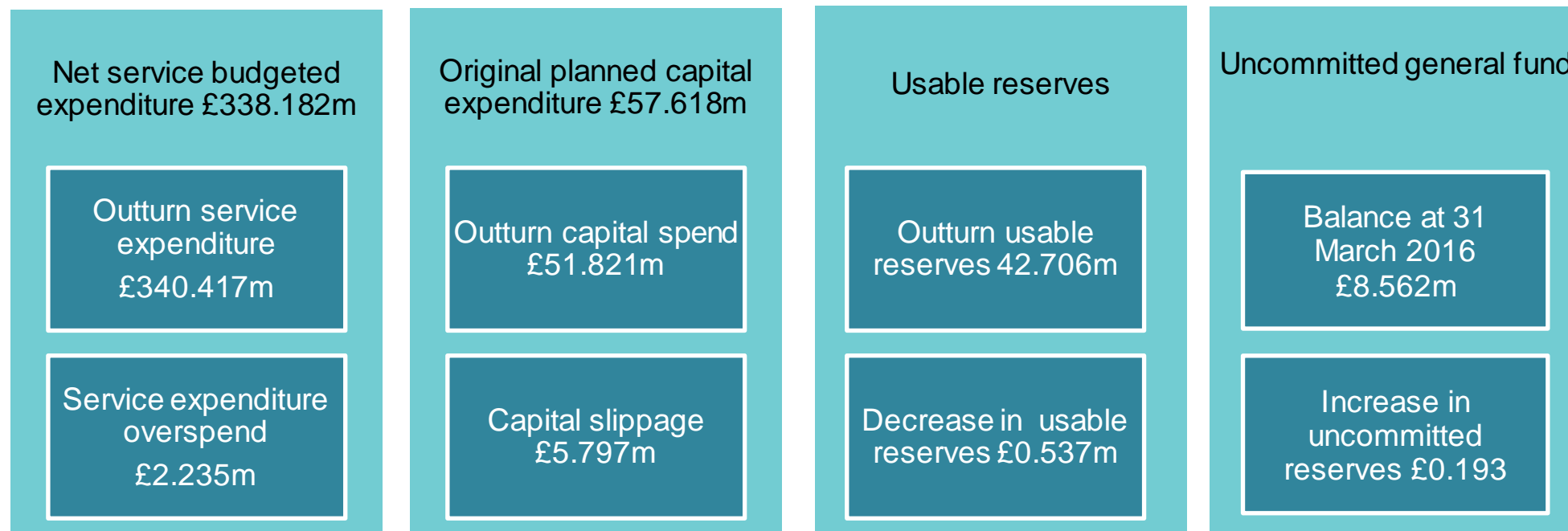
accurate measurement of the length of the council's roads network. Estimation is now only used for land and in part for footways and cycle pathways. The aim is to reduce this even further.

29. The 2015/16 management commentary that forms part of the council's annual accounts outlines the changes in valuation and the anticipated impact on the 2016/17 balance sheet. Overall, we have concluded that the council appears to be adequately prepared to comply with the accounting treatment set out in the 2016/17 Code in respect of highways network assets.

### Code of Audit Practice

30. A new Code of Audit Practice applies to public sector audits for financial years commencing on or after 1 April 2016. It replaces the previous code issued in May 2011. It outlines the objectives and principles to be followed by auditors and is part of the overall framework for the conduct of public audit in Scotland.
31. The new code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. In addition, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website. This is irrespective of whether the body meets in public or makes documents such as Audit Committee papers routinely available on its own website.

# Financial management and sustainability



## Financial management

32. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council tax and other fees and charges. Effective budget setting is crucial to good financial management.

## Financial outcomes

33. Overall the council reported a net overspend of £0.557 million against the 2015/16 budget. This position comprises a number of significant over and underspends.
34. The main areas of overspend are summarised as follows:



- **Employee Related Expenses** - £5.047 million relating to voluntary severance costs and equal pay claims. As in previous years the council has not included these costs in the annual budget, therefore the full amount contributes to an overspend against budget. We would expect an estimate of these costs to be included in future budgets.
  - **Social Work (Children and Families)** - £0.961 million over budget due to continued uncertainty around fostering and residential placements.
  - **Social Work Adult Services** - £1.373 million over budget caused by demand pressures in adult 24 hour care and home care.
35. The scrutiny committee has received a number of reports, the latest in June 2016, outlining the action being taken to address the recurring overspends in the Children and Families budget. While an improved financial position has been reported it is recognised that further action is required to bring the budget under control. Remedial actions have been taken to address the Social Work Adult Services overspend but their impact is not yet evident and more needs to be done.
36. A number of services underspent against their budgets in 2015/16 which helped offset overspends described above. Some of the more significant areas include:
- **Education** – the £1.906 million underspend was largely a result of employee and property savings as well as a one-off saving in Early Years.
  - **Council Tax Income** – this was £1.678 million higher than expected primarily due to an improvement in collection rates and the reduced cost of the council tax reduction scheme.
  - **Provision for budget pressures** – a contingency of £2 million was included in the 2015/16 budget to absorb anticipated overspends in the year.
37. The overall financial position of the council at the year end did not vary significantly from budget. However, there is a trend over several years of large under and overspends in different areas of the budget. There are a number of areas within the budget that require attention to minimise the risk of uncertainty going forward. The council has demonstrated a good awareness of the underlying problems in social work services and it is now essential that the planned remedial action is carried out effectively.
- Recommendation 1**
38. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. HRA expenditure in 2015/16 was broadly in line with budget and a balance on the HRA reserve of £4.781 million has been carried forward into 2016/17. The council considers this to be a prudent level to cover the cost of future investment in housing. The approved budget for 2016/17 does not assume any use of this reserve but the longer

term approach is being considered as part of the 2017/18 budget setting process.

### Financial management arrangements

39. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the proper officer has sufficient status within the council to be able to deliver good financial management
- financial regulations are comprehensive, current and promoted within the council
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge and question budget holders on significant variances.

40. In March 2015, the council agreed to revise its service structure which reduced the number of service departments from four to three. It also removed the need for a separate operational Chief Executive Office, which included Finance and Governance. The aim of the new structure was to support the council through the challenges which lie ahead in delivering effective services with reducing budgets and to provide a strong core leadership team at officer level, whilst aligning a number of different functions within single structures. This resulted in the Chief Finance Officer (CFO)

no longer reporting directly to the Chief Executive but to the Director of Corporate and Housing Services instead. This structure does not comply with the CIPFA Statement on the role of the Chief Finance Officer in Local Government.

41. As the section 95 officer, the CFO has a crucial role in providing advice on all aspects of finance and is central to effective governance. The CFO needs to be able to deliver strong financial management and offer strategic direction for the council. Members should satisfy themselves that the CFO has appropriate access and influence to perform this role effectively.

### Recommendation 2

42. The council's financial regulations, approved in June 2013, are under review. A number of changes will be required to reflect the restructuring that has taken place following the introduction of health and social care integration. We were previously advised by officers that this review would be completed during 2015/16. As this has not been done, the council should progress the review as a priority to ensure clarity around financial management arrangements.

43. Financial monitoring reports (both revenue and capital) are submitted to the executive and full council on a quarterly basis. These reports provide an overall picture of the budget position at service level and include narrative to outline the main reasons for any significant variances. There is evidence that these budget monitoring reports are supplemented with more detailed information for members on request.

44. In particular, officers have been challenged by members on the recurring overspends within social work services. The council's scrutiny committee has received reports on a regular basis detailing the reasons for the areas of overspend and proposed remedial actions. Refer to paragraph 35.

## Conclusion on financial management

45. We have concluded that the council has adequate financial management arrangements in place but there is scope for improvement as set out above.

## Financial sustainability

46. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.
47. In assessing financial sustainability we are concerned with whether:
- there is an adequate level of reserves
  - spending is being balanced with income in the short term
  - long term financial pressures are understood and planned for
  - investment in services and assets is effective.
48. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

## Reserves

49. The overall level of usable reserves held by the council decreased by £0.537 million compared to the previous year and totalled £42.706 million, refer Exhibit 1. The General Fund balance includes £8.562 million of unallocated general fund reserves. Planned commitments from the general fund balance amounted to £10.037 million and include devolved schools management, economic development, unspent revenue grants, energy efficiency and spend to save initiatives.

