Accounts Commission

OVERVIEW REPORT

Overview of the 1999/2000 Local Authority Audits

Controller of Audit's statutory report and Accounts Commission's findings

PREPARED BY AUDIT SCOTLAND

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Contents

The Accounts Commission

The Accounts Commission is a statutory, independent body, which through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has 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
- 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 and 34 joint boards (including police and fire services). Local authorities spend over £9 billion of public funds a year.

Audit Scotland

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Accounts Commission and the Auditor General for Scotland. Together they ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

About this publication

This publication contains the Controller of Audit's overview report on the 1999/2000 local authority audits. The report is preceded by an executive summary.

The Accounts Commission has considered the Controller's report and its findings are set out on page 1.

Front cover image courtesy of Falkirk Council

Accounts Commission's findings

Completion of accounts and audits

The Commission welcomes the submission for audit of the annual accounts of all Scottish councils by the due date. This is the first time this has been achieved since the deadline for the submission of accounts was brought forward to 30 June and the Commission recognises the significant achievement of the local authorities. The Commission also welcomes the earlier completion of audits but continues to be concerned that not all audits were completed by the deadline which the Commission set. Timeous reporting and audit completion are significant elements in the public accountability regime for local government and the Commission will continue to press for earlier completion of audits.

Governance

Continuing weaknesses in basic accounting controls in some councils are a matter of serious concern to the Commission. The Commission commented on this matter in its findings on the overview report for 1998/99. It is disturbing to find that such weaknesses are still apparent four years from the establishment of the new unitary councils. The Commission urges those councils where these issues have arisen to ensure that adequate resources are applied to solving these problems. Progress will continue to be monitored through the audit process.

The Commission notes with concern that levels of detected fraud in housing and council tax benefits have again increased. The Commission accepts that this is a complex area but encourages the implementation of the Verification Framework and attention to internal control weaknesses in benefit-related systems.

Financial position

The Commission notes the Controller of Audit's comments on the financial position of local authorities, including the reserves held by councils and the funding of capital expenditure from current revenue. These provide a useful indication of the overall stewardship of public funds at a strategic level and the Commission endorses the Controller's view that auditors should give consideration to such matters as part of their assurance that council expenditure is soundly based.

DLOs/DSOs

The Commission welcomes the further improvement in the performance of councils' direct labour and direct service organisations.

Executive summary

Introduction

1 This statutory report is prepared under section 102(1) of the Local Government (Scotland) Act 1973 to advise the Accounts Commission of the main issues arising from the 1999/2000 local authority audits. It is also made available to all local authorities to enable them to assess their progress in key areas of financial stewardship and performance. The report draws on reports prepared by appointed auditors at the conclusion of their audits and agreed with individual local authorities. It focuses on the 32 main council audits and also covers the 34 'other' local authority bodies (including police and fire services) in place in 1999/2000.

2 The report is in two parts. The first relates to matters of a recurrent nature and shows the broad results and trends for local authorities in Scotland as a whole. The second part relates to matters arising primarily during 1999/2000, either at individual councils or more widely.

Part 1: Annual results and trends

Completion of accounts and audits

3 All 32 councils submitted their 1999/2000 accounts for audit by the statutory date of 30 June. This is the first time that all accounts have been completed by that date and represents a commendable achievement by councils. The deadline for completion of 1999/2000 audits was brought forward by two months to 30 September by when 20 audits had been completed. This also represents significant progress over earlier years though there is clearly scope for further improvement.

4 Of the 1999/2000 audits completed at the date of the overview report the accounts of three councils were qualified in respect of four matters. This represents a notable reduction compared with previous years (1998/99: nine accounts qualified in respect of 15 matters; 1997/98: 21 accounts qualified in respect of 27 matters). Of the 34 'other' local authority bodies' audits completed, none contains qualifications.

Corporate governance/financial controls

5 Corporate governance has been defined as the system by which organisations are directed and controlled.

6 Compared with the position in other sectors (such as the NHS), progress in developing corporate governance arrangements in local authorities has been relatively slow. However, appointed auditors have reported that most councils in Scotland are now taking steps to assess and develop their corporate governance arrangements.

7 The Accounts Commission has endorsed the audit committee concept as an integral component of good corporate governance. While it is for each local authority to determine arrangements appropriate to its particular circumstances, the adoption and implementation of audit committee principles is regarded by the Commission as an important step in raising the standard of corporate governance in local government.

8 Overall, there is encouraging evidence from appointed auditors' 1999/2000 reports of an increasing move in councils towards setting up an audit committee or similar mechanism. One of the most important roles under these arrangements is to review internal and external audit reports and to monitor the implementation of their recommendations.

9 Similarly, following criticism in previous years' overview reports, there is evidence from appointed auditors' 1999/2000 reports of improvement in councils' internal audit arrangements. But, given councils' increasing reliance on information technology, there is a need for more specialist computer audit expertise to be available to internal audit.

10 While progress is being achieved on governance arrangements, there is evidence of continuing weaknesses in basic accounting controls including instances of no regular and timely accounting reconciliations. This and other instances of weaknesses in internal control have been a recurring theme in the four years since local government reorganisation. Sound financial procedures and effective controls are essential and, without them, councils cannot know if their financial procedures have been compromised, exposing them to unacceptable risk.

Financial position

11 Many councils utilised part of the balances they had built up in previous years to support 1999/2000 service expenditure but, overall, the total level of balances across councils was similar to 1998/99. At 31 March 2000, the total net value of General Fund balances across councils was £177 million (2.7% of net expenditure) and the total value of Housing Revenue Account balances was £113 million (9.7% of gross expenditure). Other funds amounted to £264 million but, within this total, there is a wide variation in the amounts held by individual councils.

12 General capital expenditure (excluding council housing) across councils in 1999/2000 was £611 million of which £97 million (16%) was financed from current revenue. For the Housing Revenue Account, capital expenditure in 1999/2000 totalled £344 million of which £104 million (30%) was financed from current revenue. Within these overall figures, there is wide variation in the extent to which councils finance capital expenditure from current revenue.

13 The statutory basis and purpose of reserves is not always clear and there is wide variation in the amounts held. There is also significant variation in the extent to which capital expenditure is financed from current revenue. These are areas which may warrant closer review by councils and their appointed auditors in future years.

DLO/DSO performance

14 Following financial problems in earlier years, the performance of councils' Direct Labour and Direct Service Organisations (DLOs and DSOs) showed further improvement in 1999/2000. For 21 councils, all DLOs/DSOs achieved the statutory break-even target and, overall, break-even was achieved at 94% of DLOs/DSOs operating in 1999/2000. However, there appears still to be scope for further improvement in the quality of financial and other performance information provided to councillors who have responsibilities for DLOs/DSOs.

15 More generally, there are early indications that new methods and structures being developed under Best Value initiatives may not fit easily with the ongoing statutory requirements of the compulsory competitive tendering (CCT) regime. Future audit work may help to identify the extent to which this may be an issue across councils.

Housing/council tax benefits

16 Councils are responsible for administering some £1.4 billion of housing and council tax benefits and receive reimbursement from the Department of Social Security through an annual claim for subsidy based on the amount of benefit granted. The benefits legislation is complex and subject to frequent modification. There is also evidence of a rising trend of fraud related overpayments. There is a requirement, therefore, for councils to review their procedures regularly in order to support the administration of benefits and minimise the risk of fraud. Given the sums involved, the inherent risks and the problems experienced, it is anticipated that this area will continue to feature significantly in appointed auditors' work programmes for 2000/01.

Financial relationships with external parties

17 The Code of Guidance on Funding External Bodies and Following the Public Pound, developed jointly by the Accounts Commission and the Convention of Scottish Local Authorities (CoSLA), sets out the principles of best practice for councils in establishing relationships with companies, trusts and other bodies where there is substantial local authority funding. Appointed auditors have reported that there is a need for councils to ensure closer compliance with the Code's requirements.

Audit follow-up

18 The appointed auditors are required to produce reports on their findings. Where action is needed they agree action plans with the local authority which specify the action required, where responsibility for action rests and a timetable for implementation. Action plans are monitored and followed-up by the appointed auditors to ensure that recommendations are implemented within agreed timescales. Individual matters may be pursued by Audit Scotland (on behalf of the Controller of Audit) and, in certain circumstances, the Controller may use his formal powers to report to the Accounts Commission.

19 The various measures available in terms of follow-up of audit findings provide a flexible framework for action in relation to the annual audit, stewardship of funds and governance matters.

Part 2: Matters arising during the year

Statutory reports

20 During 2000, the Controller of Audit prepared five statutory reports for consideration by the Accounts Commission. Two of these related to significant weaknesses in accounting procedures and financial administration at Inverclyde Council. Having considered the reports, the Commission held a public hearing at the Council's offices in August 2000 where evidence was taken from the Leader of the Council and senior officers. The Commission requested a further report on the extent to which the Council had implemented appropriate remedial action by 31 December 2000. This report was submitted to the Commission in February 2001 and is currently under consideration. The Controller's report on Dumfries and Galloway Council concerned contracts for the provision of residential care for older people in homes which were owned and formerly run by the Council. The Commission acknowledged the innovative nature of the arrangement and that, in the event, the transition had been achieved successfully. But it stressed the need for all councils to ensure that options and risks are properly assessed, that appropriate governance arrangements are in place and that consistent and full information is provided to councillors when considering changes to the method of service delivery.

General accounting issues

21 As in previous years, appointed auditors continued to comment adversely on some councils' progress in complying fully with the capital accounting requirements. The main focus of attention in 1999/2000 was the failure by several councils to undertake a full revaluation of assets within the five year timescale specified by the Accounting Code of Practice (ACOP). In most cases this did not impact on the auditors' opinion on the accounts but the 1999/2000 accounts of Clackmannanshire Council were qualified in this regard. In addition some appointed auditors continue to report weaknesses in procedures for maintaining asset registers.

