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The Commission has five main responsibilities:

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

The Commission secures the audit of 32 councils, 36 joint boards (including police and fire services), 15 health boards, 47 NHS trusts and five other NHS bodies. In total, these organisations spend public funds worth around £12 billion a year.

An introduction from the Chairman

As I reflect on 1997, the words which come to mind are integrity, openness, best value and accountability. There were significant forces for change - a change in government - a change in standards in public life driven by the excellent work of Lord Nolan's Committee - a change of emphasis through the Government's Best Value agenda - a desired change by the people of Scotland to have their own devolved Parliament. In recent times we have also observed a determination to root out bad practices and lack of integrity in public sector dealings. The Accounts Commission finds itself involved in many of these changes. It is aptly named as a Commission to hold those responsible to account for the stewardship of taxpayers' money and for their performance - performance not only defined in financial terms but also, in our view, in governance terms.

Citizens expect holders of public office, whether elected or appointed, to continually strive for improved services and best value within tight financial constraints. They expect taxpayers' money will be spent not only within the letter of the law but also within the substance of its intentions. There is an expectation that reporting and disclosure will be in a form which allows citizens to judge the performance of bodies in both financial terms and in quality of service, and which also allows each to learn from others the most effective, efficient and economic way of managing resources.

It is the role of the Controller of Audit through the Commission's appointed auditors to report on such matters to the Commission and for the Commission to take a firm and fair stance when people or organisations have strayed from the path. In so doing, the Commission will not only concern itself with narrow legal definitions of an issue but with the substance of the issue as it affects the integrity, probity and propriety of public sector financial dealings in local government and the health sector in Scotland.

Our mission

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

In addition to this watchdog role, the Commission sees its task as being a catalyst for change. It continues to carry out studies not only on value for money to illustrate better ways of achieving efficiency and effectiveness, but also on management and governance arrangements in local government and the health service. The mechanisms and processes by which organisations are governed are a matter of vital public importance. If organisations which deliver public services are poorly governed, if the resources are inefficiently used, if the politicians or officers are inept or the power of management becomes channelled in a way which conflicts with the organisation's interests, all stakeholders and society suffer.

Public audit under the spotlight

Our vision of public audit is consistent with the views expressed in the last year or so by the Nolan Committee on Standards in Public Life and by the Government. In its second report the Nolan Committee set out two fundamental propositions. The first of these emphasises the importance of safeguarding the way in which public money is used, wherever it ends up. The second proposition concerns the importance of an effective audit framework, with sanctions, as a key part of the Government's control of arm's length bodies.

The Accounts Commission believes that public audit must be wide-ranging, with full disclosure and reporting in public. Auditors should be completely independent of the public bodies on which they are reporting. The audit should cover the propriety and legality of transactions, value for money studies and an assessment of overall performance.

Not long before the general election, the last Government, through a White Paper, proposed a set of principles for public audit which are consistent with the public audit model operated by the Commission. I am confident that the new Government shares a commitment to these principles.

The Annual Report is the Commission reporting to the people of Scotland at a national level. Looking across Scotland as a whole, it is an account of financial stewardship and performance in the health service and local government, including police and fire services. It is also an account of how the Commission itself has performed.

Timely reporting to citizens and central government

If reports on financial stewardship and performance are to have an impact, they must be produced quickly. In this respect the standard achieved by NHS bodies and their auditors is very satisfactory. Most audited accounts for NHS trusts were completed by 30 June and for most health boards the target of 31 August was achieved. The majority of final reports from individual auditors were received and considered by individual NHS bodies in good time.

Spending public money: governance and audit issues
Scope
"Public audit should go wider than statutory audit in the private sector, placing greater emphasis on regularity, including compliance ... and on how well and properly public funds are used."
"The arrangements as a whole should cover value for money, including ... service quality and the measurement of performance standards."
"Public audit should, as far as practicable, cover arrangements for securing compliance with codes of conduct."
Structure
"The arrangements should support lines of accountability and meet the needs of both audited bodies and those who fund them."
"There should be an independent element in the audit process, involved in setting standards, defining audit practice and laying down reporting requirements ..."
Output
"Parliament must be able to scrutinise the use of public funds by bodies accountable to it."
"There should be effective means to follow up audit recommendations."
"There should be special reports addressed outside the audited body on major issues that arise from the audit."

Source: Spending Public Money: Governance and Audit Issues (Cm 3179)

In this annual report we can, therefore, present a full account of the significant issues arising from the NHS audit for the year ending 31 March 1997.

It is disappointing that, because of the severe delays in the preparation of audited accounts for local authorities, the Controller of Audit is not yet able to report on the major issues relating either to the regional and district councils which disappeared in March 1996, or to the new single-tier councils which completed their first financial year in March 1997.

Where a citizen receives a service which is paid for wholly or in part by the taxpayer, then the government or local authority must retain appropriate responsibility for safeguarding the interests of both user and taxpayer regardless of the status of the service provider.

Central control of autonomous but centrally-funded local bodies should be limited as far as possible to setting policy guidelines and operating boundaries, to ensuring an effective audit framework, and to the effective deployment of sanctions.

Source: Second Report of the Committee on Standards in Public Life (Cm 3270-1)

It is of great concern that we do not yet have assurance from the audit that all our local councils spent public money properly in 1996 and 1997. The Commission requested two statutory reports from the Controller of Audit on the lack of progress. I acknowledge that this concern is shared by many councillors and officers in local government and that the disruption arising from reorganisation has presented problems. The Commission will, however, continue to monitor the problem and we may require the Controller to make further statutory reports.

The Government has brought forward the deadlines for local authority accounts, and I warmly welcome this change. I look forward to the prospect of covering, in the same Annual Report, the state of the health service and local government in Scotland. Timely information is not only important for citizens to make proper judgements, but is also essential if politicians and officers are to make quality decisions about the use of limited resources and for planning the management of services to achieve the Best Value agenda. I see no reason why local authorities should not mirror the efficiency of the health service and, indeed, large companies in the private sector in reporting on time.

The Best Value regime

A major policy initiative by the Government has been the introduction of the Best Value regime, partly as a replacement for compulsory competitive tendering (CCT) in local government. The Accounts Commission supports the new approach and will do all it can to help authorities to make Best Value succeed.

The Government's Task Force on Best Value, on which the Commission is represented, has said that "Best Value is a search for continuous improvement, and puts the responsibility for achievement on to councils, but gives them scope to tailor their planning and management in light of their local circumstances". Best Value encourages councils to think and act locally, and it rightly emphasises the importance of continuous improvement.

In October we held a very successful conference on Best Value. Senior politicians and officers came together to discuss the opportunities and challenges involved and the Controller of Audit and I described the contribution which the Commission could make. Central to this contribution is our work on the statutory audit of management arrangements, but the objective measurement of councils' performance through our value for money (VFM) studies and the further development of statutory performance indicators will also be important.

Best Value provides an added reason for pressing for improvement in councils' accounts deadlines. If councils have their accounts ready for audit by 30 June this year, then it will be possible for the Controller of Audit to prepare a report on overall stewardship and performance before the end of the year. This will help to inform the Government and councils in taking forward Best Value.

Best Value requires everyone in local government to adopt a challenging and questioning approach to the delivery of council services. There can be no presumptions about service delivery. The quest is to find the most effective and efficient means of delivering services to suit local circumstances.

Malcolm Chisolm MP, former Minister for Local Government, speaking at the Accounts Commission conference on Best Value

NHS White Paper

A second major policy initiative from the Government has been the White Paper, *'Designed to Care'*, which outlines important changes in the NHS management arrangements to be implemented over the next few years.

This new approach to managing the NHS is fully supported by the Accounts Commission. Many of the proposals address problems which we have identified over the last year. For example, in our two bulletins on the commissioning and contracting of health services we commented on the bureaucratic difficulties and inefficiencies associated with contracting mechanisms; on the need to strengthen the role of doctors in the commissioning process; and on the serious lack of good information to support planning and contracting. We also reported on the management of high cost, low volume drugs, suggesting the need for a strategic approach at the Scottish level. It is very encouraging that the White Paper contains proposals which offer the prospect of improvement in all of these areas.

This Annual Report relates to the second financial year (1996/97) audited under the Commission. It also covers the first full programme of VFM studies relating to the NHS in Scotland, and we are now seeing a steady flow of VFM reports, both at the local level and also covering Scotland as a whole. I am most encouraged by the number, variety and quality of these reports. We have now demonstrated, I believe, that the audit process can helpfully address issues of economy, efficiency and effectiveness in the NHS and that we have the organisational capacity in the Commission to sustain a high-quality programme of VFM studies. I look forward to building on the good relationships and open communication which we have established with the NHS in Scotland at all levels, in order to ensure that our VFM capacity is applied to the greatest effect. With the

abolition of the internal market, it is all the more important that we use the audit process to monitor and report on performance and costs in health service bodies.

Scottish Parliament

Undoubtedly the most important initiative by the Government in recent months has been the introduction of proposed legislation for a Scottish Parliament. The coming of the new Parliament will have important implications for the Accounts Commission.

The Commission welcomes the commitment to openness and accountability which is evident throughout the White Paper on devolution. We also welcome the emphasis given in the White Paper to the checks and balances which an effective committee system will bring to the new Parliament. This is consistent with the best principles of good governance in a modern democracy.