### Exhibit 1: Usable reserves

Description	31 March 2015	31 March 2016
	£ million	£ million
General fund	18.933	18.599
Housing revenue reserve	5.093	4.781
Repair and renewal fund	4.744	4.022
Capital grants unapplied	3.869	3.626
Capital receipts reserve	5.778	6.498
Insurance fund	4.826	5.180
<b>Total usable reserves</b>	<b>43.243</b>	<b>42.706</b>

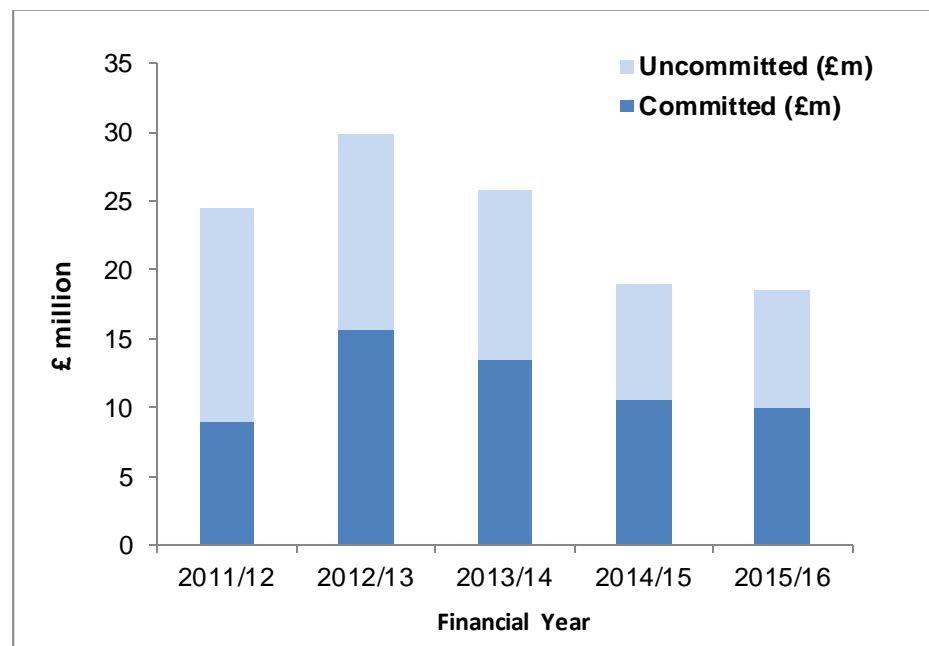
Source: Falkirk Council 2015/16 financial statements

50. The general fund reserve has no restrictions on its use. The principal purpose of holding a general fund reserve is to provide a

contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows.

51. Exhibit 2 provides an analysis of the council's general fund balance over the last 5 years split between committed and uncommitted reserves. This shows a notable fall in reserves from 2012/13 to 2014/15 with a slight deterioration in the position in 2015/16.

### Exhibit 2: Analysis of general fund over last 5 years



Source: Falkirk Council 2011//12 - 2015/16 financial statements

52. The council's approved reserves strategy specifies that unallocated general fund reserves of between £6.6 million and £10 million

should be held. The council's unallocated reserves at 31 March 2016 are £8.562 million, which is in the middle of the range. However there are a number of factors that will influence the balance on this reserve in the coming year. Firstly, members have approved the use of this reserve to cover the cost of outstanding equal pay claims that have not been provided for in the accounts. This could be a significant sum. Also, the 2016/17 budget that was approved in February 2016 assumes the use of £2.200 million of this reserve. The use of reserves in this way is not sustainable.

### Accounting deficit

53. The Comprehensive Income and Expenditure Statement for the year reported a deficit on the provision of services of £14.521 million. After applying the statutory adjustments between the accounting and funding basis to reflect the true amount to be charged to the taxpayer, the council reported a deficit, or decrease in the general fund balance, of £0.334 million. There were a number of subsequent transfers to/from earmarked reserves in the year leading to an overall increase in the uncommitted general fund balance of £0.193 million. This included a transfer of £1.009 million from the devolved schools management reserve to the uncommitted general fund balance. The original budget included a transfer of only £0.200 million from this fund.

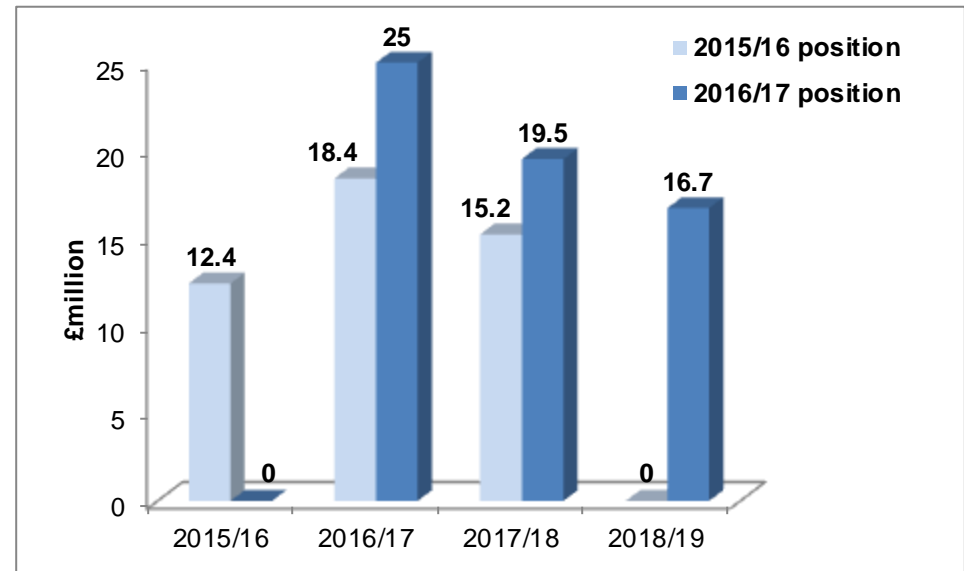
### Financial planning

54. The council approved its 2016/17 budget in February 2016. The 2016/17 budget was set at £329.632 million with a budget gap of

£25 million. Plans to bridge this gap include £11 million services savings, £7.200 million budget rebasing, £2.200 increase in the council tax yield and an application of £2.200 million from the general fund as described at paragraph 52.

55. A Cross Party Budget Working Group (CPBWG) was established in October 2015 to support the budget setting process. This includes representatives from members across all parties. While group members worked well together, political disagreements remained when the overall council came to discuss and agree the 2016/17 budget. Members of the group recognise that they need to work more openly and collaboratively to ensure the group adds maximum value to the budget setting process in the future.
56. Falkirk Council has identified that it needs to make savings of £36 million over the next two years to 2018/19. To manage this effectively the council will need to identify clear priorities and develop long term financial planning. Exhibit 3 demonstrates that the forecast financial challenges facing the council have worsened in the last year, with a 3 year budget gap of £61 million to 2018/19 now forecast. This is significantly higher than the £46 million budget gap forecast over the 3 years to 2017/18 at the same time last year.

**Exhibit 3: 3 year budget gaps identified in 2015/16 and 2016/17**



Source: Falkirk Council 2015/16 and 2016/17 Budget Papers and Medium Term Financial Strategy

57. In the Best Value improvement plan, the council committed to developing medium and long-term financial plans. These plans have not progressed and following what the council described as an 'exceptionally challenging budget cycle', a one-year budget of £330 million was agreed in February 2016. The council have said that the late, one-year financial settlement from the Scottish Government prevented planning beyond a single year.
58. The Accounts Commission recommend that when future Scottish Government funding is not known, councils should plan for a range

of possible scenarios so they are prepared for different levels of funding and income. In July 2016, Cabinet Secretary for Finance and the Constitution announced that the Scottish Government would not be publishing a three-year spending review in Autumn 2016 due to current uncertainty and volatility.<sup>1</sup> Nonetheless, councils need to continue to plan for the longer term, using scenario planning based on the best available information.

### Recommendation 3

#### Business Transformation

59. In the 2015 Best Value report, the Accounts Commission (the Commission) said that the council needed to make a step-change in its pace to transform and improve services. It was reported that the council's reliance on small-scale savings projects, service reductions and service charge increases was not sufficient to address the financial challenges ahead. It also said the council's business transformation project needed to be more strategic and stronger leadership was needed for this to happen.
60. The Business Transformation Board (BTB) is responsible for overall delivery of the council's business transformation agenda. This includes monitoring key projects and holding lead officers to account for agreed savings, timescales and planned outcomes. Following a

recommendation in the Best Value report, membership of the BTB was revised to ensure elected member involvement, with the leaders of both the administration and opposition parties now participating. Elected members have provided a good level of scrutiny and challenge, with a focus on the pace of progress and a request for a programme of updates and savings to date. Despite this, there is a lack of detailed reporting on the anticipated or achieved outcomes of projects, with no process in place for providing members with updates on all projects. This means that members are unable to scrutinise and challenge progress and senior officers do not have good oversight of performance.

61. As well as business transformation projects, the council has developed a number of other improvement activities which include:
- Strategic reviews – approved by members as part of the 2016/17 budget process, the results of these reviews are intended to feed into the 2017/18 budget process. The reviews cover the council's property portfolio, social work services, alternative delivery models, external funding, income generation and trust service delivery and property portfolio.
  - Revised self-assessment and service review programme – a prioritisation tool was used to create a targeted service review programme over the next 3 years.
  - Improvement groups - aim to identify improvements and savings within a particular service and can vary from short-life groups to groups that run for several years. These groups include staff from across grades.

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<sup>1</sup> Evidence to Scottish Parliament Finance Committee, 29 June 2016.

- Top 20 areas of spend – these have been highlighted to enable services to focus on areas where there is scope to make significant savings.
  - External engagement - officers are engaging with other councils to learn lessons from their improvement journeys, leadership and culture.
62. The activities described above are running in parallel but it is not clear how they are aligned and managed as a whole or how they are integrated with the budget planning process and the council's strategic priorities. We also found overlap between some of the projects, groups and reviews. There is no overarching framework to monitor improvement activity within the council. The council should review the arrangements for the management and integration of this activity.