22 The Accounting Code of Practice also specifies the nature of the information which local authorities need to disclose in their accounts in relation to pensions costs. In general, appointed auditors have reported that few local authorities complied fully with these requirements in 1999/2000. But appointed auditors have indicated that authorities are seeking actuarial advice to ensure that the disclosure requirements are met. Appointed auditors have reported a particular issue concerning the firefighters' pension scheme, an unfunded 'pay as you go' scheme. A large number of firefighters who joined the service in 1974 will be eligible for retirement in 2004, which may place additional pressure on the resources of fire authorities.

Matters arising at individual councils

23 At Fife Council a failure to reconcile information held on the valuation roll and in the non-domestic rates system led to an error and consequently a delay in receipt of central government grant which cost the Council around £1 million in interest. This illustrates the real dangers to councils of not conducting accurate and regular accounting reconciliations.

24 West Dunbartonshire Council identified £509,000 of non-recoverable housing benefit overpayments resulting from problems experienced in introducing a new computer system. This highlights for councils the importance of appropriate monitoring and control arrangements during the implementation phase of new computer systems, particularly in areas such as benefit payments where problems can have financial consequences.

Specific value for money findings

25 The Accounts Commission approves an annual programme of value for money studies undertaken centrally by Audit Scotland. This work may culminate in the publication of national reports, management papers and management handbooks. Councils are expected to use these to challenge their current levels of performance and take action to achieve the standards of the best.

26 Exhibit 1 summarises the value for money reports published by the Accounts Commission relating to study work undertaken during 1999/2000.

Exhibit 1: Reports published on 1999/2000 study topics

Study topics	Publication date
Benchmarking refuse collection: a review of councils' refuse collection services	April 2000
Safe and sound: a study of community safety partnerships in Scotland	May 2000
Managing rent arrears: getting the balance right	June 2000

27 The refuse collection study found that there have been substantial productivity improvements in councils' refuse collection services since the Commission's last review in 1990. The cost of refuse collection has risen from £90 million in 1990 to £98 million in 1998/99, a 9% increase, which is less than the rate of inflation. Over the same period, the tonnage of refuse collected increased by 14%, the number of employees fell by 44% from 4,800 to 2,700 and the number of vehicles fell by 25%.

28 The report concluded that councils will have to give waste management a higher priority if they are to meet government recycling and landfill targets, as set out in the National Waste Strategy. This will involve them developing an effective waste management strategy, in partnership with other councils and agencies, and allocating sufficient funding to support expensive but environmentally desirable, collection and recycling activities.

29 The study into community safety partnerships found that multi-agency partnerships led by councils and involving many different organisations, such as police and fire services, health boards and hospital trusts, have been set up across Scotland to tackle jointly problems such as anti-social behaviour, domestic violence, crime and reducing accidents and injuries.

30 A joint study between the Accounts Commission and Scottish Homes provided a snapshot of the extent to which all councils and a representative sample of Registered Social Landlords (RSLs) were implementing good practice in managing rent arrears. Overall the RSLs sampled performed better, by meeting more of the good practice standards than councils. This helped RSLs to achieve lower levels of rent arrears.

31 The report concluded that the £44 million rent arrears bill in Scotland could be reduced by as much as £8 million if councils and RSLs adopted better management practices to prevent and recover rent arrears. Councils could reduce their arrears from £37 million to £31 million and RSLs from around £7 million to £5 million.

Best Value

32 Appointed auditors have the task of assessing the progress made by each council in terms of meeting the expectations set out in the Performance Management and Planning (PMP) framework. The PMP audit assesses a council's approach to Best Value under ten criteria related to the four key questions identified by the Best Value Task Force.

33 For 1999/2000 each council selected three services for review. Appointed auditors validated the self-assessments and agreed with each council what improvements would be made to the PMP framework in each of the selected services. The Accounts Commission published a progress report in October 2000 ('*Making Progress with Best Value*') which provided a snapshot of councils' performance management and planning arrangements, based on the PMP audit.

34 Despite the overall positive picture, there were three aspects of performance management and planning where many councils were making limited progress:

- identifying the costs and benefits of different options for service delivery, and evaluating the current service against these
- linking budgets and other resources to key service priorities
- reporting a full and accurate picture of service performance to decision-makers.

35 Best Value also requires councils, over a five-year period, to subject all of their activities to a rigorous review that incorporates the '4Cs' – challenge, compare, consult, compete. This process will help councils to be sure that they are doing the right things and achieving Best Value. About a quarter of councils had made little progress with their programme of Best Value reviews at the time of the audit. In a small number of councils, it also appeared that services were waiting until a Best Value review was undertaken before effort was put in to achieving continuous improvement.

Performance indicators

36 In 1999/2000 councils, fire brigades and police forces, were required to report their service standards against 72 statutory performance indicators (PIs). These indicators cover a wide range of services and highlight both the variation in performance between councils and change in performance over time. National reports were published in January and February 2001.

37 Over the last year, Audit Scotland has worked to improve the usefulness of the indicators by ensuring that they focus on outputs wherever possible, that they reflect national rather than local targets (which are better reflected in local performance reporting), and that they are easily interpreted. Councils welcomed these developments in their responses to the Commission's annual consultation.

Controller of Audit's report

Introduction

1.1 The Accounts Commission is responsible for securing the audit of Scottish local authorities. This involves it in appointing auditors to conduct the audit of councils and 'other' local authority bodies (including police and fire services), either from commercial accounting firms or from its own staff (who transferred to Audit Scotland on 1 April 2000). Issues arising from the audits are reported by the appointed auditors to the Controller of Audit who, in turn, reports to the Commission. The Commission also promotes value for money and is responsible for ensuring the annual publication of performance information about councils.

1.2 Under section 102(1) of the Local Government (Scotland) Act 1973, the Commission can require the Controller of Audit to report on matters arising from local authority audits. This report has been prepared in response to a request from the Commission under that section of the Act. It covers the 1999/2000 financial year and has been prepared principally from information contained in reports prepared by appointed auditors at the conclusion of their audits and agreed with individual local authorities. Where appropriate I have supplemented this with other relevant, contextual information. A number of issues from the appointed auditors' reports are being pursued with individual local authorities as part of the on-going follow up work undertaken by Audit Scotland.

1.3 In 1999/2000, there were 66 local authority audits in Scotland: 32 councils and 34 'other' local authority bodies. At the date of this report (28 February 2001) 29 of the 32 councils and 20 of the 34 other bodies' audits have been reported by their appointed auditors. The outstanding council audits are East Renfrewshire, City of Edinburgh and Inverclyde. The East Renfrewshire and City of Edinburgh audits are effectively complete; the Inverclyde audit for 1999/2000 has been delayed because of problems in previous years' audits. In preparing this report I have taken account of any material items relating to these outstanding audits which have been drawn to my attention by the appointed auditors. When these audits are completed, the appointed auditors will report to the individual local authorities and to me.

1.4 This report therefore covers all the significant issues arising out of the 1999/2000 local authority audits. While focusing on the 32 main council audits, references to specific topics affecting the 'other' local authority bodies are included where appropriate.

1.5 This report is in two parts. The first part relates to matters of essentially a recurrent nature and shows, through the annual audit findings, the broader results and trends for local authorities in Scotland as a whole. The second part relates to matters arising primarily during 1999/2000, either at individual local authorities or more widely.

Part 1: Annual results and trends

This part covers:
- Completion of accounts and audits
- Corporate governance/financial controls
- Financial position
- DLO/DSO performance
- Housing/council tax benefits
- Financial relationships with external parties
- Audit follow-up

2 Completion of accounts and audits

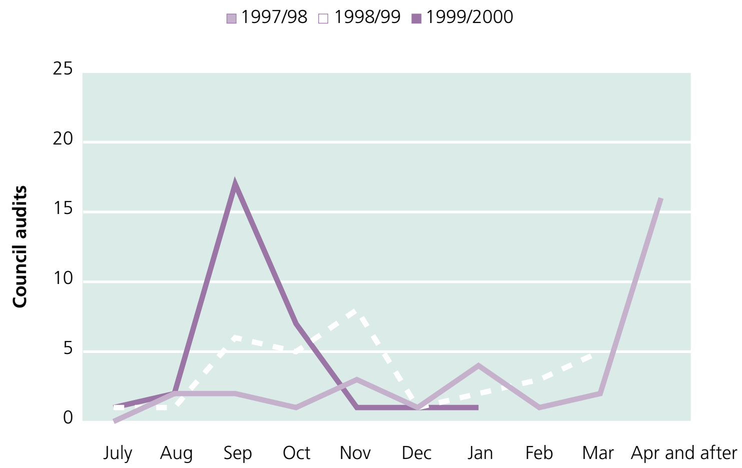
2.1 The Local Authority Accounts (Scotland) Regulations 1985, as amended, require local authorities to submit their annual accounts for audit by 30 June in the next financial year. All 32 councils in Scotland achieved the statutory deadline. This represents a further improvement over earlier years, as shown in Exhibit 1.

Exhibit 1: Date by which councils' accounts were available for audit

	Cumulative totals		
Date	**1999/2000**	**1998/99**	**1997/98**
30 June (statutory date)	32	29	23
31 July		30	25
31 August		32	29
30 September			32

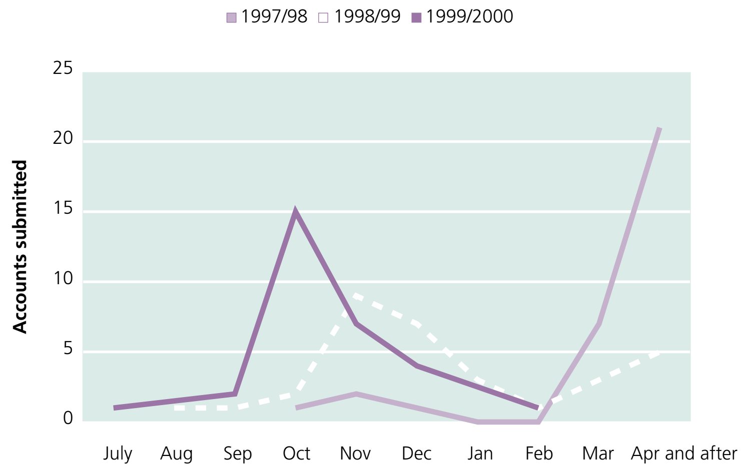
2.2 Under their terms of appointment, auditors were required to complete the 1999/2000 audits by 30 September 2000. Exhibit 2 shows the dates by which the 1999/2000 accounts were signed off by auditors and compares the position with previous years.