It will be important to review the performance of public bodies in Scotland, and to hold these bodies to account for the quality of their services and the value for money which they provide. The scrutiny role of the Scottish Parliament and its committees would be greatly strengthened by reports from an audit agency in Scotland with independent investigatory and reporting powers. The Commission believes that our public audit model is now working well in both local government and the NHS, and we look forward to discussing with the present Government, and in due course with the Scottish Parliament, how public audit might best be developed and serviced under the new Parliament. The comprehensive audit and extended reporting, which are a fundamental part of the public audit model, could provide an important assurance to the Scottish Parliament and the citizen about financial stewardship and performance in Scottish public bodies.

Holding the Commission to account

This Report is also about holding the Commission to account, and we have included information about the performance of auditors and of the organisation as a whole. We have also had valuable feedback from meetings with COSLA, the Management Executive of the NHS in Scotland, NHS Trust Chairmen and Members of Parliament.

Words of thanks

I am all too conscious that while we are critical of short-term slippages in production of local government information, largely as a result of reorganisation and limited resources, that should not detract from the fact that we are fortunate in Scotland to have a cadre of very committed, high-quality people in local government who share the public's and our own desire for probity, efficiency and economy. I am confident that their commitment to quality will ensure that present difficulties are overcome and that the Best Value agenda will be delivered in the public interest. I thank all those involved for their hard work and support in the last year and encourage them to overcome hurdles and share with each other new and innovative ideas which are beginning to blossom throughout Scotland.

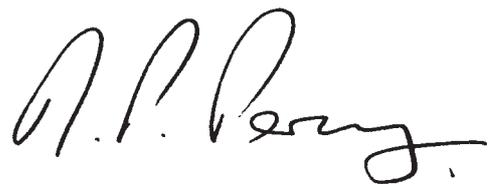
As to the health service, I am only too aware that the changes in the Government's White Paper, particularly in terms of strategy and resources, will make new demands on clinicians, support staff and managers to deliver the 'Designed to Care' agenda. Our audit process has identified a high-quality governance regime within the health service and our thanks are due to all those concerned for the hard work and effort in the last year.

There is no doubt in our mind that much of the change that is taking place and the speed with which that is

possible is due to the much improved relationships between all the agencies in Scotland. For our part we thank COSLA, SOLACE, the NHS Management Executive and The Scottish Office for all the support which we have received in the past. But, not least, I am grateful to my colleagues in the Commission, to the Controller of Audit and his staff, to our Secretary and to our appointed auditors, for all the hard work and wisdom that they have brought to bear on a challenging and exciting year of change.

In particular, I would like to thank Members of the Commission who left us during the period covered in this report - John Sewel, Lorna Jackson, Bill Japp and Ian Little. They all made a significant contribution to public life in Scotland and we are indebted to them. Also during this period I have been delighted to welcome Brian McGhee, Rosalyn Marshall, Ian Stewart, Donald McNeill and John Mullin as new Members, and Marcia Campbell who was appointed for a second term. They are all making an important contribution to our work.

With such a strong team in place I am confident that we can deliver our task on behalf of the citizens in Scotland and we stand ready and willing to meet the exciting new challenge which lies before us in the development of Scotland's new devolution regime.



Ian Percy
Chairman

Commission Members and officers

Chairman - Professor J P (Ian) Percy CBE CA

Deputy Chairman of Scottish Provident Institution, and Chairman MacDonald Orr Limited. Non-executive Director of The Weir Group plc, Morgan Grenfell (Scotland) Limited, William Wilson Holdings Limited, Beale Dobie (Scotland) Limited, and member of the Steering Board of Companies House and formerly Senior Partner of Grant Thornton. Professor Percy is also Deputy Chairman of the Auditing Practices Board, a member of the International Auditing Practices Committee and the Public Sector Audit Reporting Advisory Panel and a past President of the Institute of Chartered Accountants of Scotland.

Deputy Chairman - Malcolm Mclver MA LLB FR SAMD

Formerly Senior Partner of Bird Semple, Chairman of Rodime plc, Directorships in Thomson Litho Holdings Ltd and other companies. Chairman of the Royal Scottish Academy of Music and Drama and of the Scottish Musicians' Benevolent Fund and a member of the Company Law Committee of the Law Society of Scotland.

Mrs Marcia Campbell MA MBA

General Manager with the Standard Life Assurance Company.

Mrs Wendy Goldstraw BSc MIPD DBA

General Manager (Scotland & Northern Ireland) Post Office Counters Ltd.

Frank Kirwan BA MA

Director of Privilege Insurance and Privilege Insurance Holdings Ltd; Chairman Crystal Media Group; Visiting Professor at the University of Strathclyde; formerly Director of UK Retail Banking, The Royal Bank of Scotland plc.

Brian W C McGhee MA CA AMSI

Chairman Magnum Power plc. Director City Site Estates plc, Thorburn Colquhoun Holdings plc, Supply Chain Logistics plc and various private companies. Former partner of Arthur Andersen and Chairman of the Audit Practices Committee of the Institute of Chartered Accountants of Scotland. Board member of Edinburgh Festival Theatre Trust. (Appointed 1 March 1997)

Miss Elizabeth K McLean OBE BA RGN SCM HV(cert)

Formerly Chief Area Nursing Officer with Lothian Health.

Donald McNeill OBE FHSM

Formerly Chief Executive, South Ayrshire Hospitals NHS Trust. Secretary Scottish Council of Institute of Health Services Management. Director of Heartstart Ayrshire. (Appointed 1 October 1997)

Robert M Maiden FCIBS FIMgt FRSA

Formerly Managing Director of Royal Bank of Scotland, Chairman of Lothian and Edinburgh Enterprise Ltd and Vice-Chairman of CC-Bank AG (Germany). Member of the Court of Napier University and of the Adjudication Panel of Investors in People, Scotland.

Rosalyn Marshall BSc FCCA

Vice-Principal (Strategic Planning and Development) of Queen Margaret College, Edinburgh. (Appointed 1 March 1997)

Bruce A Merchant OBE LLB

Partner in South Forrest, Solicitors, Inverness. Formerly Vice-Chairman of Highland Health Board.

Geoffrey T Millar MB FRCS Ed FRC Ophth D Obst RCOG

Consultant Ophthalmologist at the Royal Infirmary and Western General Hospitals, Edinburgh and St John's Hospital, Livingston.

John G Mullin

Director of Public Affairs, Tait & McLay Communications Group. Non-executive Director of Argyll & Clyde Health Board. Non-executive Chairman of Renfrewshire Careers Partnership Ltd. Former member and Finance Chairman of Strathclyde Regional Council. (Appointed 1 October 1997)

John C (Ian) Stewart OBE CPFA

Former Director of Finance and Depute Chief Executive, Dumfries and Galloway Regional Council. Former Chairman of LASAAC and CIPFA Scottish Branch. Current member of Scottish Water and Sewerage Customers Council and Treasurer to the Episcopal Diocese of Glasgow and Galloway. (Appointed 1 March 1997)

Miss Margaret C Thomson BL

Formerly District Administrator of Renfrew District Council.

Members who retired

William W Japp FCCA

Former Chief Executive, Nithsdale District Council. (Retired 30 September 1997)

Ian M Little CBE CA ACMA

Associate Consultant with Sanders and Sidney plc, a Director of Scottish Exhibition Centre Limited and a member of European Union's Economic and Social Committee. Former Chief Executive Anderson Strathclyde plc and Chairman of CBI Scotland, 1985-87. (Retired 30 September 1997)

Lord Sewel CBE PhD

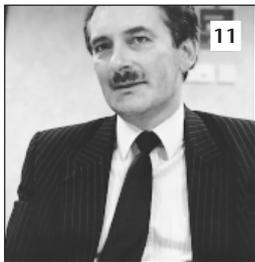
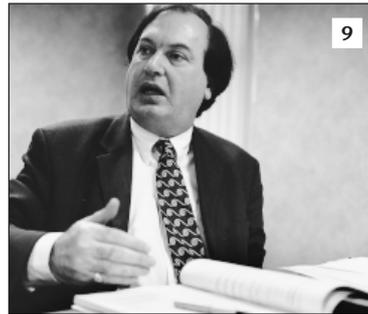
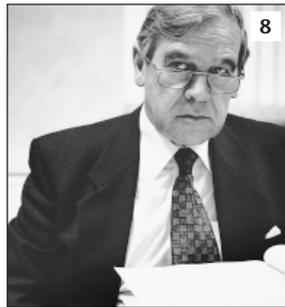
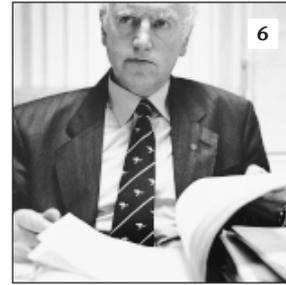
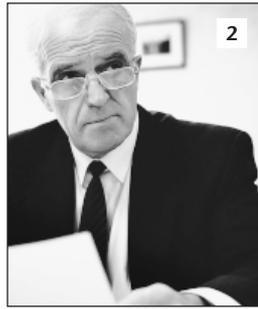
Formerly Vice-Principal and Dean, Faculty of Law and Social Sciences, University of Aberdeen. Former member and leader of City of Aberdeen District Council and former President, Convention of Scottish Local Authorities. (Retired 30 September 1996)

Mrs Lorna W Jackson MA

Property Development Manager, Morrison Construction Ltd and a member of the Scottish Solicitors Discipline Tribunal and Governor of the Royal Scottish Academy of Music and Drama. (Retired 30 September 1996)

Officers

Controller of Audit - Robert Black
Secretary to the Commission - Bill Magee
Director of Audit Strategy - Harris Wells
Director of Audit Services - Bill Hay
Director of Value for Money Studies (Local Government) - Steve Evans
Director of Health and Social Work Studies - Caroline Gardner
Head of Management Studies - Alan Neilson



- 1 Professor J P (Ian) Percy
- 2 Robert M Maiden
- 3 Rosalyn Marshall
- 4 Bruce A Merchant
- 5 Miss Elizabeth K McLean
- 6 John C (Ian) Stewart
- 7 Mrs Wendy Goldstraw
- 8 Malcolm McIver
- 9 John G Mullin
- 10 Mrs Marcia Campbell
- 11 Brian W C McGhee
- 12 Miss Margaret C Thomson
- 13 Donald McNeill
- 14 Frank Kirwan
- 15 Geoffrey T Millar

Stewardship and performance - A report by the Controller of Audit

In the following two chapters of the Annual Report there is a summary of my account of financial stewardship and performance in the health service and local government in Scotland. The subsequent chapters look at the Commission's own performance and finances.