#### Recommendation 4

63. The council is aware of the need for better management of improvement activity to increase the pace of change. In August 2016, the council recruited a change manager for its change programme. This is a joint post with the Improvement Service. This is a positive step to ensure a focus on the delivery of improvement activity across the council as a whole. The change manager will have day-to-day responsibility for the project, but senior officers will remain responsible for strategic leadership and direction. Senior officers will need to ensure that this person is supported at the highest level to deliver the change required.

### Capital programme 2015/16

64. The council approved its general services and housing capital programme for 2015/16 in February 2015. As outlined in Exhibit 4 below, capital budgets were revised during the year. Total planned expenditure increased by £2.435 million.

#### Exhibit 4: Capital Expenditure 2015/16

Capital Programme 2015/16	Approved budget £million	Revised budget £million	Expenditure in year £million	Variance against revised £million %
General	22.106	27.529	25.492	(2.037) 7.4%
Housing	29.323	30.650	25.384	(5.266) 17.2%
TIF	6.189	1.874	0.945	(0.929) 49.6%
<b>Total</b>	<b>57.618</b>	<b>60.053</b>	<b>51.821</b>	<b>(8.232)</b> <b>13.7%</b>

Source: Capital Programmes Outturn 2015/16, Executive, 16 August 2016

65. The general services programme was concentrated on the new build, refurbishment and repair of schools, town centre regeneration, ICT projects, roads and transport infrastructure and vehicle replacement. The housing programme focused on elemental improvements, energy efficiency, new house builds and property buy backs.
66. Key areas of slippage include:
- Economic development (£1.537 million) – this is made up of slight slippage on a number of projects including Denny Town Centre (£0.497 million), Arnotdale House (£0.469 million), Falkirk Townsgate Heritage Initiative (£0.440 million) and Abbotsford Business Park (£0.131 million). The council plans to undertake all this work in 2016/17.
  - New build housing (£3.588 million) – delays with design consultations and planning considerations. This work will be carried out during 2016/17. Officers have advised that the council has continued to increase the supply of homes to meet demand despite this delay with the conclusion of 97 buy backs in the year.
67. The council should ensure that slippage or re-profiling on the capital programme does not have a significant impact on the council's strategic priorities and service delivery.
68. Expenditure in the year of £0.945 million on the Tax Incremental Finance (TIF) project included additional parking at Falkirk Community Stadium and site enabling works at Abbotsford Business Park, as well as a small amount of work on the M9 Junction 6 and Westfield Roundabout. This was significantly less than planned as work has been re-scheduled to take account of the results of the Falkirk Gateway Preliminary Development Framework and the Crossing proposals set out below:
- Falkirk Gateway Preliminary Development Framework – the council appointed an external consultant to support the development of this site to boost economic growth in the area. The site includes the Gateway, the Helix and Kelpies, Falkirk Community Stadium and Forth Valley College. The vision is for the development to be a focus on low carbon technologies and a leading light for sustainable living and working in Scotland. Key success factors that have been identified include connectivity (enhancing links), character (using the water to add value) and community (mixing commercial, business, residential and leisure).
  - The Crossing – proposals to create a pedestrian and cycle crossing connecting the four Gateway sites. The council will continue to investigate options for design and funding.
69. Total expenditure to 31 March 2016 on the TIF project is £3.444 million. Despite re-profiling of works to prioritise Falkirk Gateway there have been no changes to the overall approved project.

### Asset Management

70. As part of the 2016/17 budget process it was agreed that a strategic property review should be carried out. The scope of the review was approved by the Executive Committee in May 2016. The council is aware that the existing property portfolio is not sustainable, with a



maintenance backlog of over £36 million and significant financial challenges ahead. The aim of the review is to identify efficiency savings and options for members to consider. For example, co-location, rationalisation, operating cost savings and potential closures. Target savings have not been specified but the review covers the whole of the operational property portfolio which incurred revenue costs of £21.98 million and capital costs of £7.04 million in 2015/16.

71. Officers recognise that this is a corporate wide initiative and as such it is linked to a number of other on going reviews, including the redesign of service delivery models. Officers have committed to phasing the review in line with related service reviews to tie in with the budget planning process and service planning for 2017/18 and beyond.
72. We have been advised that the strategic property review has delayed the refresh of the council's corporate asset management strategy and the property asset management plan as the findings from the review will need to be reflected in these plans. Officers should ensure that the council's asset management strategies and plans are refreshed as soon as possible.

## Workforce Management

73. Effective workforce management is essential to ensure that the council maximises the effectiveness of its employees. A workforce strategy is key to setting out how the council will ensure it has appropriately skilled people in place to deliver its services.
74. In its 2015 Best Value report the Accounts Commission recommended that workforce changes should be fully informed by improvement activity and should be considered within the context of comprehensive workforce strategies and plans. As part of the Best Value follow-up audit we noted that a revised *Workforce Strategy 2016-20: One Council One Workforce* was approved by the Executive in March 2016.
75. The council's workforce strategy is supported by revised workforce planning guidance. This guidance requires a longer-term consideration of workforce needs to meet future service delivery plans. The council is currently developing service workforce plans and aims to have a council wide workforce plan in place by the end of 2016. The council should ensure these plans are used to identify opportunities for more joined-up planning across services and ensure that the impact of changes in one area do not have unplanned effects on other services.
76. As financial pressures continue, the council needs to ensure that it retains staff with the skills needed to deliver its priorities. 179 exit packages were approved in the year at a cost of £3.846 million. The council's workforce has fallen by 449 full time equivalents (FTEs), or 7%, between June 2014 and June 2016 and there are a significant number of voluntary severance applications awaiting a decision. The council should ensure that these decisions are aligned with improvement activity and relevant strategies and plans as reported in the 2015 Best Value report.

77. Overall, we have concluded that the council has taken steps to develop workforce planning arrangements but these are still in the early stages and much work is still to be done.

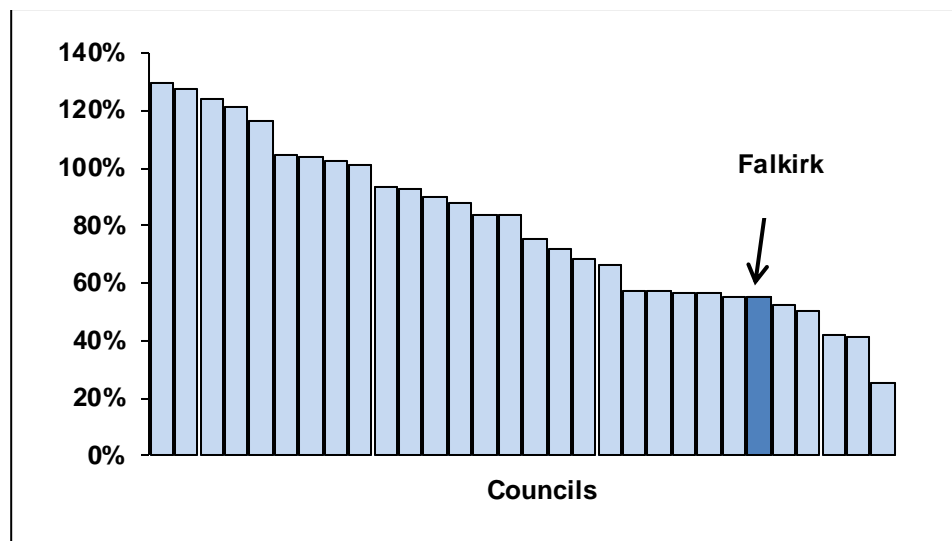
**Recommendation 5**

**Treasury Management**

78. At 31 March 2016, long term borrowing stood at £214.2 million, an increase of £10 million on the 2015 level of £204.2 million. During the same period, short term borrowing increased from £28.8 million to £31.8 million. In line with the councils Treasury Management Strategy for 2015/16, borrowing undertaken during the year combined both short term and long term, with the emphasis on short term due to the lower relative interest rates in force. Interest payable and similar charges rose by £0.463 million in 2015/16 to £23.796 million.

79. High levels of debt may reduce a council's budget flexibility going forward because of the need to set aside revenue resource to service that debt. Exhibit 5 shows long term borrowing as at 31 March 2016 as a proportion of net revenue streams plus HRA dwelling rents for all mainland councils in Scotland. This gives an indication of the indebtedness of the council relative to its size. This indicates that despite an increase in borrowing in the year, Falkirk Council's borrowing levels remain on the lower side of the median compared with other Scottish councils.

**Exhibit 5: Scottish councils' long term borrowing as a percentage of net revenue streams plus HRA dwelling rents**



## Pension liability

81. Net assets per the council's balance sheet have increased by £370.455 million from 2014/15 level due mainly to asset revaluations and a reduction in the pension liability. There has been a £78.243 million reduction in the pension liability from £381.288 million to £303.045 million. This is also reflected in the balance sheet for the group.
82. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. At the last triennial valuation the Falkirk Council Pension Fund was 84.8% funded and had net assets of £1.577 billion. The next valuation will take place in 2017 with new contribution rates in place from 1st April 2018. It is expected that new contribution rates will reduce the difference between the pension liability and the underlying assets.