Exhibit 2: Date by which audit certificates were signed 1997/98 - 1999/2000



2.3 The sign-off date is important because it signals the completion of the audit of the accounts. Twenty accounts (63%) were signed off by 30 September 2000. Having received the appointed auditor's certificate, councils can proceed to publish their audited accounts, thereby reporting to their taxpayers on financial stewardship and performance. Exhibit 3 shows the dates on which audited accounts were submitted by the appointed auditors to the Controller of Audit.

Exhibit 3: Submission of audited accounts to the Controller of Audit 1997/98 - 1999/2000



2.4 The dates for the submission of audited accounts confirm that performance in 1999/2000 was better than previous years. However, Exhibits 2 and 3 indicate that, on average, there was a delay of about one month between sign-off by the appointed auditors and the date on which the accounts were submitted to the Controller of Audit. This appears to be due in part to the time taken by councils to produce the final version of the accounts. In some cases, councils' published annual reports may follow even later.

2.5 The deadlines for the completion of accounts and audits are challenging. The performance of councils in completing their accounts by the statutory date was commendable. Overall, the performance of appointed auditors in completing audits represents a significant improvement over previous years, but there is clearly scope for further improvement. Exhibit 4 sets out the action needed by councils and appointed auditors to build upon the progress achieved in 1999/2000.

Exhibit 4: Action required to achieve audit deadlines

There is a need for *councils* to:

- ensure that the accounts presented for audit, including all disclosure notes, comply fully with the Code of Practice on Local Authority Accounting (ACOP)
- ensure that working papers in support of the accounts are complete and are available in accordance with a timetable agreed in advance with their appointed auditors
- minimise the time between completion of the audit and the availability of the printed/published accounts.

There is a need for *appointed auditors* to:

- agree a timetable for the conduct and completion of the audit with the council
- ensure that audit staff are available and that other areas of audit responsiblility do not impact on council audits
- ensure that interim audit work is completed and reported in advance of final accounts work
- draw to the attention of councils significant issues arising from the audit as soon as these are identified.

2.6 Of the audits completed at the date of this report, the accounts of three councils were qualified in respect of four matters. Details are contained in Exhibit 5. This represents a notable reduction compared with previous years (1998/99: nine accounts qualified in respect of 15 matters; 1997/98: 21 accounts qualified in respect of 27 matters). None of the 34 'other' local authority bodies' accounts for 1999/2000 received to date contains qualifications.

Exhibit 5: Qualifications in 1999/2000

Council	Reason for qualification
Clackmannanshire	■ The Council failed to carry out asset revaluations.
East Dunbartonshire	■ The appointed auditors were unable to satisfy themselves as to the adequacy of the bad debt provision for rent arrears.
Shetland Islands	■ Lack of evidence to substantiate the comparative figures included in the 1999/2000 cash flow statement.
	■ Disagreement about the way in which the Council had accounted for a property transaction in a previous year.

2.7 Other significant issues may arise during the course of a local authority audit which, while not affecting the auditor's opinion on the accounts, may need to be included within the audit certificate. These explanatory paragraphs (headed 'Failure to comply with statutory requirement' in the audit certificate) allow the appointed auditor to draw attention to important issues without qualification of the audit opinion.

2.8 Of the audits completed to date, ten councils' accounts contain 'failure to comply' paragraphs in respect of 15 issues (13 on Direct Labour/Service Organisation related matters, including the failure to achieve the statutory break-even target, and two non-Direct Labour/Service Organisation related matters, concerning local authority borrowing powers and capital expenditure limits). This represents a reduction on the 1998/99 position for all councils when 19 accounts carried 21 'failure to comply' references.

3 Corporate governance/financial controls

Audit Committees

3.1 In the last decade there have been significant developments in governance and risk management in both the private and public sectors. In 1992, the Cadbury Committee defined corporate governance as the system by which organisations are directed and controlled and identified openness, integrity and accountability as its three core principles.

3.2 Compared with the position in other sectors (such as the NHS), progress in developing corporate governance arrangements in local authorities has been relatively slow. However, the appointed auditors have reported that most councils in Scotland are now taking steps to assess and develop their corporate governance arrangements.

3.3 The Accounts Commission has endorsed the audit committee concept as advocated by the Cadbury Committee as an integral component of good governance. While it is for each local authority to determine arrangements appropriate to its particular circumstances, the adoption and implementation of audit committee principles is regarded by the Commission as an important step in raising the standard of corporate governance in local government. Exhibit 6 highlights the main functions of an audit committee and Exhibit 7 contains an extract from the McIntosh Report on local government supporting the establishment of audit committees.

Exhibit 6: Functions of the audit committee

The functions of the Audit Committee should include:

- to review with management the adequacy of the internal control systems
- to review with management the adequacy of policies and practices to ensure compliance with relevant statutes, directions, guidance and policies
- to review with management compliance with relevant standards or codes of corporate governance
- to review with management the financial statements
- to ensure that the internal audit function is properly resourced and has appropriate standing within the council
- to review the activities of the internal audit function …
- to manage … all aspects of the council's relationships with the external auditors.

Source: *'Corporate Governance: A Framework for Public Service Bodies'*, CIPFA

Exhibit 7: Audit Committees: an extract from the *'McIntosh Report'*

"... we see a bigger role for councillors in scrutinising the performance and governance of their authorities. We see particular advantage in the creation of audit committees, drawn from outside the political leadership and working on a non-partisan basis, to provide independent reassurance to the council and its electorate that the council's resources are used properly and cost-effectively ...."

Source: *'Moving Forward, Local Government and The Scottish Parliament'* June 1999

3.4 In 1999/2000 auditors reported that several councils had established or were considering the establishment of an audit committee, or similar mechanism, to monitor the operation of the overall system of financial control. Some councils are considering a wider remit to include issues relating to expected standards of behaviour, codes of conduct, and policies on the arrangements for the prevention and detection of fraud and corruption. Overall, there is encouraging evidence from appointed auditors' reports of an increasing move towards setting up audit committees or adopting audit committee principles.

3.5 One of the most important roles that audit committees (or their equivalent) can undertake is to review reports from their internal and external auditors and monitor the implementation of audit recommendations. If the audit function is to be effective it is vital that action is taken to address weaknesses identified through the audit process. The responsibility for the operation of a sound system of internal control lies with council members and senior management and is an important part of their stewardship of public funds. Effective governance arrangements will assist them in discharging this responsibility.

Internal audit

3.6 There is some evidence from appointed auditors' reports that improvements have been made in councils' internal audit arrangements, following criticism in previous years' audit reports. In particular, it appears that internal audit staff are undertaking less non-audit work.

3.7 One of the main issues, which continues to be highlighted by appointed auditors in their 1999/2000 final reports, is the lack of specialist computer audit expertise available to councils' internal audit departments. Some authorities have reported problems in recruiting and retaining suitably qualified and experienced staff in this area. However, given the reliance placed on computerised systems for all aspects of councils' business it is important that arrangements are in place to ensure that appropriate controls exist in computerised systems and that these controls are operating effectively.

3.8 In response to the concerns highlighted in last year's overview report, the Accounts Commission is conducting a review of internal audit in Scottish local government. The overall objectives of the study are set out in Exhibit 8. The results of the Commission's study are due to be published in summer 2001.

Exhibit 8: Overall objectives of Commission's study on internal audit

The Accounts Commission is currently undertaking a review of internal audit in Scottish councils. The overall objectives of the study are to:

- undertake a 'health check' of all council internal audit services against accepted good practice
- identify the key features of an effective internal audit function
- disseminate good practice among councils
- make recommendations that help councils to provide a Best Value internal audit service.

Internal control issues

3.9 Appointed auditors continue to report weaknesses in basic accounting controls including, in several instances, the absence of regular and timely reconciliations between key financial systems and the financial ledger.

3.10 While it was recognised that there would be a period following local government reorganisation when difficulties arising from inherited financial systems would have to be addressed, it is disappointing to note that in 1999/2000, the fourth year following reorganisation, appointed auditors continue to express concern about the absence of fundamental accounting controls. Reconciliations between subsidiary systems and the main financial ledger are an essential mechanism for early identification of errors or, possibly, fraud. As indicated elsewhere in this report, the absence of reconciliations can have serious financial consequences for local authorities.

Exhibit 9: Basic accounting controls - bank reconciliations

Reconciliation is the process of matching two separate records of transactions to provide assurance as to the accuracy and integrity of financial procedures. In the case of bank reconciliations, which are among the most fundamental reconciliations, the balance on the financial ledger is matched with the balance on the bank statement provided by the bank. Items required to achieve balance are identified and, where appropriate, investigated.

In the absence or late production of this basic reconciliation, councils cannot determine whether the accuracy or integrity of their financial procedures have been compromised and are therefore exposed to unacceptable risk.

3.11 In addition to late or absent reconciliations, appointed auditors have also commented on weaknesses in other fundamental internal controls in a number of financial systems including: lack of segregation of duties, lack of controls to ensure goods are received before invoices are paid and lack of adequate access controls for primary computerised systems. These issues have been highlighted at several authorities and have featured in previous overview reports. In some cases appointed auditors have reported the lack of timely and effective action by councils in response to previous identification of such issues in both external and internal audit reports. This highlights the importance of having effective governance arrangements in place to ensure that audit recommendations are acted upon within acceptable timescales.

4 Financial position

Revenue

4.1 Councils' revenue expenditure is financed from three main sources: government grants (which includes yields from non-domestic rates), council tax and fees and charges. About 80% of financing for local government expenditure (net of fees and charges) comes from central government grant, and council tax funds about 15%. Expenditure on council housing is met mainly from rents.

4.2 Income and expenditure on council services other than housing is reflected in the General Fund. The Housing Revenue Account (HRA) records transactions relating to the provision of council housing. The HRA is 'ring-fenced' in that councils may not subsidise council housing activities from the General Fund.