I was able to present to the Commission at the end of 1997 a comprehensive report on significant issues arising from the audit of NHS boards and trusts in 1996/97. The first chapter summarises my report to the Commission. I have also included an outline of the major issues arising from VFM reports in the 1997 programme of studies.

The second chapter looks at local government. The wholesale reorganisation of local government took place on 1 April 1996, when the two-tier system of regional, island and district councils was replaced by 32 single-tier councils and 12 police and fire boards. Major delays occurred in authorities submitting information to allow the completion of the accounts and audits for 1995/96, the last financial year of regional and district councils. I have not yet, therefore, been able to report on the financial stewardship and performance of the old councils in their final year.

Late completion of the 1995/96 accounts has contributed to a delay in the preparation of 1996/97 accounts for the first year of the new councils and joint boards. Again, I am not in a position to report on significant matters arising out of the 1996/97 audit. It is now clear that the late completion of these audits will make it difficult to achieve the reporting deadlines in 1997/98.

For these reasons, I cannot yet summarise the major issues arising from the local government audit. I can, however, outline the issues arising from VFM reports in the 1997 programme of studies.

If, as I expect, I receive 1995/96 audit reports for most of the former authorities early in 1998, I intend to report in the spring of this year on the major issues relating to the last year of the regional and district councils across Scotland. I will also report on the 1996/97 audit as soon as possible.

The Annual Report is also an account of stewardship and performance of the Accounts Commission. In the third chapter I look at priorities and performance within the Commission. There is more information about our own performance than in previous annual reports. I intend that we will continue to develop this aspect in 1998.

Finally, there is a chapter on the Commission's finances, drawn from the audited accounts. I have concentrated on the main elements of our income and expenditure. The information here is complementary to the full statement of audited accounts published to accompany this Annual Report. Copies of the audited accounts are distributed to The Scottish Office and all audited bodies and are available from the Commission on request.



Robert W Black
Controller of Audit

1 The NHS in Scotland

Financial management and stewardship in the NHS are generally of a high standard. Accounts are presented for audit on time, and there are no qualifications on the accounts of any of the 67 NHS bodies. There is evidence of positive action having been taken in response to matters arising from the 1995/96 round of audits. Matters which are mentioned here must be seen in the context of a very satisfactory position in the NHS in Scotland as a whole.

Regularity and probity

Completion of 1996/97 audits

NHS trust audits should be finished by 30 June, with an absolute deadline of 31 July. Health boards have a similar target of 31 August. These targets are tight for public bodies with sometimes complex accounts, and the general success in meeting them was very satisfactory.

Tayside Health Board

I received a statutory report from the auditors of Tayside Health Board. They had reason to believe that certain salary and other payments might be unlawful because of the way in which the Board applied regulations relating to remuneration and conditions of service. I sent this report to the Secretary of State and the Commission. With support from the Management Executive, the Health Board appointed a committee under independent chairmanship to investigate the matters in detail and advise the Board on appropriate action. This investigation is continuing.

Computer systems: the "year 2000" issue

Auditors' reports indicated that most trusts and boards were taking action to address the problems which the year 2000 could cause for computerised clinical and management information systems. It would appear, therefore, that there has been a positive response to guidance issued by the Management Executive. Some trusts, despite being aware of the need to take action, have delayed doing so, mainly because of financial constraints. I have emphasised the need for these trusts to give priority

to this issue in view of its potential for creating major disruption.

After the 1996/97 computer audit work was completed, I became aware of the possibility that the present contract for the provision of computer services to NHS bodies might be terminated with effect from 31 March 1999. I highlighted the short time-scale for the procurement of new computer service facilities to replace the existing contract by March 1999. The possible problems arising from the coming of the year 2000 are also likely to expose the service to higher risk. Careful planning, supported by adequate resources and expertise, will be necessary in relation to both the procurement exercise and the year 2000 issue.

Performance against financial targets

NHS trusts were required to achieve three financial targets during the year: to break even (taking one year with another), to achieve a rate of return on assets of 6%, and to operate within an external financing limit (the 'EFL').

Altogether, six trusts failed to achieve these targets. The failures were significant only in relation to Falkirk and District Royal Infirmary NHS Trust, Fife Healthcare NHS Trust and The Victoria Infirmary NHS Trust.

The problem at the Falkirk Trust related mainly to the accounting treatment for early retirements which required an additional provision of £513,000 in the 1996/97 accounts. The full financial impact of the Trust's decisions to approve the early retirements had apparently not been intimated to management at the time the decisions were



taken. In addition, the Trust board had not been kept fully informed about other accounting issues affecting its overall financial position.

Fife Healthcare NHS Trust failed to meet two of its financial targets in relation to the rate of return on assets and the requirement to break even, taking one year with another. The Trust failed to agree a 1996/97 contract with Fife Health Board and make the expenditure savings necessary to match the substantial reduction in contract income. In addition, the Trust failed to achieve all the cash-releasing efficiency savings required in 1996/97.

A recovery plan has been drawn up by the Trust with the objective of bringing operating income and expenditure to a level which will allow the financial objectives to be met in 1997/98. The retained deficit of £2 million brought forward from 1996/97 will, however, make it difficult for the Trust to achieve an accumulated break-even position at the end of 1997/98.

The Victoria Infirmary NHS Trust also failed to achieve these two targets. The deficit for the year was significant at £1.8 million, leading to a retained deficit of £6.0 million at the year end. The auditors ascribed the failure to achieve these targets to deficiencies in the management arrangements and the performance of the management team during the 1996/97 financial year. They also expressed serious reservations about whether these targets could be achieved in 1997/98. A recovery plan has been prepared by management and submitted to the NHS Management Executive.

A number of auditors highlighted the difficulties which some trusts will experience in achieving the financial targets in future years. The main problem stems from the ability of these trusts to achieve the reductions in expenditure required to match the income available from purchasers. For example, in the case of Glasgow Royal Infirmary University NHS Trust, the auditor has indicated that additional cost-improvement programmes of more than £19 million would have to be identified to enable the Trust to achieve its rate of return over the next four years.

Contracting issues

There were several instances of delays in agreeing the main healthcare contracts between trusts and boards. Similar situations arose regarding contracts between trusts and GP fundholders. Delays were also reported in the finalisation of other contracts, including some with private contractors. It is essential that contracts are finalised timeously so that providers have sufficient time to take any action required. This is particularly important where the contract which is finally agreed leads to a reduction in anticipated contract income.

A particular issue which came to light in 1996/97 concerned trusts' arrangements for billing and collecting amounts due to them from GP fundholders. Because of delays in billing and disputes over bills, some trusts decided to include provisions in their accounts for income

which they did not expect to collect. For example, the Royal Infirmary of Edinburgh NHS Trust created a provision of £250,000 for this purpose. It is a matter of concern that some trusts could potentially lose income because their billing systems are unable to render accounts timeously or as a result of disputes with purchasers.

VAT recovery

Auditors reported a number of instances where, as a result of employing consultants to review their VAT position, trusts were able to recover significant amounts of tax. These recoveries related mostly to VAT on capital projects. By way of example, Aberdeen Royal Hospitals NHS Trust received a VAT rebate of £1.2 million and the Southern General Hospital NHS Trust recovered £760,000 of VAT.

It is encouraging to note this positive outcome following my comments last year. However, in view of the magnitude of the sums involved, I have suggested that all trusts should be alerted to the potential for recovery of VAT. I recommended that consideration should be given to identifying the areas of expenditure where this potential exists and issuing appropriate advice to trusts. There must be a concern that a number of trusts might spend on consultants' fees to receive separately very similar VAT advice.

Frauds and irregularities

The most recent figures available for frauds and irregularities are for the year to 31 March 1997. These show that during 1996/97 14 cases of NHS fraud totalling £29,000 were reported. In nine of the cases (accounting for £27,000), the defaulters were health service employees. For the remaining cases, four were third parties and one of the defaulters was not identified.

Payments to pharmacists and dentists

We have started a review of the systems for making payments to pharmacists and dentists for providing primary care services. These systems process large numbers of transactions involving substantial sums of money. It is important that they are examined to ensure that adequate controls are in place.