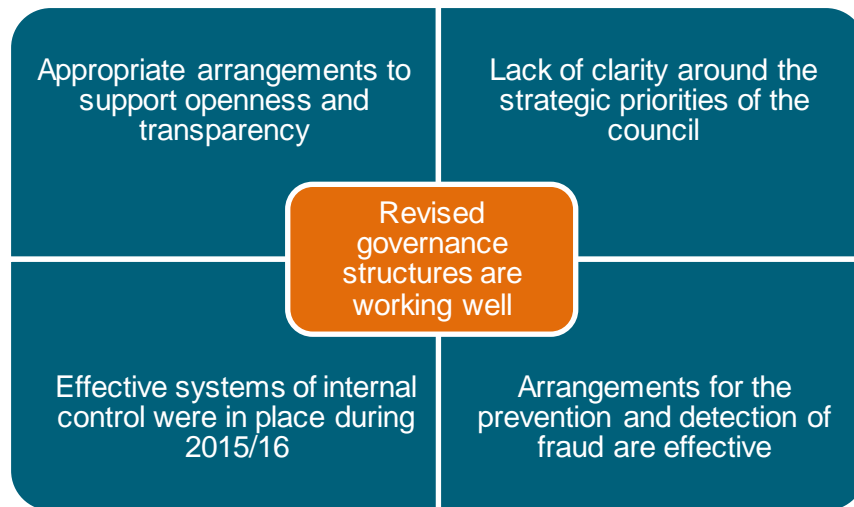
## Conclusion on financial sustainability

83. We have concluded that the council has an adequate level of reserves at the year end. However, the council faces significant financial challenges over the coming years and the current approach to addressing these challenges is not sufficient. Medium and long term financial plans should be developed as a priority despite the uncertainty over future funding and income. The council also needs to ensure that asset management and workforce management arrangements are well developed to support the changes that will be required going forward.

## Outlook

84. In common with other Scottish councils, Falkirk Council faces increasingly difficult financial challenges in the foreseeable future, with a budget gap of £61 million over the period to 2018/19. There is no doubt that all councils face tough decisions in order to balance the budget going forward. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances in line with clear corporate priorities.
85. Further cost pressures such as pay progression and the adoption of the living wage together with the scale of the financial challenge means the council is likely to make further workforce changes. However, without a step-change to improve how services are delivered it is unlikely this will deliver the savings needed.

# Governance and transparency



86. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.

## Corporate governance

87. The 2015 Best Value report concluded that the council's previous governance arrangements had not been working effectively. New scrutiny arrangements were implemented by the council in May

2015, and the Commission stated that the council needed to demonstrate that scrutiny is now effective.

88. Two scrutiny committees are now in operation, each chaired by a member of the opposition. One committee scrutinises external organisations and the other looks at internal service issues. Opposition members are now participating fully in both the scrutiny committees and the executive. The 2016 Best Value follow-up audit found a good level of discussion, scrutiny and challenge taking place within the new arrangements.
89. Feedback from members also confirmed that the new governance and scrutiny arrangements are working well. Overall, the revised scrutiny arrangements seem to be operating effectively and members should continue to build on this.

## Strategic planning

90. The council's Strategic Planning and Management System (SPMS) framework aims to link the council's strategic activity with its priorities and key objectives. This includes the community plan, corporate plan, single outcome agreement, service plans and budgets which are underpinned by the council's corporate goals and values.
91. The council's strategic planning is currently in a period of transition. A revised Strategic Outcomes and Delivery Plan (SOLD) covering the period 2016-2020 was agreed by the Community Planning Leadership Board in June 2016. This has replaced the Strategic Community Plan 2010-15. The existing corporate plan runs until

2017 and will be revised following council elections in 2017. This plan has not been refreshed during its lifetime.

92. The Best Value follow-up audit found that while the council has a number of strategies and plans in place, there is not a clear understanding of priorities across the council. Well focussed priorities are needed to ensure that the council can target its limited resources effectively. The council should identify and clearly communicate its priorities as a matter of urgency to drive improvement.

### Recommendation 6

## Internal control

93. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.
94. No material weaknesses in the accounting and internal control systems were identified which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
95. We concluded that effective systems of internal control were in place during 2015/16 although we identified some areas where controls could be strengthened. Our findings and agreed action plan were reported to the Audit Committee on 20 June 2016.

## Internal audit

96. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an annual assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
97. We concluded that internal audit operates in compliance with Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation and reporting procedures in place. We placed formal reliance on internal audit's work in relation to investments (non-pension). This allowed us to concentrate on other areas of higher risk.

## ICT audit

98. As part of our audit planning process we carried out a high level review of the council's ICT arrangements including the technology strategy, information security, business continuity arrangements and cyber security. Our key findings are summarised below:
- The council's annual submission for a Public Services Network (PSN) connection compliance certificate was successful. This provides the council with authority to access the PSN until January 2017, at which point a further submission will need to be made.

- The risk of cyber attacks features prominently on the council's corporate risk register. Internal audit have arranged a number of lunchtime seminars to raise awareness on this subject. This included, amongst other things, a seminar on social media risks (delivered by Police Scotland) and cyber crime (delivered by Scottish Business Resilience Centre and Police Scotland). PSN accreditation also provides a measure of assurance on the council's arrangements for dealing with cyber attacks.
  - A key part of the council's Technology Strategy is the introduction of mobile and flexible working. This is a 3 year project that was started in 2015. It has involved the procurement of Citrix platforms to replace PC desktops. This software enables server, application and desktop virtualisation. It also allows each user secure access, from any device over any network, to access the councils systems.
99. Overall, we concluded that the council has adequate ICT arrangements in place and did not identify any significant risks that would require us to undertake any additional audit work in the year.

## Arrangements for the prevention and detection of fraud

100. We assessed the council's arrangements for the prevention and detection of fraud during the planning phase of the audit. The council has a number of measures in place for preventing and detecting fraud. These include an anti-fraud and corruption strategy, a fraud hotline for suspected council tax fraud and a separate hotline for benefits fraud.
101. Also, a corporate fraud team was formally established in February 2016 with reporting lines to the Internal Audit Manager. The team consists of two members who previously had responsibility for benefits fraud investigation before that function transferred from the council to the Department of Works and Pensions.
102. The corporate fraud team have been developing new fraud prevention publicity materials with the council's design team. In addition, the team are planning to work with departmental managers to undertake investigation in a number of areas including blue badge fraud. This was flagged as an area for improvement in previous external audit reports.
103. We concluded that current arrangements for the prevention and detection of fraud are adequate and have been strengthened by the establishment of a corporate fraud team.

## National Fraud Initiative in Scotland

104. The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies and on different financial systems.
105. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly,

assurances may be taken about internal arrangements for preventing and detecting fraud. The current NFI exercise identified a total of 6,314 matches of which 1,320 have been investigated to date with outcomes totalling £6,033.

- 106. In addition to the core NFI exercise, the council participates in a related exercise which matches council tax and electoral roll data. This exercise aims to detect council tax single person discount wrongly claimed. During 2015/16, 191 frauds or errors were detected totalling £120,000 with recovery action undertaken or underway.
- 107. The internal audit manager also provides updates on NFI activity to both the corporate management team and the audit committee to keep them apprised of investigations.
- 108. We concluded that the council is committed to NFI and takes a proactive approach to the review and investigation of data matches identified.

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

- 109. The council has a number of arrangements in place to prevent and detect corruption. These include an anti-fraud and corruption strategy, standing orders and financial regulations. Also, the council has a code of conduct for both officers and members which cover amongst other things the accepting of gifts and hospitality and the maintenance of a register of interests.

- 110. The arrangements for the prevention and detection of corruption in Falkirk Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

## Transparency

- 111. Members of the public can attend meetings of the full council, executive and other committees. Minutes of all these meetings and supporting papers are readily available on the council's website.
- 112. The council's performance panel is responsible for scrutinising performance but its meetings are held in private. However, transparency has improved as minutes of panel meetings, and key reports, are now included on the council's website. The council has taken the decision to continue to hold these meetings in private on the basis that it aids the discussions.
- 113. The council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint. In addition, the website provides details of the citizens panel and how to join it. The panel provides information and feedback on services as well as information on the needs of local communities.
- 114. The council also makes its annual accounts available on its website. These include a management commentary which provides details of performance against budget, information on the use of reserves and risks and uncertainties facing the council.

115. We have concluded that the council has appropriate arrangements in place that support openness and transparency.

## Integration of health and social care

116. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. The Scottish Government sees health and social care integration as a key element of its 2020 Vision which allows everyone to live longer, healthier lives at home or in a homely setting.

117. The Falkirk Integration Joint Board (FIJB) was formally established on 3 October 2015. This followed the approval of the Integration Scheme submitted by Falkirk Council and NHS Forth Valley. However, the FIJB did not become fully operational until 1 April 2016 when delegated functions were transferred.

118. During this period between the establishment of the FIJB and its 'go live' date of 1 April 2016, the council worked with the health board to develop an integration plan. The plan set out the key deliverables that would allow the FIJB to meet its statutory obligations by 1 April 2016.

119. The FIJB approved a Strategic Plan (incorporating budgets) on 24 March 2016. It was developed in line with the outcomes described in the Falkirk Integration Scheme. The Strategic Plan sets out the priorities for FIJB over the next three years.