4.3 During 1999/2000, 20 councils had in-year deficits on the General Fund totalling £46.8 million. The remaining 12 councils had surpluses in 1999/2000 totalling £28.7 million. Taking account of balances brought forward from 1998/99, the General Fund of 30 councils closed the year in surplus and the accounts of two councils (East Ayrshire and North Ayrshire) had relatively small deficits. The total net value of General Fund balances across councils at 31 March 2000 was £177 million which represents 2.7% of total General Fund net expenditure (31 March 1999: £195 million, 3.1% of total General Fund net expenditure).

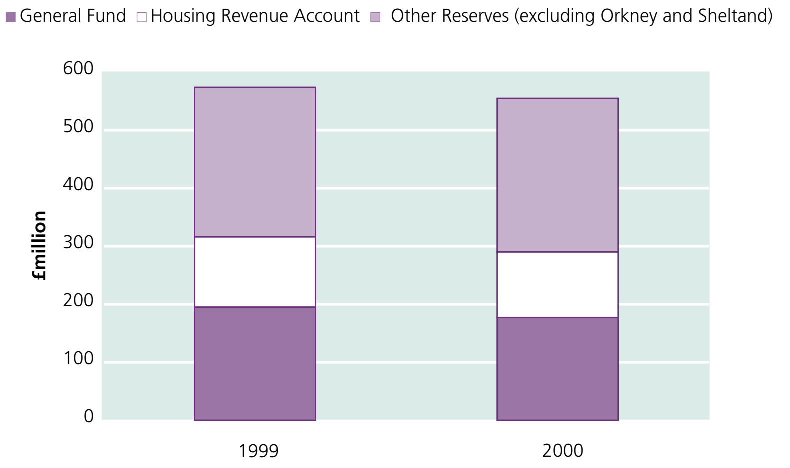
4.4 The closing balances on Housing Revenue Accounts show that 27 councils were in surplus at 31 March 2000 and five had a nil balance. The total value of Housing Revenue Account balances across councils at 31 March 2000 was £113 million which represents 9.7% of total Housing Revenue Account gross expenditure (31 March 1999: £121 million, 10.4% of total Housing Revenue Account gross expenditure).

Reserves

4.5 In addition to the General Fund and Housing Revenue Account, councils hold other funds. The total value of these funds at 31 March 2000 was £264 million (1999: £258 million). The principal elements of this are renewal and repair funds, insurance funds and useable capital receipts but there is a wide variation in the amounts held by councils. These totals exclude significant balances held by Orkney and Shetland Islands Councils arising principally from harbour related activities.

4.6 The total level of councils' reserves is shown in Exhibit 10. In 1999/2000 councils utilised reserves in support of General Fund and Housing Revenue Account expenditure but, overall, the level of balances was relatively unchanged from 1998/99.

Exhibit 10: Councils' total reserves



Capital

4.7 Capital expenditure by councils is controlled by Scottish Ministers under section 94 of the Local Government (Scotland) Act 1973 and related regulations. Councils are provided with consent to incur expenditure under broad service headings. Capital expenditure is mainly financed by borrowing which allows costs to be spread over future years in order to match the benefits from the expenditure incurred. However, councils can decide to fund capital expenditure from revenue. This increases the capital spending capacity but the expenditure falls to be met in full by council taxpayers or council tenants in the year in which the expenditure is incurred.

4.8 Total General Fund capital expenditure in 1999/2000 across all councils was £611 million, of which £97 million (16%) was financed from current revenue. For the Housing Revenue Account, capital expenditure in 1999/2000 totalled £344 million of which £104 million (30%) was financed from current revenue. Within these overall figures, there is wide variation in the extent to which councils finance capital expenditure from current revenue. This is particularly evident on the Housing Revenue Account where the amount of capital expenditure financed from current revenue in 1999/2000 ranged from nil to over 50%. About a third of all councils in Scotland financed more than 40% of Housing Revenue Account capital expenditure from current revenue in 1999/2000.

4.9 In summary, councils held reserves totalling about £550 million at 31 March 2000. The statutory basis and purpose of these is not always clear and there is wide variation in the amounts held. There is also significant variation in the extent to which capital expenditure is financed from current revenue. These are areas which may warrant closer review by councils and their appointed auditors in future years.

5 DLO/DSO performance

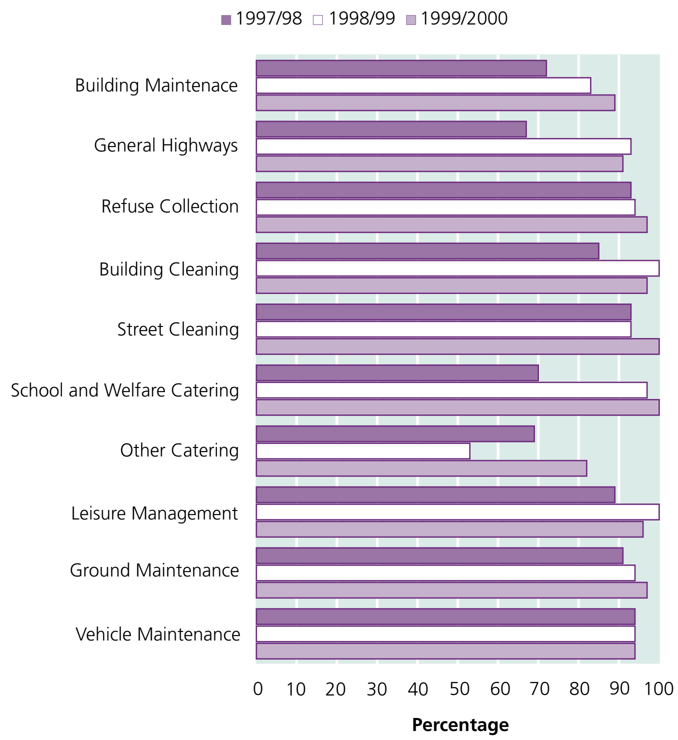
5.1 The main statutory provisions governing the operation of councils' Direct Labour Organisations (DLOs) and Direct Service Organisations (DSOs) under Compulsory Competitive Tendering (CCT) are contained in the Local Government, Planning and Land Act 1980 and the Local Government Act 1988 respectively, and in related secondary legislation.

5.2 In consequence of local government reorganisation in Scotland (which was effective from 1 April 1996), CCT was largely suspended. With the development of the Best Value regime, there has been an extension of the moratorium on existing CCT activity. Only construction work in excess of £500,000 is currently required to be exposed to competition under CCT. However, councils are still required by statute to prepare a detailed specification and calculation of the charge to be made by their DLOs and DSOs for carrying out work. They are also required by statute to maintain accounts and to break-even for each defined category of work.

5.3 Following reports by councils of substantial deficits, and weaknesses in financial management in DLOs/DSOs in 1997/98, the Controller of Audit made a statutory report to the Accounts Commission in September 1998. This provided an independent assessment of the management and performance of DLOs/DSOs across all councils. A follow-up report on the 1998/99 position was published in August 1999.

5.4 Exhibit 11 summarises financial performance against the statutory break-even target in 1999/2000 and compares this with 1998/99 and 1997/98.

Exhibit 11: DLOs/DSOs achieving the break-even target

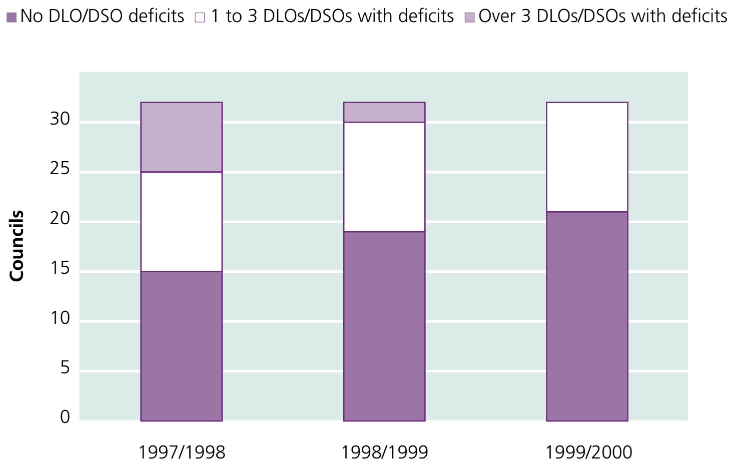


5.5 The DLO/DSO results for 1999/2000 show further improvement over recent years with 94% of all DLOs/DSOs in Scotland achieving the statutory break-even target compared with 91% in 1998/99 and 82% in 1997/98.

5.6 Overall, surpluses across all DLOs/DSOs in 1999/2000 totalled £43.4 million (1998/99: £42.7 million, 1997/98: £32 million). Deficits for the year totalled £1.7 million (1998/99: £4.7 million, 1997/98: £15 million).

5.7 Exhibit 12 shows a continuation of the trend of an increasing number of councils where all their DLOs/DSOs achieved the statutory break-even target.

Exhibit 12: DLO/DSO deficits in councils



5.8 A recurring theme in the Controller's reports on DLOs and DSOs was the need for councils to improve the quality of performance information essential for the effective management of DLO/DSO activities. This was also the subject of a value for money study by the Accounts Commission whose report '*Understanding our business – management information for DLOs and DSOs and other operational services*' was published in December 1999. The main points from this report are summarised in Exhibit 13.

Exhibit 13: 'Understanding our business' - summary

Councillors:	The report highlighted the roles and responsibilities of councillors in relation to DLOs/DSOs, and the information they need to meet these responsibilities.
Council officers:	The report highlighted the roles of the chief executive, corporate management team and finance director, the importance of effective partnership working between clients and contractors and between internal suppliers and contractors, in building a corporate approach to DLOs/DSOs.
Managing the business:	The report highlighted the importance of business planning, and the need for good management information in managing the operation of DLO/DSO businesses.

5.9 As part of their 1999/2000 audits, appointed auditors reviewed councils' progress in implementing the good practice points set out in the Commission's report. Overall, appointed auditors indicated that councils had made good progress in this area. However, they indicated that there was scope for further improvement in the content and format of business plans and in the financial and performance information provided to councillors with responsibilities for DLOs/DSOs. In some cases, appointed auditors indicated that training for councillors on their roles and responsibilities in relation to DLOs/DSOs and the interpretation of financial information may assist in securing further improvement in this area.