Value for money

VFM studies are based on research undertaken by the Health & Social Work Studies Directorate, followed usually by local audit work by the external auditors appointed by the Commission. To support auditors, the study team produces an audit guide setting out the methodology for local audits. National reports summarise the findings of these studies across Scotland.

Corporate governance in the NHS

Health boards and trusts are now led by boards of non-executive and executive directors, who share corporate responsibility for the work that is carried out in their name. Following the report of the Committee on Standards in Public Life, we reviewed the effectiveness of the new arrangements.

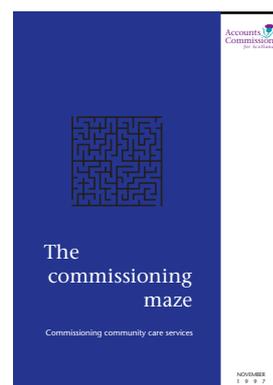
'All above board?' was published in December 1996.

Overall, the new corporate governance arrangements are operating satisfactorily, with NHS bodies responding positively to the general principles involved. The study identified some areas which require further development if the highest standards of corporate governance are to be achieved throughout the NHS in Scotland, and the report gave examples of good practice.

Day surgery

Day surgery has increased more than three-fold in the last 15 years, with over half the increase taking place in the last four years. Some trusts carry out a much higher percentage of day cases than others for the same procedure.

Our report, *'Better by the day?'*, reviews progress against national day surgery targets and recommends that the Government should increase the current targets. This would result in 22,000 more patients being treated on a day surgery basis and could enable at least 20% of resources currently being devoted to their in-patient stay to be released for additional patient care.



The report contains recommendations to help trusts increase value for money. In particular, it looks at the performance of rural trusts, the numbers of patients being accommodated in in-patient beds, and the incentives to undertake more day surgery.

Resource transfer

Community care is about reducing reliance on institutional care so that people can live in their own homes or in homely settings in the community wherever possible. Councils have the lead responsibility for co-ordinating community care services. Resource transfer is a means of using savings from reductions in NHS provision to finance the development of alternative services.

In *'Shifting the balance'*, we reported that some health boards have been reluctant to involve local authorities directly in planning and implementing changes. This may make councils less committed to meeting their responsibility to invest in alternative services. There have also been significant delays in drawing up local agreements on new services. Health boards' continuing accountability for funds transferred to local authorities has acted as a constraint on the flow of resources. There are real and increasing difficulties in identifying replacement services separately from routine expenditure by councils.

We recommended that the Government should review whether the resource transfer mechanism has served its purpose. Other options include the transfer of accountability to councils, but the openness and transparency of the planning process and the accountability arrangements are essential requirements.

Commissioning phase 1: contracts and contracting

Of the £4 billion allocated to the health boards, about £2.8 billion was used to purchase services under the internal market. Contracting has been a major area of work for both boards and trusts, although the Government has announced the abolition of the internal market.

In our two bulletins, *'Expanding on contracting'*, we reported significant variation between boards, both in their approach to contracting and in the costs of the process. There is little evidence of boards sharing experiences or ideas. Overall, there is a lack of information to support the planning and delivery of services.

The second phase of the work will examine how health boards are carrying out their planning role in relation to a specific patient group, adults with mental health problems. Further details are given below.

Community care

Following on from our 1994 report, *'Squaring the circle'*, we looked at progress three years later. *'The commissioning maze'* focuses on how councils are fulfilling their responsibilities as commissioners of community care services.

Most councils have not yet made the shift to a commissioning culture. Good information is crucial to planning and monitoring community care services which are tailored to the needs of service users, but few councils have comprehensive, timely and accurate information routinely available to them. A number did not have up-to-date community care plans.

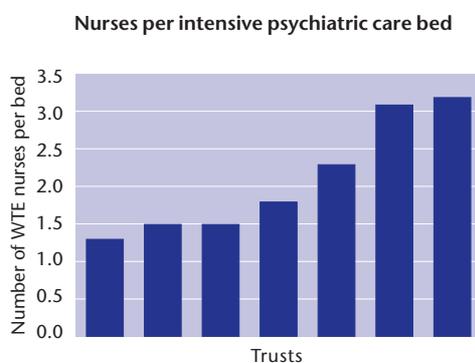
High cost drugs

High cost, low volume drugs account for large and increasing expenditure and require difficult decisions to be made about their cost-effectiveness. In *'The bitterest pill'*, we found that these decisions could be improved by better collaboration between health boards. The process of decision-making should be made more transparent, so that decisions are understood and have credibility with those who are affected by them.

Adult mental health services phase 1

Our review of adult mental health services is a two-year study. In two bulletins summarising the findings of the first year's audit work we show that although a few trusts have made good progress in refining their costing information to support service planning, most have inadequate financial and management information.

A number of trusts do not know of other service provision in their area. This has serious implications for the ability of those trusts to work jointly with other agencies in providing a seamless service.



There are significant differences in service levels, staffing inputs and accessibility to services in different health

board areas which do not appear to match population needs. For example, the number of community-based psychiatric nurses per 100,000 adult population range from 3 to 68. This means that accessibility for many people is poor. The pace of community-based service development is varied across Scotland. The biggest service gaps are in crisis services in the community and respite care. These gaps were also identified by adults with mental health problems and their carers, whom we consulted.

The 1998 audit will look at the planning and management of adult mental health services.

Ovarian cancer

Cancer of the ovary is the fourth most common cancer affecting women in Scotland. Around 400 women die from this disease each year. Average five-year survival from ovarian cancer in Scotland is poor compared with other countries.

In 1995, the Clinical Resources and Audit Group (CRAG) issued a guideline which recommended that suspected cases should be referred to a gynaecologist with a special interest in gynaecological malignancy, and that patients should be followed up at a combined gynaecology oncology clinic.

Our review of the management of ovarian cancer at a sample of acute trusts and health boards looks at how services are being organised to ensure the effective implementation of the CRAG guideline. The review also considers how health bodies approach the commissioning of cancer services. Each trust and health board included in the review will receive a local report and we will produce a national report early in 1998.

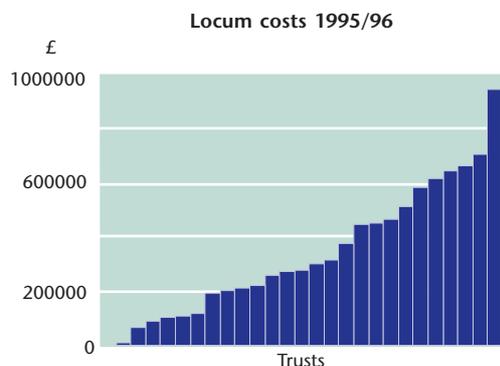
Information systems

Information systems in the NHS need to be able to provide a range of information to medical and nursing staff and patients.

Our study is looking at how much is spent on information management and technology and where the money goes. We are looking at the impact on patients and clinicians and at the opportunities for improving value for money. A national report will be published this year.

Locum medical staff

Locum doctors allow hospitals to manage unforeseen vacancies and ensure continuous care for patients, but they can be expensive. Tariffs have risen sharply within some specialities and grades since deregulation of locum fees in 1994. Expenditure on locums by Scottish trusts has risen from around £9 million in 1994/95 to £15 million a year later and is likely to rise further. But there is considerable variation between hospitals, with community trusts spending much less on average than acute trusts, and district general hospitals bearing a heavier financial burden.



Locums are generally employed to provide cover for vacant posts and to bridge gaps in duty rotas caused by temporary factors. National shortages in certain grades and specialities account for many of the recruitment difficulties and there is evidence that the ceiling on junior doctor hours is contributing to a greater use of locums.

The issues addressed in the study relate to standards as well as costs, since the pressures to fill vacancies quickly may increase the risk of making an inappropriate appointment, with consequences for patient care. A national report will be published in 1998.

Emergency admissions

Acute hospitals are facing a rising level of emergency admissions. A reduction in the number of beds and a faster throughput of patients have made it increasingly difficult for hospitals to respond to sudden increases in admissions.

Our study will help to ensure that hospital resources are used flexibly to accommodate fluctuations in workload and meet Patient's Charter guarantees. A national report will be published this year.

2 Local government

In a statutory report to the Commission, I concluded that some new councils had not given sufficient priority and resources to progressing and resolving issues relating to the 1995/96 accounts for the former regional and district councils. I was concerned that, in these cases, there had been a failure to account to the public within a reasonable timescale for the financial stewardship and performance of the final year of the old councils. The new local authorities were required to submit their accounts for audit by 31 August 1997. Only six councils and five other bodies met the deadline.

It is too early to form an overall view of the main issues arising from the 1995/96 audits, but weaknesses in the financial control environment of the former councils in the period leading up to reorganisation seem to be a recurring theme. By December 1997, 37 (out of 62) of these audits were concluded. In two cases auditors have qualified their certificates.

The audits of the 29 new councils (all the unitary councils excluding the three island councils) operating in their 'shadow' period to 31 March 1996 have been completed. No major audit issues emerged from this process.

Submission of local authority accounts for 1996/97

Received by:	Councils	Other bodies	Total
	(32)	(36)	(68)
31 August 1997	6	5	11
31 December 1997	23	26	49

Statutory Report: East Lothian District Council

During the year, I considered a payment of £7.7 million by East Lothian District Council to a trust. Having taken legal advice, I formed the opinion that the payment was contrary to law. As a result, I was required to report to the Commission under s102(3) of the Local Government (Scotland) Act 1973. The Commission held a hearing into the matters raised in the special report and are continuing their consideration of the issues.