120. A number of work streams, with representatives from the council and the health board, were established to support integration. The work streams included those dealing with planning, governance, finance, workforce, performance management, data sharing and risk management. With this support the FIJB was able to develop its governance arrangements in the period running up to 1 April 2016. These arrangements are subject to refinement as the FIJB evolves.

121. We concluded that the council, working with the health board, made good progress in its preparations for integration. However, significant challenges lie ahead for health and social care integration, not least delivering on the Scottish Government's 2020 Vision.

## Housing and council tax benefits performance audit

122. A risk assessment of the housing benefit service was carried out by Audit Scotland's specialist benefits team earlier this year with findings reported to management in January 2016. The report was submitted to the Audit Committee on the 18 April 2016 for consideration. The key objective of the risk assessment was to determine the extent to which the benefit service is meeting its obligations to achieve continuous improvement in all its activities.

123. The report noted that good progress had been made in addressing previously reported risks. Indeed, four out of five risks had been addressed and this had resulted in:



- significant improvement in the time taken to process new claims and change events
- reduction in the number of non-financial errors and maintenance of a high level of financial accuracy
- a decline in the level of local authority and administrative error payments
- significant improvement in the recovery of housing benefit overpayments.

- 124.** The report also identified four new risks and one risk outstanding from a previous risk assessment which is being addressed. Management have agreed an action plan to deal with these risks. This will be followed-up at a future date to confirm progress in implementation.
- 125.** Overall, we concluded that the council's benefit service has made good progress in meeting its obligations to achieve continuous improvement in all its activities.

## Local scrutiny plan

- 126.** The 2016/17 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners for the council was submitted to Falkirk Council on 30 March 2016. It was also presented to the Audit Committee on 18 April 2016. The LAN did not identify any new scrutiny risks in the year which would require specific scrutiny work during 2016/17. The council will be subject to a range of nationally driven scrutiny activity as set out in the LSP.

- 127.** Upon the request of the Accounts Commission, Audit Scotland has carried out a follow-up to the 2015 audit of Best Value arrangements. The findings from this review have been reflected in this report and will be taken to the Accounts Commission by the end of 2016. This piece of work was highlighted in the LSP.

## Outlook

- 128.** Falkirk Council faces increased financial pressures in a changing public sector landscape. The council will need to consider the delivery of services by different means. Good governance will be particularly important where council resources and services are delivered through partnerships or devolved to third party organisations.
- 129.** Effective governance arrangements for the Falkirk Integration Joint Board will be particularly important to support the delivery of both local and national priorities. Audit Scotland has introduced a new online resource that is dedicated to sharing our work on health and social care services. It is based on our most recent reports in this area, and is intended to support organisations and individuals involved in health and social care to meet the challenges ahead in the sector:

<http://www.audit-scotland.gov.uk/our-work/transforming-health-and-social-care-in-scotland>

# Best Value



## Best Value audit

- 130.** In August 2015, the Commission expressed significant concerns that Falkirk Council's approach to Best Value, and in particular to its financial challenges, was inadequate. Since then, a considerable amount of activity has taken place in the council to respond to these concerns. It is acknowledged that a relatively short-time has passed since the audit, so it is too soon to fully assess whether sufficient change will result from this activity. However current evidence suggests that it is not enough to make the impact needed.
- 131.** The council accepted the Commission's findings and produced a plan to address the areas for improvement identified. While this plan sets out actions for each area of improvement, it is high level with a

focus on process rather than ensuring that the actions lead to the improvements required. The actions themselves lack depth and are not well embedded in council business. Officers now acknowledge this and plan to develop this going forward.

- 132.** The Commission said that the council needed to make a step-change in its pace to transform and improve services. It was concerned that the council's reliance on small-scale savings projects, service reductions and service charge increases was not sufficient. The financial challenges facing the council have increased and it needs to make savings of £36 million over the next two years to 2018/19. The pace of improvement is still slow and the council has continued to rely on the same approaches to bridge its budget gap.
- 133.** The council has taken steps to prioritise its service review programme, and established a series of individual Strategic Reviews. It still lacks clear and cohesive strategic priorities overall that can drive a co-ordinated and longer-term approach to improvement. The council needs to provide a stronger focus on the transformation of services and what impact this will have on local people. There is little evidence that the budget setting process and savings plans are closely linked to corporate outcomes or priorities for improvement. This is a significant gap.
- 134.** In the council's Best Value improvement plan, it commits to developing medium and longer term financial plans. It has not yet done this and does not currently have financial plans extending beyond a year. Further challenges and uncertainties over future

funding and income for councils are expected. Rather than limiting its forward planning, the council needs to respond to this environment by producing a range of scenarios which go beyond incremental cost saving measures and which focus more on redesigning service delivery. We acknowledge that longer term planning can be more challenging in the run up to council elections, but this does not act as a barrier to effective medium and long term planning in other councils. It is essential that the elected members and senior management work together to overcome this as a matter of urgency.

- 135.** In its 2015 findings, the Commission welcomed that, after an unacceptable and protracted period of ineffective scrutiny members were participating in new arrangements. It noted that the council needed to demonstrate that scrutiny is now effective. Under these revised scrutiny arrangements, elected members are now working well together. Disagreements and debates between politicians do take place, which is to be expected to some extent in any healthy political environment. But, members are now more aware that they must operate together constructively to support the council's work and act in the overall interests of local communities.
- 136.** The council continues to use a broad range of performance management tools but it still needs to do more to ensure that performance management makes improvement happen. It has taken steps to coordinate how it reviews services to target where improvement would result in most benefit. The council needs to do more to identify and track the savings and benefits expected as a result of its improvement activities and strengthen linkages with the

budget setting process. It has revised the performance information it provides to members and the public, with better use of narrative and benchmarking to show how the council performance compares with others. However, it has not developed improvement action plans that can be monitored and challenged by both members and officers. This means that members are not getting assurance that actions are followed up, that they are delivered on time and that they are achieving the benefits intended.

- 137.** Overall, the approach taken by the council has made limited progress in making the step change required. Given that this is in the context of a considerable amount of activity taking place, it may be that the improvement required is a considerable challenge for the council. It has made some progress and there is awareness and recognition of the need to do things differently. But translating this into more radical change has not yet happened. The council has recruited a manager for its change programme which is a positive step in improving capacity, and senior management will need to ensure that this initiative is supported at the highest levels to ensure it delivers its objectives.
- 138.** The scale of the challenges facing councils is increasing. It is essential that Falkirk Council approaches these challenges differently as its actions to date are unlikely to deliver the change required. The council needs to agree clear priorities. The Corporate Management Team (CMT) should lead a focussed and coordinated approach to deliver them. Senior officers should challenge each other to do things differently and hold each other to account. The CMT now acknowledge this and is looking at the culture and

leadership approaches of some other councils. The CMT now needs to agree on how it is to apply the lessons learned to drive change. It should continue to seek external views or assistance where this could help.

### **Recommendation 7**

139. The Accounts Commission will publish its findings on the Best Value follow-up audit by the end of the calendar year.

## **Procurement**

140. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice.
141. The most recent PCA assessment was carried out in December 2014 when the council was awarded a score of 70 or 'improved performance', representing a ten point increase from 2013 and only five points away from achieving superior performance.
142. Following the Procurement Reform (Scotland) Act and the Public Contracts (Scotland) Regulations 2015 a new assessment regime was introduced as part of the new Procurement and Commercial Improvement Programme (PCIP). It came into effect on the 18 April 2016 and has new sections including fraud awareness & prevention and commercial acumen.
143. The council's assessment under this new regime took place on 11 July 2016 and was attended by a Scottish Government observer.

The council were assessed as being in the top band (of which there are twelve) with a score of 70.

144. In addition, the council has carried out a self-assessment in line with the recommendation in the Audit Scotland report 'Procurement in Councils' (April 2014) and the subsequent impact report published in February 2016. The outcome of this exercise was reported to the scrutiny committee in June 2016 and confirmed that the council mostly complied with good practice.
145. We concluded that the council has good procurement practices in place and is committed to continuous improvement.

## **Following the public pound**

146. Local authorities have a statutory responsibility to comply with the Accounts Commission/COSLA Code of Guidance on funding external bodies and following the public pound.
147. The council's financial regulations contain a specific section on following the public pound. These emphasise that services must adhere to the council's 'Funding at Falkirk' guidance for allocating funds to external organisations. The guidance applies where funding is provided, or transferred, to arms-length bodies such as companies, trusts and voluntary organisations.
148. Also, there is a dedicated officer within the community, policy and planning service who provides advice on funding to external organisations. He must be consulted before any proposed funding is progressed.

149. Furthermore, formal reporting and monitoring arrangements have been put in place for funding to external bodies. A 'Following the Public Pound' report must be submitted to the council's external scrutiny committee for approval where an application for funding exceeds £20,000 or covers multiple years. These reports include details of the applicant's business, how their work relates to the council's aims and a financial performance risk assessment. Applications for smaller amounts are delegated to a chief officer for approval.
150. We concluded that the council has appropriate arrangements for ensuring compliance with the Code of Guidance on funding external bodies and following the public pound.