5.10 In one particular case (Glasgow City Council), the appointed auditor noted that, following a Best Value review in 1999/2000, the Council restructured its vehicle related activities. This led to all functions relating to vehicle operation being provided by the DSO and subject to a unitary charge. As a result the income recorded in the statutory revenue account related substantially to charges for vehicle provision rather than to the statutorily defined activity of repair and maintenance of vehicles. Also, the charges relating to the defined activity were not separable from other charges. As a result, the appointed auditor qualified his opinion on the DSO financial statement. This particular example may point to a wider issue in that Best Value initiatives in services still subject to the CCT legislation may lead to the development of approaches which are not easily reconciled with the statutory accounting requirements which remain in force.

6 Housing/council tax benefits

6.1 Councils are responsible for administering housing and council tax benefits and receive reimbursement from the Department of Social Security (DSS) through an annual claim for subsidy based on the amount of benefit granted. The annual subsidy claim is subject to audit certification and appointed auditors must be satisfied that councils' underlying systems for calculating and granting benefit are sound. In addition, the Benefit Fraud Inspectorate (BFI) examines and reports on how local authorities administer housing and council tax benefit, with particular reference to the prevention and detection of fraud. Audit Scotland works with the BFI to develop complementary roles and avoid unnecessary duplication of work. This relationship is governed by a memorandum of understanding.

6.2 The DSS has drawn up a Verification Framework which attempts to improve councils' prevention of claimant fraud, sets out the information which should be collected before benefit is paid and specifies the minimum standards of evidence and the checks that must be made throughout the life of a claim. Compliance with the Framework is not compulsory but councils which implement it receive additional funds from DSS.

6.3 The housing and council tax benefit system is complex, involves a high volume of transactions and is susceptible to claimant fraud. The levels of detected fraud in 1999/2000 in terms of number and value have increased from 1998/99 and are set out in Exhibit 14. Adoption of the Verification Framework should help prevent fraud and error by verification of initial entitlement and regular review of high risk claims. Appointed auditors continue to report that some authorities have not yet fully implemented the Verification Framework. In addition, the systems for administering benefits in some authorities exhibit general internal control weaknesses of the type highlighted in section 3 of this report.

Exhibit 14: Housing benefit/council tax benefit fraud detected

	1999/2000	1998/99	1997/98
Number of frauds	12,243	10,409	13,867
Value of fraud related over-payments	£6.9 million	£5.4 million	£4.2 million
Estimated benefits paid by councils	£1.4 billion	£1.3 billion	£1.2 billion

6.4 The legislation relating to housing and council tax benefits is complex and subject to frequent modifications. There is a requirement, therefore, for councils to review regularly their procedures in order to support the administration of benefits. A number of councils have experienced difficulty in this area and an example of the problems which can arise is described in section 12 of this report in relation to one particular council. Given the sums involved, and the problems experienced, it is anticipated that this area will continue to feature significantly in appointed auditors' work programmes for 2000/01.

7 Financial relationships with external parties

7.1 The Code of Guidance on Funding External Bodies and Following the Public Pound, developed jointly by the Accounts Commission and the Convention of Scottish Local Authorities (CoSLA), sets out the principles of best practice for councils in establishing relationships with companies, trusts and other bodies where there is substantial local authority funding. The Code was supplemented by operational guidance issued by CoSLA in 1998.

7.2 The overall objective of the Code is set out in Exhibit 15.

Exhibit 15: 'Following the public pound'

'The principles of openness, integrity and accountability apply to councils in their decisions on spending public money which are subject to public record and external audit. These principles should also apply to funds or other resources which are transferred by councils to arms-length bodies such as companies, trusts and voluntary bodies'.

Source: Accounts Commission/CoSLA 'Code of Guidance on Funding External Bodies and Following the Public Pound' May 1996

7.3 The appointed auditors assess how councils are dealing with this issue, by reviewing councils' arrangements and comparing these with the guidance contained in the Code.

7.4 Following earlier reviews of progress, appointed auditors have reported a number of areas where action is required by councils to ensure closer compliance with the Code's requirements. These are set out in Exhibit 16.

Exhibit 16: Areas to be addressed to achieve closer compliance with the Code

There is a need for councils to:

- ensure that the Code's requirements are extended to all relationships where substantial funding agreements exist
- ensure that the roles and responsibilities of supervising council officers are clearly defined. More generally, there is a need for council members and officers who represent the council's interests in external bodies to be properly advised of their responsibilities, in relation to the external body and the council. Where appropriate, this should be supported with relevant training for members and officers.
- ensure that robust monitoring arrangements are in place. Having established these arrangements, there is a need for councils to ensure that evidence is available to confirm that these are working in practice. These include arrangements for monitoring service level agreements (which set out the rights and responsibilities of both parties to the agreement) and for monitoring the use of grant monies provided by the council to external bodies (to ensure that the funds are being used for the purpose intended).

8 Audit follow-up

8.1 The appointed auditors of the 66 local authority bodies in Scotland are required to produce reports on matters arising from their audits. Where the auditors have concluded that action needs to be taken to make the improvements necessary in response to their findings, they have agreed or will agree action plans with the local authority which specify the action needed, where responsibility for action rests and a timetable for implementation. Implementation of the actions plans is monitored and followed-up by the appointed auditors.

8.2 In cases where remedial action has not been agreed or where the local authority has been slow to implement agreed action, Audit Scotland may pursue the matter directly with the authority (on behalf of the Controller of Audit). The Controller of Audit may also use his formal powers to report to the Accounts Commission on any matter arising from the audit.

8.3 The various measures available in terms of follow-up of audit findings provide a flexible framework for action in relation to the annual audit of accounts, stewardship of funds and governance matters. The approach adopted in following-up value for money work is set out later in this report.

Part 2: Matters arising during the year

This part covers:
- Statutory reports
- Year 2000 compliance
- General accounting issues
- Matters arising at individual councils
- Specific value for money findings
- Best Value
- Performance indicators

9 Statutory reports

9.1 During the year to 31 December 2000, five statutory reports were prepared for consideration by the Accounts Commission. These are set out in Exhibit 17.

Exhibit 17: Statutory reports in 2000

2000/1	Complaint relating to the accounts of Glasgow City Council
2000/2	Inverclyde Council – Audit of Accounts 1997/98
2000/3	Overview Report on the 1998/99 Audits of Local Authorities
2000/4	Comments on Inverclyde Council's Formal Response to Statutory Report 2000/2
2000/5	Dumfries and Galloway Council: Externalisation of Residential Homes for Older People

Inverclyde Council

9.2 At its meeting on 5 July 2000, the Accounts Commission considered the two statutory reports on Inverclyde Council (S.R. 2000/2 and S.R. 2000/4). The Commission was concerned about reports of significant weaknesses in the Council's financial procedures and the arrangements for preparing accounts and other matters which were indicative of a poor standard of financial administration and control within the Council.

9.3 In August 2000 the Commission held a public hearing at the Council's offices at which evidence was taken from the Leader of the Council, the Chief Executive, the Director of Resource Services and the Director of Social Work and Housing. In its subsequent findings, the Commission expressed concern about the serious continuing shortcomings in financial management and stewardship in Inverclyde Council and instructed the Controller of Audit to report early in 2001 on the extent to which, by 31 December 2000, the commitments set out in the Council's action plan had been achieved.

9.4 Based on a review by the Council's appointed auditors, the Controller reported in January 2001 that there was a need for urgent action on the part of the finance department to address the remaining issues, in particular accounting reconciliations, which are fundamental to proper financial administration. The report concluded that the action proposed by the Chief Executive in addressing these matters and the outstanding action points from previous audit reports was of critical importance. In particular, the report stated that it was essential that key vacancies in the finance department were filled and that all bank reconciliations were brought up to date by the end of the 2000/01 financial year, to ensure proper control of the Council's finances and to avoid potential delays in the preparation and audit of the annual accounts for that year.

Dumfries and Galloway Council

9.5 This report concerned two contracts entered into by Dumfries and Galloway Council for the provision of residential care for older people in homes which were owned and formerly run by the local authority.

9.6 The main purpose of this report was to identify those aspects of the externalisation process which demonstrated the opportunity to follow better practice in future similar exercises, whether undertaken by Dumfries and Galloway Council or other local authorities.

9.7 In considering the report the Accounts Commission acknowledged that the externalisation of residential homes was an innovative policy proposal at a time when the Council was coping with the aftermath of local government reorganisation and a difficult financial situation. The Commission recognised that the externalisation process was completed, and the transition to the new arrangement achieved, smoothly and sensitively with minimum disruption to residents and with the new facilities being delivered to the expected standard.

9.8 The Commission also stressed the need to ensure that options and risks are properly assessed and that appropriate governance arrangements are in place. When major policy initiatives are undertaken there is a need for proper appraisal of options based on consistent and full information given to council members and for the processes of the authority to be transparent with sufficient information in the public domain to enable citizens to hold the authority to account.

Exhibit 18: Dumfries and Galloway Council: concerns highlighted by the Commission

- The option appraisal process both at the initial stage of the project and later did not cover all possible options including further purchasing from the independent sector.
- In reviewing how the authority had estimated the future demand for residential care it was not readily apparent how the impact of care in the community had featured in the authority's long term assessment.
- During negotiations the terms of the proposed contract changed significantly from the basis of the original invitation to tender, but the authority did not appear to have considered the possibility of retendering at any stage.
- The financial implications of recommendations put before members, and the likely ultimate impact of their decisions, were not always made clear by officers.
- The authority should have satisfied itself that the quality and cost of capital works undertaken was consistent with the estimates produced during the negotiations and with the final contract prices.

9.9 The Commission commended the fundamental procedures recommended in the statutory report and stated that it expects councils to observe them when reviewing and/or changing methods of service delivery.

10 Year 2000 compliance

10.1 In the year 2000 local authorities along with all other organisations worldwide, faced the risk that computer systems would be seriously affected by the millennium date change – a syndrome known as the Millennium Bug. Local authorities had prepared for the event and invested significant amounts in ensuring that their services were not disrupted.