Objections and complaints

During the period to 31 December 1997, five statutory objections to the accounts of local authorities were received and considered.

Nature of objection and outcome
Cunninghame District Council
Presentation of information about common good fund Outcome: two minor errors identified - Council's records amended.
Strathclyde Regional Council
Financial settlement relating to transfer of responsibility for further education college. Outcome: issue fell to be determined by Commissioner appointed to resolve disputes arising from the transfer process.
Angus District Council
Treatment of rent relating to certain common good fund properties. Outcome: council agreed to review position and reflect any necessary adjustments in the following year's accounts.
Grampian Regional Council
Inadequate provision in accounts for non-repayment of loan. Outcome: provision considered adequate and consistent with Council's policy for debts of this type.
Clydesdale District Council
Failure to provide in accounts for sums which may be due following litigation. Outcome: council agreed to disclose position in a note to the accounts.

The complaints process allows members of the public who do not wish to use the statutory period for lodging objections to bring to the attention of auditors information which may be relevant for audit purposes. It is not a process through which individuals may seek redress for grievances; other agencies exist for that purpose.

Complaints

Number received	52
Number concluded	53
Wholly or partially substantiated	7
Number not substantiated	46

Frauds and irregularities

The most recent figures available for frauds and irregularities are for the year to 31 March 1997. These show that during 1996/97, 150 local authority instances of fraud totalling £979,000 were reported. In 83 of these cases, totalling £154,000, the defaulters were council employees. In the remaining cases, the defaulters were not part of the authority or were not identified. The 1996/97 figures can be compared with 98 cases totalling £441,000 in the previous year. While there is no single explanation for the variation in the number of frauds reported, the increase in value is attributable to two high-value frauds.

Housing benefit fraud continues to be a major issue. Over 10,000 claimant frauds accounted for benefit overpayments of £2.8 million in 1996/97. Overpayments in 1995/96 were of a similar value and involved about 14,000 cases. The Department of Social Security estimates that out of some £11 billion spent annually in the UK on housing benefits, over £900 million may be lost to fraud.

Under the Accounts Commission, the audit process concentrates on councils' arrangements for the prevention of fraud. There is a growing recognition throughout the United Kingdom that, although fraud detection is important, adequate resources must be invested in fraud prevention. The Commission's officers continue to work closely with appointed auditors, the DSS and the Benefit Fraud Inspectorate.

Examples of frauds

- A local authority cheque to the value of £270,000 was intercepted and details of the payee were changed. When an individual attempted to pay the cheque in, the bank became suspicious and alerted the police. Four arrests have since been made.
- Cheques to the value of £373,000, which should have been issued in the name of a particular contractor, were made payable to a predecessor company and cashed by the proprietor personally. The court case which ensued has to be concluded before the council can proceed with recovery action.
- A contractor inflated gross weights and understated vehicle tare weights for refuse dumpings. Invoices were submitted by the landfill contractor to the council at inflated prices. The case has been referred to the Procurator Fiscal. The amount invoiced, estimated at £75,000, is being recovered against future invoices.



The audit of management arrangements

Auditors have a statutory duty to assess and report on the management arrangements in local authorities, and councils also have a statutory duty to make proper arrangements to deliver economy, efficiency and effectiveness.

We have developed an innovative approach to the audit of management arrangements, in line with our goal of assisting councils to improve their performance. Management arrangements modules are supplied by the Commission's Management Studies Unit to councils. These are used by senior managers in councils to assess their own organisations and formulate action plans for improvement. The task of auditors is to ensure that the assessments are conducted and, at a later date, to review the extent to which improvement plans have been implemented. Four modules are planned, two of which have been made available to auditors and councils. The other modules will be available later this year.

Management arrangements modules

1	Planning and control	1996/97
2	Managing people	1997/98
3	Managing resources	1998/99
4	Organising ourselves	1998/99

All councils have applied the Commission's first management arrangements self-assessment module to their major services. Many applied it across the whole council. The assessments have been used by councils to identify what improvements they need to make in strategic and service planning. All have now committed themselves to action plans that set out specific improvements that will be implemented over the next 12 months. A number of common themes have emerged, particularly: the need for more specific service objectives; better performance information; clearer arrangements for working in partnership with others; and a better link between service planning and budgets.

The Government's Best Value regime has the aim of promoting the efficiency and effectiveness of local government by requiring councils to prepare and implement programmes for improvement which are relevant to all council services. The Commission is supporting the development of the Best Value framework by participating in The Scottish Office Task Force. We shall ensure as far as possible that the statutory audit of management arrangements provides information and guidance which supports the Best Value regime.

Value for money

VFM studies are based on research undertaken by the Local Government Studies Directorate, usually followed by local audit work by the external auditors appointed by the Commission. To support auditors, the study teams produce audit guides setting out the methodology for the local audits. National reports often summarise the findings of these studies across Scotland.

School property risk management

In January 1997, the Commission published its report on property risk management in schools, '*A Safer Place*'. Schools suffer many types of property risk, but the most significant are crime-related, including fire-raising, vandalism and theft, costing education authorities £18 million a year. By investing £4 million a year in crime prevention packages in schools over a period of four years, councils could reduce their losses from property crime by £5 million a year. Following the report, a handbook was issued to all schools in Scotland giving guidance on best practice in implementing property risk management.

Early findings from local audits show that councils are taking steps to improve security in schools, making use of a specific grant for that purpose made available by the Government.

Trade refuse

Trade refuse is commercial waste from shops and businesses. Councils charge for collecting trade refuse, generating income worth over £14 million a year.

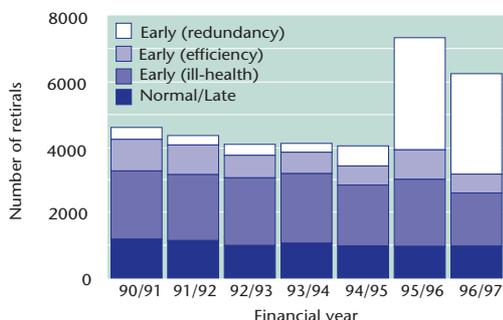
Landfill tax was introduced on 1 October 1996. It is a charge levied on all waste that is disposed of at landfill sites. It will lead to an increase in the cost of trade refuse services.

Of the 23 councils reviewed, only two operate a trading account for trade refuse. Consequently, most councils do not know whether their trade refuse service is operating at a profit or a loss. On examination, it was found that most councils make a loss. Charges for trade refuse collection vary considerably among councils. Some councils are having to harmonise widely differing charges levied by the former district councils within their area. Illegal dumping of trade refuse is a problem for many councils.

Management of early retirement

In 'Bye now, pay later?' we reported that more than three-quarters of all staff who retire do so before reaching normal retirement age. The number of staff retiring due to ill-health is double the number retiring normally. There was a sharp increase in retirements in 1995/96 due to large numbers of redundancies arising from local government reorganisation.

The early retirement trend in Scottish councils, 1990/91 to 1996/97



The cost of an early retirement is about £32,000 more than the cost of a normal retirement, but only about half this extra cost has typically been taken into account by

councils when making decisions. Councils should tighten the procedures they use to approve early retirements, and take account of the full cost. Our national report will be followed this year by a management handbook.

Council tax collection

By the end of 1996/97, the first year of the new councils, about 87% of the council tax (net of council tax benefit) due that year had been collected. Much of the council tax uncollected by the end of the financial year will be collected in subsequent years, but early collection improves cash flow.

Collection levels vary significantly among councils. Some of the difference in collection levels is due to social deprivation and other factors outwith the control of authorities, and some of it is due to the collection practices adopted by councils.

Auditors have submitted local reports to authorities containing action plans to improve collection levels, and a national report is due to be published.

Housing emergency repairs

There is a very wide variation among councils in the percentage of repairs to council dwellings that are classed as emergencies, from about 5% to 40%. Control of the level of emergency repairs is important, because they are more expensive than normal repairs. The Commission undertook a study in 1996, and then auditors reviewed 23 councils in 1997.

The audits showed that a significant minority of jobs should not have been undertaken as emergencies. The report of the findings is due to be published in late spring 1998.

Charging for council services

Over £300 million a year is currently raised by councils in Scotland from fees and charges - about £60 per head of population. With the continuing financial restrictions, councils wish to look more closely at income generation.



The study is intended to encourage councils to manage charges in a structured way, having regard to their wider policy objectives.

We plan to publish a bulletin in spring 1998. Auditors will be reviewing councils' approaches to charges as part of this year's audit round. We will publish the findings from these audits towards the end of 1998.

Police financial management

The eight police forces in Scotland spend over £680 million a year. The Scottish Office has issued guidance on delegation in the police service and the study will be looking at the extent to which that guidance has been implemented. Different forces have different levels of financial delegation from their police authority to the chief constable, and from the chief constable to divisional and sub-divisional commanders.

We are mounting a study of police financial management in collaboration with Her Majesty's Inspectorate of Constabulary. The study aims to encourage good practice in delegating financial management in the police service, and to clarify the level of administrative support available from local authorities and the basis of charging for it. A national report is planned for late autumn 1998.