## Performance management

151. The 2015 Best Value report said that the council needed to improve the performance information it reports to members and the public. In November 2015, officers introduced a new performance reporting template to improve the performance information it reports to the performance panel. Reports now make better use of narrative and benchmarking information to provide context on what is being reported. Additionally, a system of exception reporting is used to draw attention to those performance indicators which are slightly or significantly below target. This provides greater focus on the areas for improvement. These reports are made available on the council's website following the meetings.

152. The Commission also said that the council could use its self-assessments and service reviews more effectively to achieve improvement and transform services. In May 2016, the council agreed a programme of performance reviews which include structured self-assessments and in-depth service reviews. This is a positive step but it is too early to assess the effectiveness of this programme. The council should ensure that the programme is used to target resources to delivery priorities and drive continuous improvement. There should also be clear links between the programme, savings plans and the budget setting process.
153. Despite these developments, the Best Value follow-up audit has found that there is still limited evidence that performance management is making improvement happen. The council has not developed tracked action plans as previously recommended and therefore no assurance is provided to members on how improvement actions are followed up and whether they are delivered on time.

### Recommendation 8

## Overview of performance targets in 2015/16

154. The council participates in the Local Government Benchmarking Framework (LGBF). The framework aims to bring together a wide range of information about how all Scottish councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

155. The LGBF section on the council website contains information about all areas of council performance, including a service overview, a brief overview of performance against LGBF indicators and action the council is taking to improve performance.
156. Services continue to report performance periodically to the Performance Panel and include an annual performance statement within the relevant Service Performance Plans. In some instances we noted a time lag in the performance information provided to members.
157. A review of the service annual performance statements for 2015/16 found that complete information was only provided for 47% of indicators. This can be justified in some cases, for example, examination success indicators are not available until later in the year. However, it is not clear what the reason is for all unreported indicators.
158. Of those indicators reported, 53% reported improved performance, including the number of modern apprentices in council programmes, tenants satisfied with their new home and rent loss through empty properties. 31% of indicators reported a decline in performance including street light repairs completed within 7 days and average time to complete emergency repairs. Performance remained static across 16% of indicators.
159. Given the circumstances we are unable to form a judgement on the council's performance as a whole for the year. Officers need to ensure that members and the public are provided with timely and

complete performance information to enable them to scrutinise performance effectively.

**See also recommendation 8**

## Statutory performance indicators (SPIs)

160. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.
161. For 2015/16 three (SPIs) were prescribed:
- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
  - SPI 2: covering a range of information relating to service performance
  - SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.
162. Our audit responsibility in relation to SPIs is forward looking and the focus is on the arrangements in place for the collection, recording and reporting of information in relation to SPIs 1, 2 and 3.
163. Audit Scotland's Performance Audit and Best Value group carried out an evaluation of all Scottish councils' approaches to public performance reporting last year (this was based on 2013/14 SPIs). The council prepared an improvement plan in response to the

findings; however, there are a number of areas within this plan that still need to be progressed.

164. We have reviewed the council's arrangements for collecting recording and publishing data in 2015/16 and concluded that they are adequate. Some of our key assurances include:
- The council uses Covalent to capture performance information throughout the year.
  - A timetable is in place and has been communicated to relevant staff.
  - The council's internal audit section provides independent assurance on the validity of SPI information through annual verification of some SPIs. We reviewed the work performed by internal audit in 2015/16 and were satisfied with their conclusions.
  - We have been advised that an annual performance statement is in development. This will provide a full picture of the council's performance for the year and will be published in Autumn 2016. This is a key development in terms of the council's reporting.

## Local performance audit work

165. In November 2013 Audit Scotland published a report entitled *Scotland's public sector workforce*. The aim of the report was to assess if public bodies, including councils, are managing their workforces effectively.

166. Audit Scotland asked external auditors, across the public sector, to undertake follow-up audit work on the 2013 report. A standard questionnaire based on the report's findings was issued to external auditors to complete.

167. Our follow-up audit highlighted that there were a number of areas where improvements were required, including:

- workforce plans are not prepared for all services
- existing workforce plans are not consistent in structure and content
- workforce plans do not include succession planning over the medium to longer term.

168. The council has taken steps to improve performance including approval of a workforce strategy supported by detailed guidance in the form of a workforce planning framework. Our findings were part of the evidence used in the Best Value follow-up audit.

169. As reported at paragraph 77, we concluded that the council has taken steps to develop workforce planning arrangements but these are still in the early stages of development.

## National performance audit reports

170. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which were of direct interest to the council. These are outlined in [Appendix III](#) accompanying this report.

- 
- 171.** Falkirk Council has arrangements in place for considering all national audit reports published by Audit Scotland. These reports are considered in detail by the scrutiny committee, or other relevant committee, including actions being taken locally to improve performance.
- 172.** In addition, the audit committee receives an annual report summarising details of Audit Scotland reports published during the year and which committee formally reviewed them. This provides assurance to members that all national reports and their impact on the council are subject to review and scrutiny.

## Outlook

- 173.** Falkirk Council faces the significant challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. Savings have been made in recent years largely by reductions in the workforce. As choices on how to address funding gaps become increasingly difficult, the council needs to challenge existing ways of doing things. A strong and effective performance management framework driven by clear and focussed priorities will be critical to the success of the council delivering Best Value.
- 174.** Falkirk Council's response to the conclusions of the Best Value follow-up audit highlighted in this report and the subsequent findings of the Accounts Commission later in the year will be critical to paving the way for the future.



# The audit of Falkirk Temperance Trust

- 175.** The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and The Charities Accounts (Scotland) Regulations 2006. The 2006 regulations require charities to prepare annual accounts, and require an accompanying auditor's report where any legislation requires an audit.
- 176.** The Local Government (Scotland) Act 1973 specifies the accounting and audit requirements for any trust fund where a local authority, or some members of the authority, are the sole trustees (i.e. only members of the authority are trustees).
- 177.** Therefore, as a consequence of the interaction of Local Government (Scotland) Act 1973 with the charities legislation, a full and separate audit and auditor's report is required for each registered charity where members of Falkirk Council are sole trustees, irrespective of the size of the charity.
- 178.** Our duties as auditors of the charitable trust administered by Falkirk Council are to:
- express an opinion on whether the charity's financial statements properly present the trusts financial position and are properly prepared in accordance with charities legislation
  - read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
  - report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).
- 179.** We have given an unqualified opinion on these matters with respect to the 2015/16 financial statements of Falkirk Temperance Trust.