10.2 At the critical dates of 31 December 1999/1 January 2000 local authorities experienced no significant effect on their services from the threatened Millennium Bug. Investment in service continuity planning, system testing and system upgrades undertaken to counter the Millennium Bug ensured that services were fully maintained at the required level. Since 1 January 2000 no further millennium compliance problems have emerged.

11 General accounting issues

Capital accounting

11.1 With effect from 1 April 1994 the Code of Practice on Local Authority Accounting (ACOP) introduced a new system of capital accounting for local authorities. The system is designed to ensure that most categories of fixed assets are stated in the accounts at current value and that annual charges to service revenue accounts more closely reflect the cost of using assets. To ensure that costs associated with fixed assets are kept up to date, ACOP requires assets to be revalued at least every five years. An essential element of the capital accounting system is an up to date and accurate asset register.

11.2 As in previous years, appointed auditors continue to comment adversely on some councils' progress in complying fully with the capital accounting requirements. The main focus of attention in 1999/2000 was the failure by several councils to undertake a full revaluation of assets within the five year timescale specified by ACOP. In most cases this did not impact on the auditors' opinion on the accounts but, as noted in section 2 of this report, the 1999/2000 accounts of Clackmannanshire Council were qualified in this regard. In addition some appointed auditors continue to report weaknesses in procedures for maintaining asset registers.

11.3 Evidence from appointed auditors' reports suggest that many councils do not charge depreciation on buildings and infrastructure assets on the grounds that they have been subject to regular repair and maintenance to extend the asset's useful life in its existing use. Appointed auditors have commented adversely on the quality of the information that councils have produced in support of this policy of non-depreciation. For the year to 31 March 2001, ACOP requires that the test of whether assets should be depreciated rests solely on councils being able to demonstrate that any depreciation charge would not be material.

11.4 A further recurring theme in appointed auditors' reports relating to capital accounting is the need for councils to ensure that expenditure is properly and consistently classified as between revenue and capital, in accordance with generally accepted practice set out in ACOP.

Pensions accounting

11.5 ACOP specifies the nature of the information which local authorities need to disclose in their accounts in relation to pension costs. Disclosure includes information on unfunded schemes and discretionary payments granted by individual councils under the Local Government Pension Scheme. ACOP requires a statement to be included in the accounts showing the total cost of future pension obligations in respect of unfunded pension payments.

11.6 In general, appointed auditors have reported that few local authorities complied fully with these requirements in the 1999/2000 accounts as to do so would have required actuarial calculations and arrangements were not in place to produce these. Appointed auditors have indicated that authorities are seeking actuarial advice to ensure that these disclosure requirements, and additional disclosures required by ACOP for 2000/01 accounts are met. (The 2000 ACOP applies to accounts for 2000/01 and requires disclosure of future liabilities relating to discretionary elements awarded.)

11.7 The firefighters' pension scheme, which applies across Scotland, is an unfunded scheme, with current pensions being paid from scheme members' contributions in the year. Any shortfall between payments from members and payments to pensioners is met from the relevant authorities' revenue accounts. Each fire authority's budget for pension costs is based on actual expenditure in the previous three years. However, a potential problem may exist as a large number of firefighters who joined the service following a recruitment drive in 1974 will be eligible for retirement in 2004. Discussions are ongoing between the relevant authorities and the Scottish Executive concerning the funding of this liability.

Public/private partnerships/PFI

11.8 There are a number of public/private partnerships (PPP) and public finance initiative (PFI) contracts at various stages of completion in councils in Scotland.

11.9 Appointed auditors are reviewing the processes by which councils are progressing their interests in these schemes and, where appropriate, are providing preliminary views on the proposed accounting treatment (in particular whether the scheme will result in 'on-balance sheet' or 'off-balance sheet' treatment).

11.10 In particular, auditors have identified cases where development costs relating to PPP/PFI schemes have been capitalised. This is contrary to ACOP's requirement which specifies that development costs should be written off to revenue as they are incurred.

12 Matters arising at individual councils

Fife Council

12.1 As indicated earlier in this report, the absence of key accounting reconciliations can expose councils to the risk of error. A situation which occurred at Fife Council serves to illustrate the serious consequences arising from late detection of an error which would have been identified from the regular and accurate reconciliation of information held on the valuation roll (maintained by the assessor) and the non-domestic rates system (maintained by the Council's finance department).

12.2 During 1996/97, the assessor revalued several properties and passed details of the revised rateable values to the Council's finance department. The new values were correctly entered on the non-domestic rates system but one of the original entries, which should have been removed, was not. This meant that the value of the non-domestic rates levy was overstated. Consequently figures included in the submissions to central government which formed the basis of the calculation of Revenue Support Grant (RSG) for 1997/98 and 1998/99 were incorrect. RSG for 1997/98 was underpaid by £10.8 million and by £6.2 million for 1998/99.

12.3 Although the errors in the non-domestic rates levy were subsequently notified to central government, and the shortfalls in RSG were recovered, the appointed auditor reported that the delay in receipt of the payment cost the Council approximately £1 million in interest foregone. In April 2000, the Scottish Executive informed the Council that future RSG would not be rescheduled to compensate for this.

12.4 The appointed auditor attributed the error mainly to weaknesses in internal control systems (lack of appropriate reconciliations), staffing and computer software problems encountered following local government reorganisation, and the delay in producing the 1996/97 accounts for audit. These are issues which have been highlighted in this and previous local government overview reports. As stated in Part 1, there is an urgent need for councils to take action to ensure that these issues are addressed, where they still exist, in view of the serious consequences illustrated by this example.

West Dunbartonshire Council

12.5 The appointed auditors of West Dunbartonshire Council reported that the Council had identified £509,000 of non-recoverable housing benefit overpayments resulting from problems experienced in introducing a new computer based system.

12.6 A review of all benefit cases was undertaken due to doubts about data accuracy at the time of the introduction of the new system. This resulted in revised benefit notification letters being produced but in many cases claimants received multiple letters indicating changes to their benefit payments. The Council temporarily suspended the issue of notification letters to enable rectification of the position but the problem continued for longer than expected and the Council was slow to review the position. As a result, many claimants did not receive notification of changes in their entitlement to benefit. In these circumstances, the housing benefit regulations determine that councils cannot recover overpayments from claimants.

12.7 The problems experienced by the Council highlight the importance of having in place appropriate monitoring and control arrangements, particularly during the implementation phase of a new computerised system. In a separate report on the issue the appointed auditors identified the following factors as contributing to this problem.

- The timetable for implementation of the new system and staff training was inadequate.
- Responsibility for benefits, which was part of an integrated council tax and benefit system, lay with the Council's social work and housing department. There was limited formal communication with other departments, including finance.

12.8 The appointed auditors also reported that there were delays in reporting the financial implication of the problem to elected members. The Council's response to this was that the scale of the problem was only capable of being quantified as investigations proceeded.

12.9 The appointed auditors reported that, while there were a number of key controls operating at a detailed level, there was a lack of high level management controls to enable early identification of a major problem.

13 Specific value for money findings

13.1 The Accounts Commission approves an annual programme of value for money studies undertaken centrally by Audit Scotland. This work may culminate in the publication of national reports, management papers and management handbooks. Councils are expected to use these to challenge their current levels of performance and take action to achieve the standards of the best.

13.2 Exhibit 19 summarises the value for money reports published by the Accounts Commission relating to study work undertaken during 1999/2000.

Exhibit 19: Reports published on 1999/2000 study topics

Study topics	Publication date
Benchmarking refuse collection: a review of councils' refuse collection services	April 2000
Safe and sound: a study of community safety partnerships in Scotland	May 2000
Managing rent arrears: getting the balance right	June 2000

In addition to these national reports, management papers dealing with risk managment (Shorten the odds); using gap analysis to improve service quality (Can't get no satisfaction), the management of data within councils (Common data, common sense); and building an information portfolio, (Getting to know your services) were published. A self-assessment management handbook, Commissioning community care services for older people was also published.

13.3 Appointed auditors conduct local follow-up action to ensure that councils implement appropriate improvement action in response to the recommendations contained in the Commission's value for money reports.

Benchmarking refuse collection: a review of councils' refuse collection services

13.4 This benchmarking study was conducted to assist councils to achieve Best Value in their refuse collection services. All councils in Scotland have been provided with national benchmarking information, including operational and financial data. Refuse collection managers are using this information to challenge current levels of service performance and take action, where appropriate, to improve performance.

13.5 The study found that there have been substantial productivity improvements in councils' refuse collection services since the Commission's last review in 1990. The cost of refuse collection has risen from £90 million in 1990 to £98 million in 1998/99, a 9% increase, which is less than the rate of inflation. Over the same period, the tonnage of refuse collected increased by 14%, the number of employees fell by 44% from 4,800 to 2,700 and the number of vehicles fell by 25%.