Management costs

Councils' management structures were sometimes implemented in haste following local government reorganisation. Councils wanted to minimise disruption to services during the reorganisation period. Many are now taking a look at their management structures and costs in a more objective way.

This study will provide councils with benchmarking information to support reviews of their management costs. Through the local audit process, profiles of management costs are being prepared for each council covering housing, social work, libraries, and finance services. These will assist councils to compare their costs with those of other councils in similar circumstances. We plan to publish a national report at the start of 1999.

Performance information

Local authorities must publish performance information locally, and the Commission then publishes a comprehensive national report setting out the comparative performance of authorities.

In 1995/96, several council services saw an overall improvement in performance compared with 1993/94. This was due to a significant improvement by those authorities which had previously not been performing well. However, in some councils, there were a few services where performance was below target.

Council services showing an improvement in performance between 1993/94 and 1995/96

- housing repairs
- satisfying library book requests
- assessing special educational needs
- meeting the respite care needs of people with learning difficulties and children with disabilities
- rent arrears
- selling council houses
- processing housing benefit applications.

Some council services where performance was significantly below target

- workplace safety inspections (the majority of councils failed to meet their own targets)
- inspections of residential care homes (far fewer councils met the recommended target for the number of inspections a year)
- food hygiene inspections.

3 Priorities and performance within the Commission

Our priorities

The Commission revised and updated its priorities for 1997/98, within the framework of our Strategy. Our priorities are to:

- improve the procurement and performance of the audit
- improve internal and external communications
- develop and implement an action programme to achieve Investors in People accreditation
- introduce performance review and staff development systems to promote the achievement of our corporate objectives
- promote joint working
- develop and publish performance indicators for our major activities so that our progress can be assessed.

Procuring the audit

Last year's Annual Report contained a full explanation of how the Commission secures the audit by appointing auditors who operate and report within the framework of the Commission's Code of Audit Practice.

We promised last year to strengthen the quality assessment procedures which are applied to auditors and to give greater importance to the views of audited bodies on the quality of the audit. This has been done.

The views of audited bodies are now an important part of the overall quality assessment. The 1996/97 quality review programme related only to work on NHS audits, first because the audit of NHS bodies was a new responsibility for appointed auditors, and second because the delays in local authority audits made it difficult to review quality and performance objectively.

It is encouraging that the clients' assessment of auditors' performance shows an improvement across all areas between 1995/96 and 1996/97. Client satisfaction with the VFM audit is significantly higher for NHS trusts than for health boards, and the health board ratings have accordingly reduced the overall rating. This is probably caused by the greater emphasis on cost reduction and quality improvement studies in NHS trusts, which tend to be more highly valued by clients. Health board studies concentrated on governance and commissioning issues.

Clients' assessment of auditors' performance

	Average score for NHS audits	
	1995/96	1996/97
Staffing the audit	3.6	3.8
Consultation	3.6	4.0
Regularity audit	3.5	3.7
VFM audit	3.3	3.4
Interaction with Audit Committee	3.8	4.2
Assessment of audit service	3.3	3.5
Overall rating	3.5	3.8

Note: Future years' reports will include ratings for local authority audits.

Scale: 5: very good, 4: good, 3: adequate, 1 or 2: poor

Site visits were made as part of assessing the technical quality of audit work and to confirm that this work had been conducted in accordance with the Code of Audit Practice. The standard of audit reporting was also assessed. The most recent programme of technical reviews related to the 1995/96 NHS audits and showed that seven providers were operating to a high standard and five, although performing adequately, had scope to improve their performance. In general terms, the greatest scope for improvement lay in the quality of audit reporting and in better scrutiny of the arrangements in audited bodies for ensuring the legality of transactions and for preventing and detecting fraud.

**Quality control review ratings:
NHS audits 1995/96**

Grading	Ranking	Number of auditors
A	Very good	4
B	Good	3
C	Adequate	5
D	Poor	-

The next programme of reviews will be conducted on the 1996/97 audits of the new councils and joint boards. The results will be reported in the next annual report.

Improving communications

The Commission identified “communication and partnership” as one of the four key values in our Strategy, and we treated communication as a priority during 1997.

A communications audit was carried out to find out how we were perceived by our stakeholders and what we should be doing in order to communicate more effectively. Action plans are now in place to improve our performance.

We also commissioned an investigation of how the public viewed our arrangements for publishing councils’ performance information under the Citizen’s Charter. There were important messages which will influence how we communicate performance information in future.

Extensive consultations with stakeholders on the topics for inclusion in our programmes of VFM studies have taken place. Local Government Studies issued questionnaires to 38 councils and joint fire boards and there were 27 returns. Of the 180 questionnaires issued by Health Studies there were 85 responses from a range of interested parties.

Valuable advice is provided by consultative groups comprising senior managers, professional experts and Scottish Office representatives, in both the NHS and local government.

The citizens’ views of published performance information relating to council services

To gauge the public’s views of the pamphlets published by the Commission last year we commissioned independent research from MORI. Four focus groups were held across Scotland. Findings include:

- People are interested in the performance of their own council, in particular any performance variations among different areas of their authority.
- Rather than actively seeking out reports containing comparative statistics of performance, many people rely more on their own or friends’ experiences of services.
- Some aspects of the design of the pamphlets such as the size and the use of graphs were popular, but other aspects such as the use of pastel colours need to be improved.

Separate consultation with councils found that the pamphlet format introduced last year was useful.

In future, the Commission will continue to produce service-specific pamphlets, but they will be aimed primarily at councillors, council officers and relatively interested members of the public. The Commission will work with the media to convey the findings to the public.

Working with others

The Commission places great importance on working with other bodies to promote public audit and value for money. It recognises that more can be accomplished through productive collaboration.

A report on decentralisation was produced with COSLA and six councils, and a seminar on policy-led budgeting run with COSLA.

An encouraging feature of the past year has been dialogue and co-operation with the National Audit Office and the Audit Commission for England and Wales. In particular, we undertook a study in parallel with the Audit Commission, on the management of early retirement of local authority staff. Other areas of common interest were council tax collection, charging for council services and police financial management. The study of police financial management is also an example of collaboration with Her Majesty's Inspectorate of Constabulary, with the setting up of a joint study team. Discussions about possible collaboration have also been held with Her Majesty's Inspectors of Schools, the Social Work Services Inspectorate and the Social Work Services Group in The Scottish Office.

Developing our staff: Investors in People

If we are to achieve our objectives, it is essential that we develop the potential of our staff and help them to perform well. Our Performance Development System is now being implemented across the Commission, following an extensive programme of skills training for all staff, especially managers.

As part of this work, we have identified a set of values which describe the attributes of effective staff and managers. This gives us some practical standards to which we can aspire in developing our staff and improving performance. Work on the Investors in People (IiP) standard is also progressing well and we are implementing an action plan with the objective of achieving IiP accreditation in spring 1999.

Our performance

In our last Annual Report we said that we would develop performance indicators which cover our own work and that of audited bodies and appointed auditors. Significant progress is being made in this area, and some of the indicators (relating to the clients' views of audits and the technical assessment of audit quality) have already been mentioned.

Value for money studies

In relation to VFM studies and management arrangements work, our goal, derived from our Mission Statement, is to assist local government and the health service in Scotland in achieving the economic, efficient and effective use of resources. It is possible to measure our performance by looking at the value improvements identified in national reports published during 1996 and 1997, by looking at the output of management handbooks, audit guides and other publications, and by asking clients in audited bodies what they think of the reports.

Where our studies are looking at economy and (some) efficiency issues, it is generally possible to "put a pound sign" against the value improvements. Where we are looking at (other) efficiency issues and at effectiveness, it is usually difficult to quantify value improvements in financial terms. It is, however, always the case that these studies are addressing important areas where value improvements are possible. The report on community care, *'The commissioning maze,'* is an example of such a study.

Feedback from clients and audited bodies

A questionnaire was sent to all 32 directors of education in Scotland to seek their views on the two reports, *'A Safer Place'*, and the associated management handbook for head teachers. Of the 25 responses received, 96% regarded *'A Safer Place'* as a good report, and 100% regarded the handbook as good. All respondents regarded the issues discussed in the report as important. The area of least satisfaction was with exhibits in the national report, where only 76% of respondents agreed that the exhibits help to get across important points, with the others neither agreeing nor disagreeing.