# Appendix I: Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

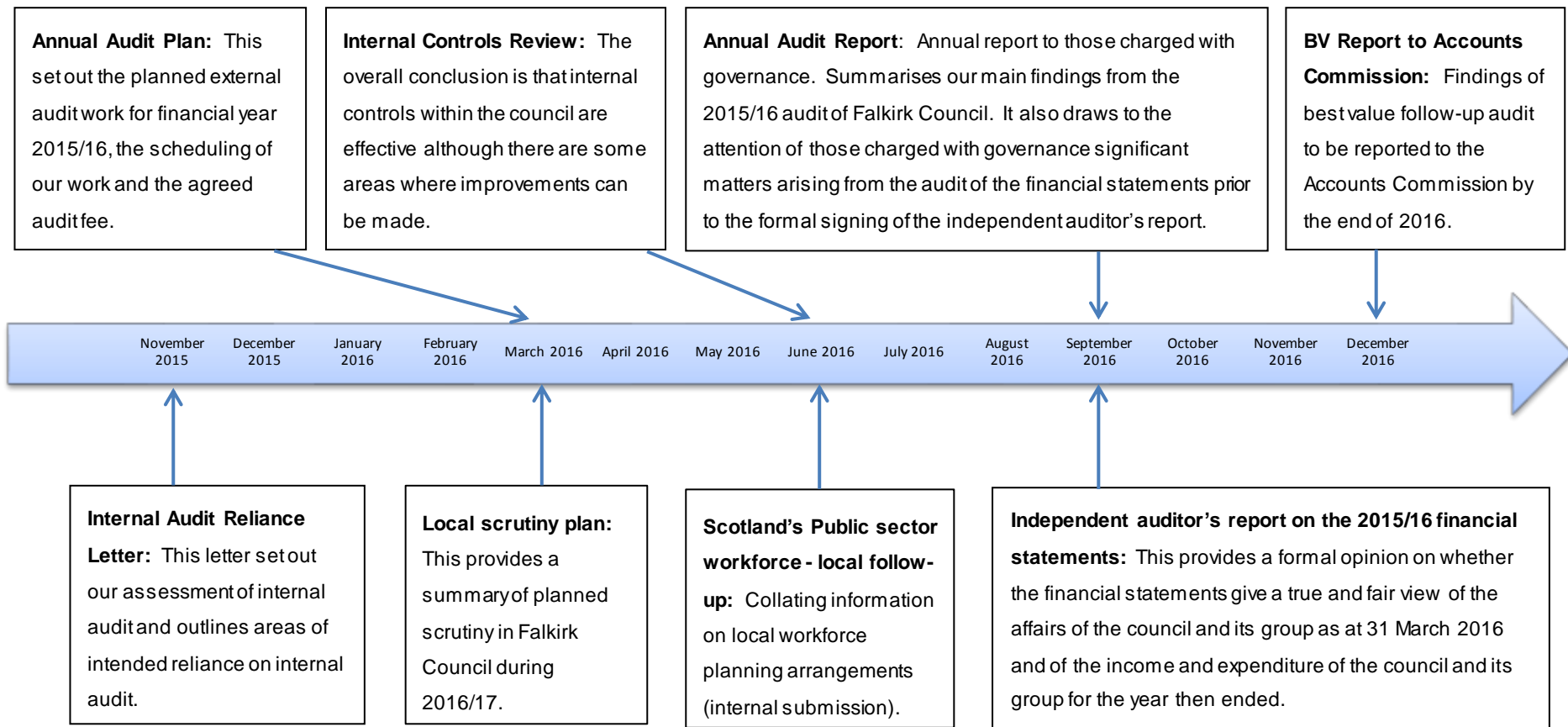
Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>Risk of material misstatement due to fraud in revenue recognition</b></p> <p>Falkirk Council receives a significant amount of income in addition to Scottish Government funding. The complexity of that income means that there is an inherent risk of fraud in accordance with ISA240.</p> <p>ISA 240 (<i>The auditor's responsibilities in relation to fraud in the audit of financial statements</i>) presumes an inherent risk of fraud where income streams are significant.</p>	<ul style="list-style-type: none"> <li>• Controls testing of accounts receivable and transaction testing will cover each area of service income.</li> <li>• Detailed testing of revenue transactions focusing on areas considered higher risk.</li> <li>• Testing of significant grants received.</li> <li>• Focused testing on local taxation systems.</li> </ul>	<ul style="list-style-type: none"> <li>• We carried a high level review of controls within the accounts receivable system in line with our cyclical approach.</li> <li>• We performed substantive testing on a sample of transactions from each material category of income.</li> </ul> <p><i>Our audit work has not identified any uncorrected material misstatements in the financial statements.</i></p>
<p><b>Risk of management override of control</b></p> <p>Management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates for bias.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> <li>• Focused testing of local taxation systems.</li> </ul>	<ul style="list-style-type: none"> <li>• We substantively tested a sample of high value journals at the year end.</li> <li>• We examined management's accounting estimates for bias with focused review and testing of accruals and provisions.</li> <li>• We carried out focussed testing on</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
		<p>significant items across all areas of the accounts.</p> <p><i>Our audit work has not identified any uncorrected material misstatements in the financial statements.</i></p>
<p><b>Risk of inadequate equal pay claims provision</b></p> <p>There is still uncertainty over the legal position of outstanding pay claims against the council. Therefore, there is a risk of material misstatement in the level of provision required to cover equal pay claims.</p>	<ul style="list-style-type: none"> <li>• Monitor legal developments nationally and assess potential financial impact on the council.</li> <li>• Review calculations and assumptions supporting the equal pay provision.</li> </ul>	<ul style="list-style-type: none"> <li>• We reviewed the latest report on the equal pay position taken to full council on 22 June 2016 (private item).</li> <li>• We reviewed the basis of the equal pay provision in the 2015/16 accounts.</li> </ul> <p><i>We concluded that the council has made adequate provision for the equal pay settlement. A contingent liability has been disclosed in the accounts to cover future uncertainty.</i></p>
<p><b>Risk relating to the revaluation of council dwellings</b></p> <p>The council has obtained a valuation of its council dwellings under the Beacon approach methodology for inclusion in the 2015/16 financial statements. There is a risk that these dwellings are not accounted for correctly in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Obtain the District Valuer's report on the revaluation of council dwellings.</li> <li>• Review the valuation and accounting treatment of council dwellings in the financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>• Obtained the district valuer's report and checked that valuation details were correctly recorded in the financial statements.</li> <li>• Reviewed the accounting treatment of the revaluation to ensure that this was appropriate.</li> </ul> <p><i>We concluded that the full revaluation should have been put through the</i></p>

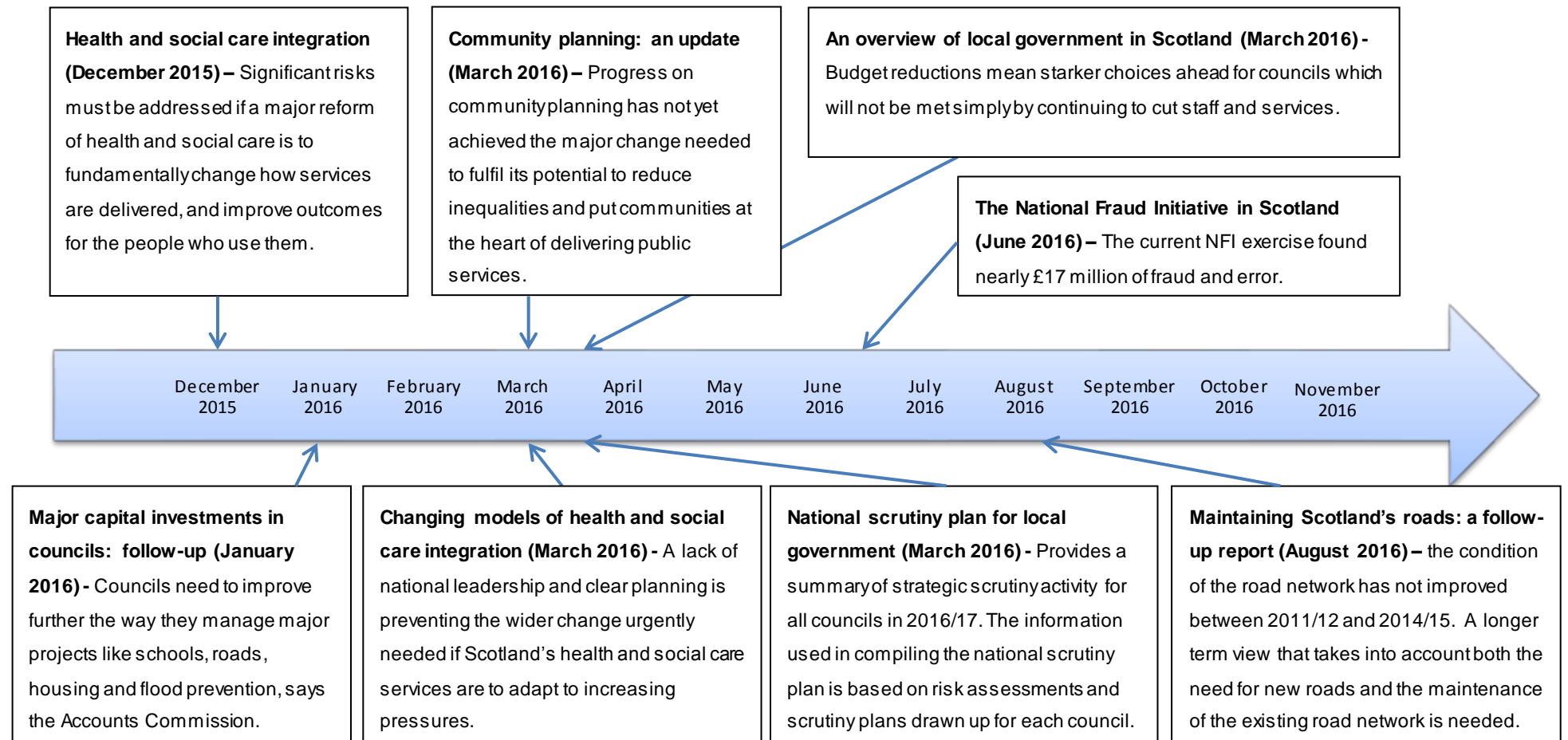
Audit Risk	Assurance procedure	Results and conclusions
		<i>revaluation reserve (rather than credited to operating costs) and officers were in agreement. The accounts have been amended accordingly. See Table 1 - significant findings from the audit.</i>
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>Risk relating to financial management</b></p> <p>Social work services (both children and adult) continue to overspend in 2015/16. The overspend as at 31 December 2015 has been funded by a £2 million contingency offset by underspends in other areas. There is a risk that overspends persist and the council is unable to balance the budget in future years.</p>	<ul style="list-style-type: none"> <li>• Monitor the council's financial position.</li> <li>• Review reports to the Scrutiny Committee for action being taken to address overspends.</li> </ul>	<ul style="list-style-type: none"> <li>• We reviewed financial monitoring reports submitted to the council and scrutiny committee.</li> <li>• Reviewed reports to scrutiny committee to ensure that action was being taken to address overspends.</li> </ul> <p><i>The findings from this review have been included in the 'financial management' section of this report at paragraphs 43-44.</i></p>
<p><b>Risk relating to Best Value follow-up audit</b></p> <p>The Accounts Commission requires a report on the council's progress against the improvements identified in the 2015 Best Value audit report from the Controller of Audit by the end of 2016. There is a risk that the council is unable to demonstrate that action has been taken to address the improvement areas identified.</p>	<ul style="list-style-type: none"> <li>• Obtain and review the council's best value improvement action plan.</li> <li>• Review council's progress against the key findings in the Best Value report.</li> </ul>	<ul style="list-style-type: none"> <li>• The Best Value follow-up audit was carried out in the year.</li> <li>• Evidence was collected to assess progress against the Accounts Commission's findings.</li> </ul> <p><i>The findings from this review have been</i></p>