13.6 Key study findings included:

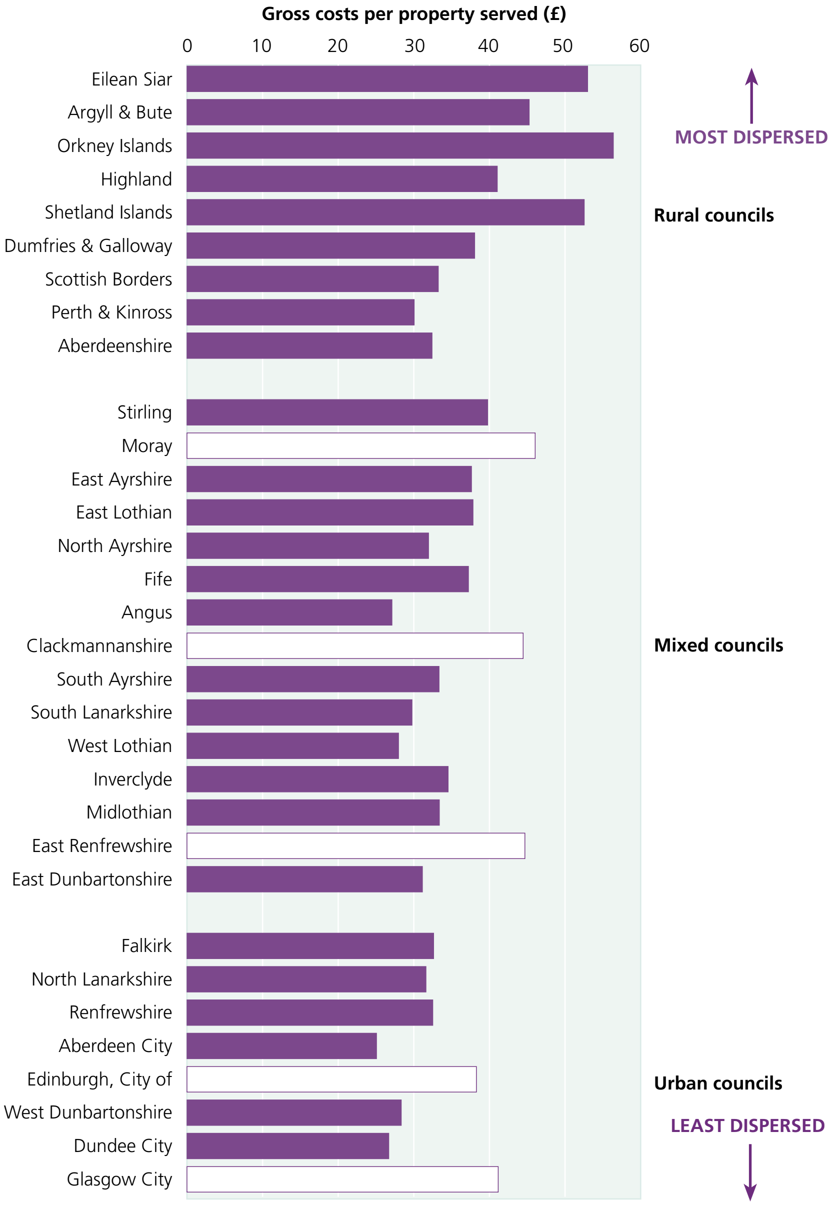
- Commercial refuse services cost Scottish councils an estimated £30 million a year but only £20 million is collected in charges leaving a £10 million shortfall to be paid by council tax payers. It is the Scottish Executive's policy for councils to recover all costs associated with the collection and disposal of commercial waste but it seems that around half of the 32 councils are not recovering all of these costs.

The Accounts Commission is urging councils to reduce this subsidy by ensuring that their charges fully cover the cost of collection and disposal and by taking action to reduce the number of commercial premises which dump refuse and avoid payment altogether.

- Most councils' refuse collection costs range from £30 - £40 per property per year (Exhibit 20). However, five councils: Moray, Clackmannanshire, East Renfrewshire, City of Edinburgh, and Glasgow City, are highlighted in the report for having collection costs which are higher than expected. The Commission wants these councils to find out why their collection costs are higher and take appropriate action.

Exhibit 20: Annual gross cost of mainstream refuse collection per property served

The cost of collection tends to increase with population dispersion, although there is variation among family groups.



Note: Mainland councils with higher than expected collection costs are highlighted.

Source: Local audit returns

- Scottish councils recycled only 3.8% of waste in 1998/99, well below the government's year 2000 target of 25%. Councils which carry out separate collections, for example of paper, tend to have higher recycling levels but many councils have withdrawn or are considering withdrawing this service because of reductions in the market price for recycled materials.

13.7 The report concluded that councils will have to give waste management a higher priority if they are to meet government recycling and landfill targets, as set out in the National Waste Strategy. This will involve them developing an effective waste management strategy, in partnership with other councils and agencies, and allocating sufficient funding to support expensive but environmentally desirable, collection and recycling activities. However, the Scottish Executive has a strategic role to play and should consider how it can assist councils to meet recycling targets.

13.8 Appointed auditors have agreed improvement action plans with their local councils and will be monitoring the implementation of these plans.

Safe and Sound: a study of community safety partnerships in Scotland

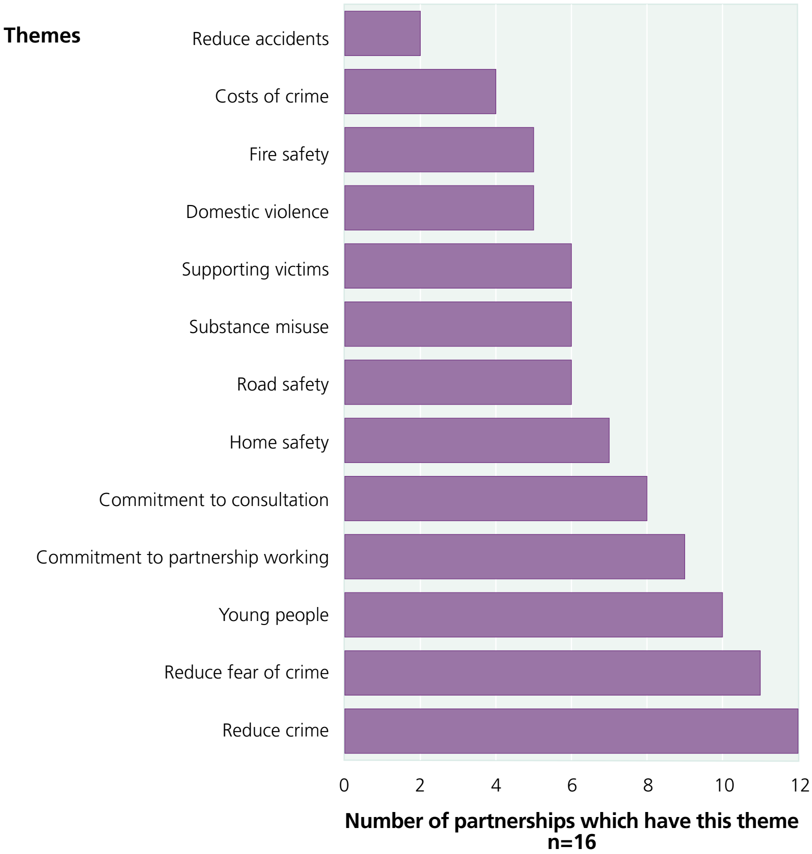
13.9 Improving community safety is about creating safer places to live, work and visit, without fear or risk of harm. Many different agencies are involved in dealing with the impact of unsafe environments on individuals and communities. Investment by one agency to reduce risks is likely to bring benefits, not only to the community and the investing agency, but also to a range of other organisations.

13.10 Effective partnerships are a central mechanism for improving safety and reducing risk in communities. This study looked at how community safety partnerships have progressed in Scotland, and the extent to which the Scottish Executive guidance *'Safer communities in Scotland'* has been implemented. It highlights good practice and recommends steps that partnerships should take to improve their effectiveness.

13.11 The study found that multi-agency partnerships led by councils and involving many different organisations, such as police and fire services, health boards and hospital trusts, have been set up across Scotland to tackle jointly problems such as anti-social behaviour, domestic violence, crime and reducing accidents and injuries. Exhibit 21 shows the common themes emerging from a review of the strategic priorities and objectives from 16 partnerships.

Exhibit 21: Community safety partnership themes

The common themes emerging from a review of 16 partnership strategies.



Source: Audit Scotland fieldwork

13.12 Most partnerships are still at an early stage of development and many need to take further action if they are to tackle effectively local problems in the long term. The report makes recommendations to help partnerships work more effectively in the future. These include:

- *Links to community plan* – community safety partnerships should ensure that they have clear organisational and reporting links to the local authority's community planning framework.
- *Community safety audits* – partnerships should agree a phased plan for acquiring the information they need to identify common safety problems, and the causes of those problems.
- *Setting objectives* – strategic priorities should be based on evidence and translated into measurable objectives.
- *Measuring progress* – partnerships should establish a baseline from which progress will be measured and targets set, agree a set of strategic performance indicators reflecting their local priorities and review progress.
- *Resource planning* – partnerships should develop clear, long-term resource plans to underpin their strategies.

13.13 A number of councils have invited their appointed auditors to assess independently the progress being made by their community safety partnerships and to assist them in developing effective performance measures.

Managing rent arrears: getting the balance right

13.14 Rent arrears is an increasing problem for many councils and registered social landlords (RSLs). At 31 March 1999, the total rent arrears due from council tenants was £37.2 million (3.3% of the gross rent due). At the same date, the total rent arrears due from mainstream RSL tenants was £6.8 million (2.6% of gross rent due).

13.15 This joint study with Scottish Homes provided a snapshot of the extent to which all councils and a representative sample of RSLs were implementing good practice in managing rent arrears, in early 2000. Overall the RSLs sampled performed better, by meeting more of the good practice standards than councils did. This helped RSLs to achieve lower levels of rent arrears.

13.16 The top-performing councils identified in the report are Aberdeen City, Argyll & Bute, City of Edinburgh, Moray, North Lanarkshire, South Lanarkshire and West Lothian. Councils identified as needing to take significant steps to improve their management of arrears are Angus, Fife, Orkney Islands, Renfrewshire and South Ayrshire.

13.17 The report highlights key measures that landlords can take to improve their management of rent arrears. They should, for example:

- Make contact with tenants within two weeks of the first missed payment (currently 52% of councils and 29% of RSLs do not do so)
- Interview tenants by the time tenants are eight weeks in arrears with their rent (at present 48% of councils and 24% or RSLs do not do so)
- Take proper account of the tenant's ability to pay when making formal arrangements to repay arrears (currently 45% of councils and 33% of RSLs do not do so).

13.18 At a broader level the study calls for landlords to:

- Give rent collection a high priority
- Give clear leadership and support to staff in implementing arrears procedures, including evictions
- Provide needs-based training and good IT systems to support staff in doing their jobs effectively
- Improve liaison between councils and RSLs, particularly in relation to housing benefit issues
- Adopt as targets the levels of rent arrears currently being achieved or bettered by 25% of councils and RSLs (Exhibit 22).

Exhibit 22: Achievable rent arrears targets for councils and mainstream RSLs

	Targets	
Councils	**% of gross rent due**	**% of net rent due**
city and urban areas	3.1%	7.0%
semi-urban and rural areas	1.7%	3.0%
Maintstream RSLs	**% of gross rent due**	**% of net rent due ***
city and urban areas	2.0%	n/a
semi-urban and rural areas	1.5%	n/a

* The Accounts Commission Performance Indicator measures current tenant rent arrears as a percentage of the net rent due (ie, total rent due less housing benefit). RSLs do not currently collect the information to enable them to calculate this figure.