Value for money reports and other publications

7 national reports 16 audit guides 5 pamphlets on council information information
 4 bulletins 1 management handbook 2 directions to councils 2 guides 2 national reports

Reports/studies	Value improvements identified
<i>All above board? Corporate governance in the NHS</i> December 1996	Recommendations for improving the overall corporate governance of the NHS in Scotland in line with government policy.
<i>A safer place: property risk management in schools</i> January 1997	Found that councils could reduce their losses from property crime by £5 million a year by investing £4 million a year in crime prevention packages in schools over a period of four years.
<i>Better by the day: day surgery in Scotland</i> May 1997	Up to £4 million by shifting from in-patient to day surgery for appropriate procedures; improved quality of care for patients.
<i>Managing property risks in schools: a handbook for head teachers</i> June 1997	A tool to assist head teachers to address property risks in their schools.
<i>Shifting the balance: resource transfer for community care</i> July 1997	Recommendations to improve the planning, speed and transparency of resource transfers. Potential to improve the provision of community care services for vulnerable people.
<i>Expanding on contracting 1: health board contracting in Scotland</i> September 1997	Provided background information for planning a replacement for the internal market. Highlighted shortcomings which need to be addressed if the new system is to succeed.
<i>Expanding on contracting 2: health board commissioning: contracts and contracting</i> November 1997	Identified opportunities to reduce the bureaucracy and inefficiency of NHS contracting by: making negotiating meetings more productive; sharing examples of good practice among boards; improving information used for planning and commissioning.
<i>The commissioning maze: commissioning community care services</i> November 1997	Recommendations to improve councils' planning and management of £750 million worth of community care services. They need to invest in information systems and develop strategies to improve their planning and management of services and offer more choice and flexibility to people who need services.
<i>The bitterest pill: decision making for new drugs</i> December 1997	Recommended the setting up of a Scotland-wide policy group to evaluate high cost, low volume drugs and make recommendations to health boards about their clinical and cost effectiveness. This would ensure that NHS funds are used to fund drugs which have been proven to be clinically effective.
<i>Bye now, pay later? The management of early retirement in local government</i> December 1997	Recommended that councils tighten their procedures and identify the full cost of early retirements before considering their approval. These costs amounted to £190 million in the recent reorganisation of local government.
<i>Adult mental health services 1: patterns of NHS service provision</i> January 1998	Development of community care services could be improved if trusts used new comparative information to review their progress. There are significant differences across Scotland; many people could be treated as effectively in the community, which offers scope to reduce the use of costly hospital beds.
<i>Adult mental health services 2: focusing on the views of users and carers</i> January 1998	Identified the need to involve people who use mental health services and their carers more in the planning and delivery of services. Opportunities to improve the quality of care without the need for more resources.
<i>Local audits of trade refuse and road safety defects</i>	Local audits of trade refuse and road safety defects have identified improvements in the ways councils manage these functions which could reduce expenditure.

Performance information for local authorities

We have now been publishing performance information for local authorities for three years. We have found from the data for 1995/96 that councils which were performing least well in several services in 1993/94 had significantly improved their performance (see chapter 2). This is due to the efforts of these councils rather than the Accounts Commission, but it is a demonstration of the value improvements which can be encouraged by publishing performance information.

Management arrangements audit of local authorities

There is early evidence of improvements resulting from the new approach to the audit of management arrangements introduced during 1997. However, one of the findings so far is that, apart from performance information published under the Citizen's Charter, internal management and performance information is often poorly developed. In response, the Commission is now working with a number of councils on approaches to address this problem.

Management arrangements: value improvements

- All authorities have assessed how they can improve arrangements for corporate and service planning and budgetary control, including: how goals and objectives are set; how performance is measured and reported.
- All authorities have action plans to improve their corporate and departmental planning processes.
- Authorities are now assessing their arrangements for managing people, including whether the authority has the people that it needs; how employees are recruited and retained; how the performance of employees is managed.

Audit Services Directorate

As the "in-house provider" of approximately half the audits procured by the Commission, the Audit Services Directorate made considerable progress in achieving the objectives and targets in its business plan. In particular, the audit approach and methodology were greatly strengthened by the introduction of a comprehensive audit manual and the development of a standardised systems-based audit methodology covering 27 specified systems.

The Directorate has its own business targets, which include assessing the satisfaction of audited bodies with the audits which they receive. There are three key performance indicators which relate to the statutory audit procured by the Commission (see table below).

1 Reporting timeously

Reporting targets for 1997/98 audits will be:

- Audit certificates issued by
 - 31 August – National Health Service
 - 31 October – Local Government
- Final reports issued by
 - 30 September – National Health Service
 - 30 November – Local Government

2 Encouraging action

Final reports containing agreed action plan setting out key remedial action areas (target 100%).

1997 Performance: 67%

3 Delivering quality

Audits rated good or better in independent Quality Control Reviews conducted (target 100%).

1997 Performance: 90%

4 Financial overview

The Accounts Commission is responsible for overseeing around £12 billion of public expenditure by the NHS and local government in Scotland. The Commission's financial year end was changed to 31 October during 1997, in order to align the audit year with the financial year, simplifying the method of recovering our charges.

The Commission's budget was £10.3 million for 1996/97 and £6.1million for the seven months to 31 October 1997. Actual expenditure was £9.3 million and £6.7 million respectively. Sources of income and an analysis of expenditure for the 19 month period are summarised below.

Full versions of the Commission's accounts for the two periods are available from the Accounts Commission Headquarters or from HMSO. The Commission's accounts are audited by the National Audit Office. A clear audit certificate was placed on the final accounts for each period.

Income

The Accounts Commission is empowered to incur costs as are necessary to carry out its duties and these costs are recovered from the audited bodies. Contributions from local authorities fell during 1996/97, due to the impact of

local government reorganisation and the delay in the audit of the accounts for the outgoing authorities. Contributions from health bodies rose during 1996/97 as this was the first full year of NHS audit activity undertaken by the Commission.

Expenditure

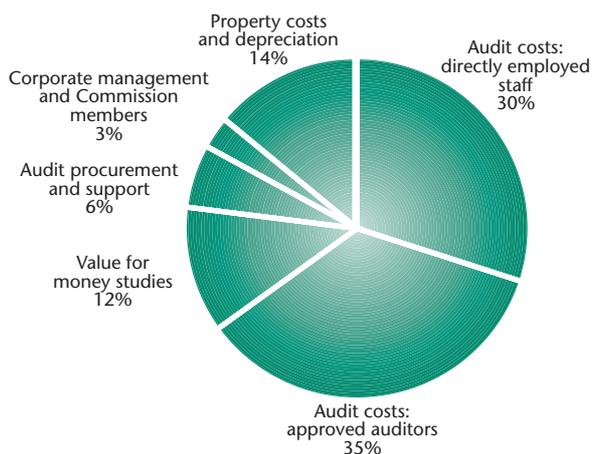
The increase in expenditure between 1995/96 and 1996/97 is due largely to the impact of our first full year of NHS audit activity.

Income	7 months to 31 Oct '97	'96/'97	'95/'96
	£,000	£,000	£,000
Contribution from local authorities	3,751	5,449	5,527
Contribution from NHS	2,730	3,649	1,391
Revenue grant from NHS Management Executive	35	60	1,142
Bank interest	89	113	54
Sundry income	64	-	-
Total	6,669	9,271	8,114

Expenditure	7 months to 31 Oct '97	'96/'97	'95/'96
	£,000	£,000	£,000
Staff and Commission members	3,305	4,197	3,549
Approved auditors' fees and expenses, local authorities	1,121	2,063	2,393
Approved auditors' fees and expenses, NHS	1,225	1,776	863
Other operating charges	892	1,067	1,157
Depreciation	126	168	152
Total	6,669	9,271	8,114

Expenditure by activity

Most of the Commission's budget is spent on the statutory audit.



On average, 106 audit staff were directly employed during 1996/97 (126 for the period to October 1997), compared with 94 in 1995/96.

The number of staff (excluding the Controller of Audit) whose remuneration exceeded £40,000 was as follows:

	7 months to 31 Oct '97	1996/97	Previous year
£40,000 - £50,000	4	4	11
£50,001 - £60,000	5	3	-
£60,001 - £70,000	3	3	4
£70,001 - £80,000	2	1	-

Staff and Commission Members costs

The emoluments of Commission Members are fixed by the Secretary of State. The emoluments of the Chairman during 1996/97 were £11,076 (£6,638 for the period to October 1997). The number of Members of the Commission throughout 1996/97 was 15 (14 for the period to October 1997), and their remuneration was in the following bands:

	7 months to 31 Oct '97	1996/97	Previous year
£0 - £5,000	13	14	12
£5,001 - £10,000	1	1	1

During 1996/97 the emoluments of the Controller of Audit, who was the highest-paid employee, amounted to £106,036, comprising salary £95,002, employers' superannuation contribution £8,584 and taxable benefit £2,450. During the seven months to October 1997 his emoluments were £62,600, comprising salary £56,670, employers' superannuation contribution £4,250, and taxable benefit £1,680. The Controller is an ordinary member of the superannuation scheme.