Audit Risk	Assurance procedure	Results and conclusions
		<i>included within this report and summarised in the 'best value' section at paragraphs 130-139.</i>
<p><b>Risk relating to workforce planning</b></p> <p>In response to the constrained financial position that the council is facing members have approved plans to reduce the workforce by 348 full time equivalents during 2015/16 and 2016/17. There is risk that the reduced workforce, and a loss of intellectual capacity, has an adverse impact on service delivery and staff morale.</p>	<ul style="list-style-type: none"> <li>Carry out a local follow-up audit using a checklist based on the recommendations included in <i>Scotland's Public Sector Workforce</i> report published by Audit Scotland.</li> </ul>	<ul style="list-style-type: none"> <li>We carried out a local follow-up audit using the checklist from the <i>Scotland's Public Sector Workforce Report</i>.</li> </ul> <p><i>Key findings from this review have been outlined at paragraphs 165-169.</i></p>
<p><b>Risk relating to infrastructure assets</b></p> <p>From 2016/17 the Code of Practice on Local Authority Accounting in the UK requires infrastructure assets to be included in the council's financial statements at depreciated replacement cost. The Code requires an authority to disclose information relating to the impact of an accounting change as a result of a new standard that has been issued but not yet adopted. There is a risk that the council has not prepared the information needed to include the appropriate disclosures in 2015/16 and meet the change in accounting requirement for 2016/17.</p>	<ul style="list-style-type: none"> <li>Review the council's preparedness for the change in accounting treatment of infrastructure assets.</li> <li>Review disclosures relating to infrastructure assets included in the 2015/16 financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>Discussed and assessed the council's arrangements for complying with the new accounting requirements in 2016/17.</li> <li>Reviewed the relevant disclosures in the 2015/16 accounts.</li> </ul> <p><i>We concluded that the council is prepared to meet the new requirements in 2016/17 and are satisfied that relevant disclosures have been included in the 2015/16 accounts.</i></p>

# Appendix II: Summary of Falkirk Council local audit reports 2015/16



# Appendix III: Summary of Audit Scotland national reports 2015/16



## Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	37	<p><b>Financial Management</b></p> <p>The year-end financial position did not vary significantly from budget but there were a number of significant underlying over and underspends within this. A similar trend has been reported over a number of years.</p> <p><b>Risk:</b> The budget does not accurately reflect the council's costs leading to uncertainty over the financial position.</p> <p><b>Recommendation:</b> The process for preparing the budget should be reviewed to ensure all costs and income are more accurately anticipated in the budget.</p>	<p>It is to be welcomed that the overall outturn position was close to and indeed below budget. This is the primary consideration from a strategic financial management perspective.</p> <p>Notwithstanding that primary consideration, it is important that significant variances are explored, understood &amp; acted upon. As practical illustrations of this, a Strategic Review has been set up to focus on the overspend in the Social Work part of Childrens' Services and the Chief Officer of the IJB has established a corporate Leadership Group to address overspends in Adult Social Services.</p> <p>In terms of the Recommendation, the Council already has an integral workstream termed "rebasng" in the revenue Budget process to address this.</p>	<p>Chief Finance Officer/Corporate Management Team</p> <p>Ongoing</p>



No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	41	<p><b>Section 95 Officer</b></p> <p>The Chief Finance Officer does not report directly to the Chief Executive in line with the CIPFA Statement on the role of the Chief Finance Officer in Local Government.</p> <p><b>Risk:</b> The CFO does not have sufficient status to carry out his role effectively.</p> <p><b>Recommendation:</b> Members should satisfy themselves that the CFO has appropriate access and influence to perform this role effectively.</p>	<p>The Council's management structure mirrors that of many other councils with a Director of Corporate Services.</p> <p>It is argued that the direct reporting line to the CE is not a core requirement of the CIPFA statement.</p> <p>The CFO is a core member of CMT and attends all the main meetings with Members including Council, Executive and Audit Committee as well as other engagements with Members when strategic financial matters are being considered. Moreover, the CFO has ready direct access to the CE if required.</p>	Not applicable
3.	58	<p><b>Financial Planning</b></p> <p>Medium and long term financial planning has not been developed as outlined in the council's Best Value improvement plan.</p> <p><b>Risk:</b> The council is not well placed to address the significant financial challenges ahead.</p> <p><b>Recommendation:</b> Despite the uncertainty over future funding and income, the council should plan for a range of scenarios in the medium and long term.</p>	<p>Financial planning is being developed and specific commitment has been given to Members for this updated financial framework to inform the Budget reports to Council in December 2016 and February 2017.</p> <p>It is recognised that scenario planning needs to be developed and work is also underway with this.</p>	Chief Finance Officer December 2016

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
4.	62	<p><b>Improvement Programme</b></p> <p>A number of improvement activities are planned or ongoing but it is not clear how these activities are aligned with the council's strategic priorities, budget setting process and each other. The council has recruited a change manager who will be responsible for coordinating activity within the improvement programme.</p> <p><b>Risk:</b> The lack of co-ordination between improvement activities could lead to inefficiencies and the failure to deliver against strategic priorities. The change manager does not receive good support from senior management and is unable to deliver.</p> <p><b>Recommendation:</b> The council should review arrangements for the overall management of improvement activity and ensure that this is closely aligned with strategic priorities and the budget setting process.</p>	The Council will review its improvement programme to ensure consistency in language, linkages to priorities and the budget process.	Director of Corporate and Housing Services Ongoing

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
5.	77	<p><b>Workforce Planning</b></p> <p>Workforce reductions for 2016/17 were not informed by a workforce strategy and plans. Severance costs were also not included in the budget. The ongoing financial challenges faced by the council means it may need to reduce its workforce further.</p> <p><b>Risk:</b></p> <p>The council's workforce is not well shaped for the future and the delivery of services in a changing and challenging environment.</p> <p><b>Recommendation:</b></p> <p>The council needs to ensure that workforce reductions are managed within the context of the revised workforce strategy and informed by detailed workforce plans. Budgets should reflect any planned workforce changes.</p>	<p>Severance costs are provided for in the Spend to Save Reserve and from earmarked capital receipts. Workforce plans are now actively being developed by all Services with the aim of having both Service specific and a Council wide plan prepared by the end of the year to help inform the actions to be taken to support the budget strategy. These plans are being developed in line with the Council's recently revised Workforce Strategy and supporting guidance contained within the Council's Workforce Planning Framework which will enable a consistent approach to workforce planning.</p>	<p>Corporate Management Team</p> <p>Ongoing</p>

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
6.	92	<p><b>Strategic Planning</b></p> <p>The council's strategic planning is in a period of transition and there is a lack of clarity around the council's priorities. Improvement activity and the budget setting process are not clearly aligned to strategic priorities.</p> <p><b>Risk:</b> Resources are not targeted consistently and effectively towards the council's strategic priorities to deliver outcomes for local communities.</p> <p><b>Recommendation:</b> The council needs to identify and clearly communicate its strategic priorities and ensure that all activity is aligned with these priorities.</p>	The Council will review its priorities internally and externally as part of its contribution to the Community Planning Partnership SOLD.	Corporate Management Team November 2017

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
7.	138	<p><b>Leadership</b></p> <p>The overall approach taken by the council in response to the 2015 Best Value report has not achieved the necessary change and the pace is still slow. This is in the context of a considerable amount of activity which suggests that the improvement needed is a significant challenge for the council.</p> <p><b>Risk:</b> The pace of change does not increase and the council is not well prepared to tackle the financial challenges ahead. This would have a detrimental impact on local outcomes.</p> <p><b>Recommendation:</b> The corporate management team needs to lead a focussed and coordinated approach to improvement. Senior officers need to hold each other to account and challenge each other to do things differently. Seeking assistance from external parties may be part of this.</p>	<p>A number of strategic reviews have been established which will provide the opportunities for a significant step change in how the Council operates. These include for example a strategic property review, a review of models of alternative service delivery and a review of income generation. These reviews are expected to contribute to the savings necessary to meet the challenges in the Council's medium term financial strategy.</p> <p>Corporate Management Team has been working with a number of Councils to establish best practice and lessons learned for making these significant changes. Work with these Councils and other organisations who can assist in informing change and improvement programmes will continue.</p>	<p>Corporate Management Team Ongoing</p>

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
8.	153/159	<p><b>Performance Management</b></p> <p>Performance information and reporting style has improved but we found a delay in information being reported and some areas of incomplete information. There is little evidence that performance management drives improvement.</p> <p><b>Risk:</b> Performance management arrangements do not contribute to improved outcomes for local communities.</p> <p><b>Recommendation:</b> Officers should ensure that members and the public are provided with timely and complete performance information to promote effective challenge and drive improvement. Tracked action plans should be introduced to ensure that improvement happens where poor performance is identified.</p>	<p>The Council has been developing a new approach to performance management.</p> <p>It is argued that there are examples where performance management drives improvement for example in the establishment of a new standard of re-letting properties where customer satisfaction with the standard of the properties let has risen.</p> <p>This needs to be developed on a more consistent basis across the Council. Tracked action plans will be developed and introduced to ensure that improvement is made where poor performance is identified.</p>	<p>Corporate Management Team Ongoing</p>