Source: Study data analysis

13.19 The report concluded that the £44 million rent arrears bill in Scotland could be reduced by as much as £8 million if councils and RSLs adopted better management practices to prevent and recover rent arrears. Councils could reduce their arrears from £37 million to £31 million and RSLs from around £7 million to £5 million.

13.20 Appointed auditors are following up the action taken by councils in response to the national study report recommendations. Scottish Homes is monitoring the action taken by RSLs.

14 Best Value

Background

14.1 Best Value in Scotland was introduced in 1997. It requires all councils to increase accountability, to deliver the best quality services possible within the resources available and to pursue continuous improvement. Best Value applies to all the activities carried out by councils.

14.2 The Best Value Task Force set out the performance management and planning (PMP) arrangements that it expected all councils to be putting in place to help incorporate Best Value as a way of working. Each council is expected to be showing clear evidence of achievement against the Best Value attributes set out in Exhibit 23.

Exhibit 23: The PMP framework and assessment criteria

- Commitment to Best Value and acceptance of four key principles (accountability, ownership, continuous improvement, transparency).
- Political and senior management leadership.
- Performance management and planning framework (PMP).
- Programme of service reviews.
- Public Performance Reporting (PPRg).
- Commitment to equality issues.

Source: Best Value Task Force final report, para 1.6

14.3 Meeting this set of expectations is not an end in itself. These attributes underpin a council's ability to improve services and strengthen accountability. They allow a council to focus its activity more effectively on the priorities of the citizens and communities it serves, and enable it to make best use of its resources in addressing these priorities.

14.4 Appointed auditors have the task of assessing the progress made by each council in terms of meeting the expectations set out in Exhibit 23. The PMP audit framework assesses a council's approach to Best Value under ten criteria that are organised under the four key questions identified by the Task Force (Exhibit 24).

Exhibit 24: The PMP framework and assessment criteria

Q1	**How do we know we're doing the right things?**
1	We understand the needs, expectations and priorities of all our stakeholders
2	We have decided on the best ways to meet these needs, expectations and priorities
3	We have detailed plans for achieving our goals
4	Our plans are clearly based on the resources we have available
Q2	**How do we know we're doing things right?**
5	We make best use of our available resources
6	We make best use of our people
7	We monitor and control our overall performance
8	We have sound financial control and reporting
Q3	**How do we plan to improve?**
9	We actively support continuous improvement
Q4	**How do we account for our performance?**
10	We provide our stakeholders with the information they need about our services and performance and listen to their feedback

Note: These criteria have been updated for the 2000/2001 PMP Audit

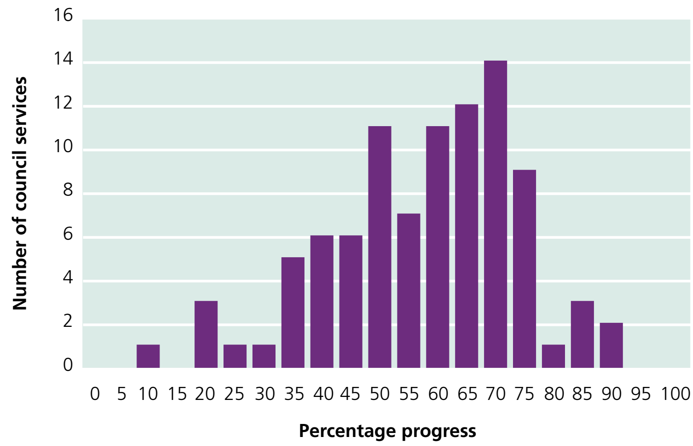
14.5 For 1999/2000 each council selected three services for review. Appointed auditors validated the self-assessments and agreed with each council what improvements would be made to the PMP framework in each of the selected services. Appointed auditors examined only nine of the ten PMP criteria, with Public Performance Reporting (PPR - criterion 10) being excluded because councils had only recently agreed their approaches with the Scottish Executive. In future years, PPR will be included and appointed auditors will be examining the extent to which the agreed improvements have been implemented.

14.6 The Accounts Commission published a progress report in October 2000 (*Making Progress with Best Value*) that provided a snapshot of councils' performance management and planning arrangements, based on the PMP audit. Councils had the freedom to select which of their services would be audited, and some services were known to be making more progress than others. The findings from the audit are therefore not a representative sample of all council services. However, they do give an indication of the progress being made. The key findings from the audit are set out below.

Main messages from the PMP Audit (1999/2000)

14.7 Overall, there was clear evidence of commitment to Best Value in councils. Most of the 96 services audited had made progress in developing and implementing performance management and planning arrangements. About two thirds of services achieved overall 'progress scores' of between 50% and 75% (Exhibit 25).

Exhibit 25: Progress in implementing a PMP framework



14.8 Around one in six services had made greater progress. These were:

Dundee City Council	Social Work Libraries and Community Information
City of Edinburgh Council	Housing Leisure Management
Moray Council	Economic Development
North Lanarkshire Council	Housing & Property Services Catering Services
Perth & Kinross Council	Leisure & Cultural Services
Renfrewshire Council	Housing Management Community Care Finance (Accounting & budgeting)
Scottish Borders Council	Leisure & Recreation
South Lanarkshire Council	Housing Services Social Work Services to Older People
Clackmannanshire Council	Chief Executive's Services
Falkirk Council	Corporate Services
Inverclyde Council	Legal Services

14.9 Conversely, one in six services had made limited progress and still have considerable work to do to develop their performance management and planning arrangements.

14.10 Despite the overall positive picture, there were three particular aspects of performance management and planning where many councils were making limited progress:

- identifying the costs and benefits of different options for service delivery, and evaluating the current service against these
- linking budgets and other resources to key service priorities
- reporting a full and accurate picture of service performance to decision-makers.

14.11 These aspects of PMP are particularly important to the delivery of Best Value and it is important that further progress is made.

14.12 Best Value also requires councils, over a five-year period, to subject all of their activities to a rigorous review that incorporates the '4Cs' – challenge, compare, consult, compete. This process will help councils to be sure that they are doing the right things and achieving Best Value. About a quarter of councils had made little progress with their programme of Best Value reviews at the time of the audit. In a small number of councils, it also appeared to be the case that services were waiting until a Best Value review was undertaken before effort was devoted to achieving continuous improvement.

15 Performance indicators

15.1 Since 1993/94, councils have been required to provide information on how well they are carrying out their activities. Councils have to publish the information in local newspapers by 30 September each year.

15.2 The Local Government Act 1992 places upon the Accounts Commission the duty each year to direct local authorities to publish information which will, in the Commission's opinion, assist in the making of appropriate comparisons – by reference to the criteria of cost, economy, efficiency and effectiveness – between:

- the standards of performance achieved by different authorities in a financial year
- the standards of performance achieved by authorities in different financial years.

15.3 In 1999/2000 councils, fire brigades and police forces, were required to report their service standards against 72 statutory performance indicators (PIs). These indicators covered a wide range of services and highlight both the variation in performance between councils and change in performance over time.

15.4 National reports relating to the indicators were published in January and February 2001 and distributed widely.

15.5 Some of the findings arising from the reports were that:

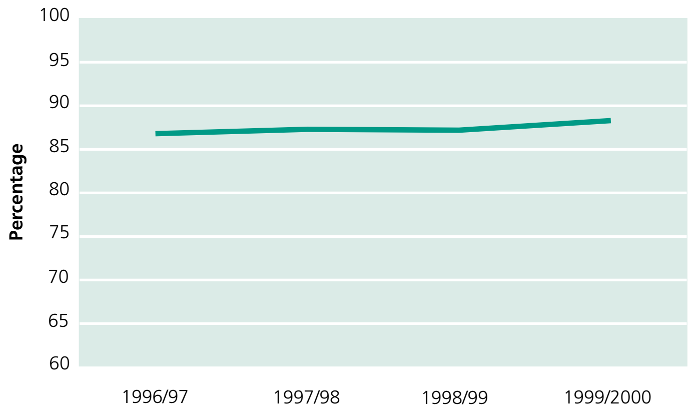
- the proportion of residential places for elderly people in single rooms and the number of assessed people receiving respite care both improved on previous years
- the number of people receiving home care has fallen each year since 1996/97 but the proportion receiving high levels of care (ie more than ten hours per week) rose to nearly 15% (Exhibit 26).

Exhibit 26: The total number of people receiving home care services and the proportion receiving at least 10 hours per week

- the overall level of crime cleared-up in 1999/2000 by Scotland's police forces again improved slightly to just over 43%
- the performance of fire brigades in meeting the targets for attending fires in the high, substantial and moderate risk category areas all deteriorated, compared with recent years

- the proportion of housing repairs classified by several councils as emergencies remains high - over a third of all repairs in seven councils
- tenants' rent arrears continued to increase, standing at 8.4% at the end of the year
- 60% of council house re-lets took longer than four weeks, and the rent lost due to empty houses cost councils £31.5 million
- the time taken to deal with special educational needs assessments improved to 30 weeks
- the level of waste recycling remained at about 5%
- the level of council tax collected at the end of the financial year stands at 88%. The percentage of council tax collected within the year has improved only very slowly since 1996/97 (Exhibit 27). The Commission has expressed concern over a number of years about the low levels of council tax collection.

Exhibit 27: The proportion of council tax for the year that was collected in the year



- the proportion of councils' invoices paid on time (generally within 30 days) remains at only just over 70%.

15.6 Over the last year, Audit Scotland has worked to improve the usefulness of the indicators by ensuring that they focus on outputs wherever possible, that they reflect national rather than local targets (which are better reflected in local performance reporting), and that they are easily interpreted. Councils welcomed these developments in their responses to the Commission's annual consultation.

15.7 Audit Scotland is continuing to work with the Society of Local Authority Chief Executives, CoSLA and the Scottish Executive to develop guidance for use by a range of bodies aimed at improving performance information.

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