Appendix: Audit appointments

NHS BODY	AUDITOR
Aberdeen Royal Hospitals NHS Trust	KPMG, Edinburgh
Angus NHS Trust	P Johnston, Chief Auditor, Inverness
Argyll and Bute NHS Trust	R McFarlane, Chief Auditor, Glasgow
Argyll and Clyde Health Board	R McFarlane, Chief Auditor, Glasgow
Ayrshire and Arran Community Healthcare NHS Trust	R G Potter, Chief Auditor, East Kilbride
Ayrshire and Arran Health Board	R McFarlane, Chief Auditor, Glasgow
Borders Community Health Services NHS Trust	Deloitte & Touche, Edinburgh
Borders General Hospital NHS Trust	KPMG, Edinburgh
Borders Health Board	P Tait, Chief Auditor, Edinburgh
Caithness and Sutherland NHS Trust	Ernst & Young, Inverness
Central Scotland Healthcare NHS Trust	D Deas, Chief Auditor, Glenrothes
Common Services Agency	P Tait, Chief Auditor, Edinburgh
Dumfries and Galloway Health Board	R McFarlane, Chief Auditor, Glasgow
Dumfries and Galloway Acute and Maternity Hospitals NHS Trust	Ernst & Young, Glasgow
Dumfries and Galloway Community Health NHS Trust	KPMG, Glasgow
Dundee Healthcare NHS Trust	Henderson Loggie, Dundee
Dundee Teaching Hospitals NHS Trust	KPMG, Edinburgh
East and Midlothian NHS Trust	KPMG, Edinburgh
Edinburgh Healthcare NHS Trust	KPMG, Edinburgh
Edinburgh Sick Children's NHS Trust	KPMG, Edinburgh
Falkirk and District Royal Infirmary NHS Trust	KPMG, Glasgow
Fife Health Board	D Deas, Chief Auditor, Glenrothes
Fife Healthcare NHS Trust	Scott-Moncrieff Downie Wilson, Edinburgh
Forth Valley Health Board	D Deas, Chief Auditor, Glenrothes
Glasgow Dental Hospital and School NHS Trust	R McFarlane, Chief Auditor, Glasgow
Glasgow Royal Infirmary University NHS Trust	Price Waterhouse, Glasgow
Grampian Health Board	Ernst & Young, Aberdeen
Grampian Healthcare NHS Trust	Ernst & Young, Aberdeen
Greater Glasgow Community and Mental Health Services NHS Trust	KPMG, Glasgow
Greater Glasgow Health Board	Price Waterhouse, Glasgow
Hairmyres and Stonehouse Hospitals NHS Trust	Deloitte & Touche, Glasgow
Health Education Board for Scotland	D Deas, Chief Auditor, Glenrothes
Highland Communities NHS Trust	Ernst & Young, Inverness
Highland Health Board	Scott Oswald, Inverness
Inverclyde Royal NHS Trust	KPMG, Glasgow
Kirkcaldy Acute Hospitals NHS Trust	Scott-Moncrieff Downie Wilson, Edinburgh
Lanarkshire Health Board	R G Potter, Chief Auditor, East Kilbride
Lanarkshire Healthcare NHS Trust	R G Potter, Chief Auditor, East Kilbride
Law Hospital NHS Trust	Deloitte & Touche, Glasgow
Lomond Healthcare NHS Trust	Coopers & Lybrand, Glasgow
Lothian Health Board	P Tait, Chief Auditor, Edinburgh
Mental Welfare Commission for Scotland	P Tait, Chief Auditor, Edinburgh
Monklands & Bellshill Hospitals NHS Trust	Coopers & Lybrand, Glasgow
Moray Health Services NHS Trust	Ernst & Young, Inverness
North Ayrshire and Arran NHS Trust	Price Waterhouse, Glasgow
Orkney Health Board	Scott Oswald, Inverness
Perth and Kinross Healthcare NHS Trust	Deloitte & Touche, Edinburgh
Queen Margaret Hospital NHS Trust	Scott-Moncrieff Downie Wilson, Edinburgh
Raigmore Hospital NHS Trust	Ernst & Young, Inverness
Renfrewshire Healthcare NHS Trust	Coopers & Lybrand, Glasgow
Royal Alexandra Hospital NHS Trust	Price Waterhouse, Glasgow
Royal Infirmary of Edinburgh NHS Trust	Price Waterhouse, Glasgow
Scottish Ambulance Service NHS Trust	P Tait, Chief Auditor, Edinburgh
Scottish Council for Post Graduate Medical and Dental Education	D Deas, Chief Auditor, Glenrothes
Shetland Health Board	Ernst & Young, Aberdeen

South Ayrshire Hospitals NHS Trust	Coopers & Lybrand, Glasgow
Southern General Hospital NHS Trust	Price Waterhouse, Glasgow
Stirling Royal Infirmary NHS Trust	D Deas, Chief Auditor, Glenrothes
Stobhill NHS Trust	KPMG, Glasgow
Tayside Health Board	Henderson Loggie, Dundee
The State Hospital	D Deas, Chief Auditor, Glenrothes
The Victoria Infirmary NHS Trust	Price Waterhouse, Glasgow
The Yorkhill NHS Trust	Price Waterhouse, Glasgow
West Glasgow Hospitals University NHS Trust	Price Waterhouse, Glasgow
West Lothian NHS Trust	KPMG, Edinburgh
Western General Hospitals NHS Trust	Scott-Moncrieff Downie Wilson, Edinburgh
Western Isles Health Board	P Johnston, Chief Auditor, Inverness

LOCAL AUTHORITY BODY	AUDITOR
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Aberdeen City Council	P Johnston, Chief Auditor, Inverness
Aberdeenshire Council	Ernst & Young, Aberdeen
Angus Council	P Johnston, Chief Auditor, Inverness
Argyll & Bute Council	Coopers & Lybrand, Glasgow
Authorities Buying Consortium	R McFarlane, Chief Auditor, Glasgow
Ayrshire Valuation Joint Board	R McFarlane, Chief Auditor, Glasgow
Central Scotland Fire Board	D Deas, Chief Auditor, Glenrothes
Central Scotland Joint Police Board	D Deas, Chief Auditor, Glenrothes
Central Scotland Valuation Joint Board	Scott-Moncrieff Downie Wilson, Edinburgh
Clackmannanshire Council	Scott-Moncrieff Downie Wilson, Edinburgh
Clyde Muirshiel Park Authority Joint Committee	R McFarlane, Chief Auditor, Glasgow
Dumfries & Galloway Council	Deloitte & Touche, Glasgow
Dunbartonshire & Argyll & Bute Valuation Joint Board	Price Waterhouse, Glasgow
Dundee City Council	Henderson Loggie, Dundee
East Ayrshire Council	R G Potter, Chief Auditor, East Kilbride
East Dunbartonshire Council	KPMG, Glasgow
East Lothian Council	Scott-Moncrieff Downie Wilson, Edinburgh
East Renfrewshire Council	R G Potter, Chief Auditor, East Kilbride
City of Edinburgh Council	P Tait, Chief Auditor, Edinburgh
Falkirk Council	D Deas, Chief Auditor, Glenrothes
Fife Council	D Deas, Chief Auditor, Glenrothes
Forth Road Bridge Joint Board	P Tait, Chief Auditor, Edinburgh
Glasgow & Clyde Valley Joint Structure Plan Committee	R McFarlane, Chief Auditor, Glasgow
Glasgow City Council	R McFarlane, Chief Auditor, Glasgow
Grampian Direct Services	P Johnston, Chief Auditor, Inverness
Grampian Fire Board	Ernst & Young, Aberdeen
Grampian Joint Police Board	P Johnston, Chief Auditor, Inverness
Grampian Valuation Joint Board	P Johnston, Chief Auditor, Inverness
Highland Council	P Johnston, Chief Auditor, Inverness
Highland & Islands Fire Board	P Johnston, Chief Auditor, Inverness
Highland & Western Isles Valuation Joint Board	P Johnston, Chief Auditor, Inverness
Inverclyde Council	Coopers & Lybrand, Glasgow
Kelvin Valley Countryside Project	KPMG, Edinburgh
Lanarkshire Valuation Joint Board	R G Potter, Chief Auditor, East Kilbride
Loch Lomond Park Authority	Price Waterhouse, Glasgow
Lothian & Borders Fire Board	P Tait, Chief Auditor, Edinburgh
Lothian & Borders Police Board	P Tait, Chief Auditor, Edinburgh
Lothian Valuation Joint Board	P Tait, Chief Auditor, Edinburgh
Mid Clyde River Valley Project	R McFarlane, Chief Auditor, Glasgow
Midlothian Council	P Tait, Chief Auditor, Edinburgh
Moray Council	P Johnston, Chief Auditor, Inverness
Mugdock Country Park Joint Committee	D Deas, Chief Auditor, Glenrothes
North Ayrshire Council	R G Potter, Chief Auditor, East Kilbride
North Lanarkshire Council	Price Waterhouse, Glasgow
Northern Joint Police Board	P Johnston, Chief Auditor, Inverness
Orkney & Shetland Valuation Joint Board	Scott Oswald, Inverness
Orkney Islands Council	P Johnston, Chief Auditor, Inverness
Perth & Kinross Council	Deloitte & Touche, Edinburgh

Renfrewshire Council	R McFarlane, Chief Auditor, Glasgow
Renfrewshire Valuation Joint Board	R McFarlane, Chief Auditor, Glasgow
Scottish Borders Council	KPMG, Edinburgh
Scottish Local Government Information Unit	R McFarlane, Chief Auditor, Glasgow
Scottish Nuclear Free Local Authorities	Scott Oswald, Inverness
Shetland Islands Council	Scott Oswald, Inverness
South Ayrshire Council	R McFarlane, Chief Auditor, Glasgow
South Lanarkshire Council	R G Potter, Chief Auditor, East Kilbride
Stirling Council	D Deas, Chief Auditor, Glenrothes
Strathclyde Fire Board	R G Potter, Chief Auditor, East Kilbride
Strathclyde Joint Police Board	Price Waterhouse, Glasgow
Strathclyde Passenger Transport Authority	R G Potter, Chief Auditor, East Kilbride
Tay Road Bridge Joint Board	Henderson Loggie, Dundee
Tayside Contracts Joint Committee	Henderson Loggie, Dundee
Tayside Fire Board	Henderson Loggie, Dundee
Tayside Joint Police Board	Henderson Loggie, Dundee
Tayside Valuation Joint Board	Henderson Loggie, Dundee
West Dunbartonshire Council	Price Waterhouse, Glasgow
West Lothian Council	P Tait, Chief Auditor, Edinburgh
Western Isles Council	KPMG, Glasgow



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ISBN 0906206 50 2