



## **REPORT TO AUDIT COMMITTEE – 21 MARCH 2018**

### **AUDIT SCOTLAND– ANNUAL ASSURANCE AND RISKS REPORT ON LOCAL GOVERNMENT**

#### **1 Recommendation**

**1.1 The Committee is recommended to discuss and note this paper.**

#### **2 Background / Discussion**

2.1 The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. An important principle underpinning the new framework is an integrated approach to auditing and reporting Best Value, in which Best Value is assessed over a five year audit appointment as part of the annual external audit. At the conclusion of each year's audit, an annual audit report summarising the significant matters arising from the year's audit is published. In local government, these reports are addressed to elected members and the controller of audit. In addition, a Best Value Assurance Report will be published by the Accounts Commission for each council at least once in this five year period.

2.2 The new Best Value framework allows the Controller of Audit to report on his conclusions from his review of this new integrated audit approach through an Annual Assurance and Risks Report (AARR). The AARR allows the Accounts Commission to gain annual assurance about matters arising from the new approach to auditing best value.

2.3 Appendix 1 includes the Controller of Audit's first AARR under the new framework. This report is being shared with the Committee to provide a better understanding of the Best Value audit framework in local government and the key messages arising from the first year of operation.

2.4 The Head of Finance and Monitoring Officer within Business Services have been consulted in the preparation of this report and their comments are incorporated within the report and are satisfied that the report complies with the Scheme of Governance and relevant legislation.

#### **3 Scheme of Governance**

3.1 The Committee is able to consider/comment on this item in terms of Section G.1.5 of the List of Committee Powers in Part 2A of the Scheme of Governance as the report relates to the Council's relationship with its external auditors.

#### **4 Equalities, Staffing and Financial Implications**

4.1 An equality impact assessment is not required because this report informs the Committee of the planned scrutiny activity to be carried out by audit and inspection bodies and does not have a differential impact on any of the protected groups.

4.2 There are no staffing and financial implications as a direct result of this report.

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**Director of Business Services**

Report prepared by Anne MacDonald, Senior Audit Manager, Audit Scotland  
8 March 2018

# Annual Assurance and Risks Report on Local Government



Report by the Controller of Audit  
February 2018

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

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# Introduction

## Purpose

1. This report provides assurance to the Accounts Commission on the delivery of audit outputs across the local government sector. I have used examples from annual audit reports, Best Value (BV) reports and other audit outputs to provide assurance on the progress local authorities are making against the Commission's strategic audit priorities (SAPs). The report also provides comment on the pace, depth and continuity of improvement across councils in Scotland.
2. The report summarises the outcome of the review of the 2016/17 annual audit reports for councils and related local authority bodies. I have provided an analysis of work undertaken during the year as part of the new approach to auditing Best Value (BV) in local government. the report forms part of a suite of assurance reports the Commission receives in relation to the audit work carried out on its behalf by Audit Scotland and external audit firms.
3. This report also provides a useful input to the development of the local government performance overview, due for consideration by the Commission in March. The assurance I provide in this report will help the Commission shape its conclusions on the performance and challenges facing local government in Scotland.

## Background

### Context

4. The local government sector in Scotland operates in a changing and challenging environment. Councils continue to deliver services within reducing resources, and recent legislative and national policy changes have impacted on councils and the services they provide.
5. The Public Bodies (Joint Working) (Scotland) Act 2014 set out a framework for integrating health and social care, and 2016/17 was the first full operational year for the majority of the 31 integration authorities - made up of 30 integrated joint boards (IJBs) and one health and social care service using a lead agency model. IJBs are established as local authority bodies, under section 106 of the Local Government in Scotland Act 1973.
6. The local government elections in May 2017 resulted in many new councillors and changes to the political make up of councils. Councils are now led by a wide variety of minority and coalition administrations, and a large number of councillors elected were new to the role. While these changes have brought additional pressures, changes in administration and elected members can also bring new ways of thinking and fresh opportunities.
7. 2016/17 was the first year of the new audit appointments. The new approach to auditing BV in local government was also rolled-out, with six councils receiving Best Value Assurance Reports (BVARs) in 2017/18. A report on the review of the first year of the new approach is also on the Commission's agenda today.

## Annual audit reports

8. Local authority external auditors are appointed by the Accounts Commission under the Local Government (Scotland) Act 1973. The [Code of Audit Practice](#), approved by the Accounts Commission and the Auditor General for Scotland, requires auditors at the conclusion of the annual audit to issue a report summarising the significant matters arising from the year's audit. In local government, these reports are addressed to elected members and to me as Controller of Audit, and are submitted by 30 September each year. The reports are public and are available on the websites of the audited bodies and Audit Scotland. The reports are reviewed by my team to:
  - Identify high-level issues and themes for inclusion in the Commission's annual local government overview reports.
  - Identify specific issues that I may wish to report to the Commission under my statutory reporting powers.
9. In practice, I will be aware of significant issues from the audits in advance of the annual audit reports, and they will be reported to the Commission via the Financial Audit and Assurance Committee (FAAC). Statute allows me to report formally to the Commission - or the Commission to direct me to report - at any point throughout the audit year. However, including such issues in the annual audit report is often the formal starting point for any statutory reporting.

## Auditing Best Value

10. The Commission agreed the overall framework for a new approach to auditing BV in June 2016. Under the new approach, BV will be assessed over the five year audit appointment, as part of the annual audit work. A Best Value Assurance Report (BVAR) for each council will be considered by the Commission at least once in this five year period.
11. I produced six BVARs in 2017/18, with the Commission making Findings on each of them. Aspects of the BV arrangements in the remaining twenty-six councils have been reported in annual audit reports, as part of the five-year BV audit approach introduced by local auditors.
12. This report summarises the results of BV work reported during the year, particularly in relation to progress made against the Commission's SAPs. Examples from councils have been used to illustrate performance against each SAP. The examples are not exhaustive, and are used to illustrate the conclusions I have reached.

## Wider audit dimensions

13. The [Code of Audit Practice](#) ('the Code') outlines the responsibilities of auditors. The Accounts Commission, the Auditor General and Audit Scotland have agreed four audit dimensions that frame the wider scope audit into identifiable audit areas, with BV at its heart. These are set out in [Exhibit 1](#) below.

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**Exhibit 1****Audit dimensions**

Source: Code of Audit Practice 2016

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14. Annual audit reports include comment on each audit dimension. These generally detail the work conducted by the appointed auditor, and provide judgements, conclusions and recommendations on the effectiveness and appropriateness of the arrangements in place based on the work undertaken. By reporting against each dimension in the annual audit report, I am satisfied that auditors have discharged their wider responsibilities under the Code. In addition, annual audit reports include commentary on the BV audit work carried out in each council.
15. The key messages reported on the audit dimensions are reflected in this report under the section on SAPs at [page 18](#).

**Strategic audit priorities**

16. In its [strategy and annual action plan](#), the Commission sets out an overall aim of holding councils to account for their pace, depth and continuity of improvement, facilitated by effective governance. Within this, the Commission also sets out five SAPs. These are issues that the Commission considers particularly important to report through annual and BV audit work. The five SAPs are:
  - Having clear priorities and better long-term planning.
  - Recognising that incremental savings are not enough, and thus evaluating options for more significant changes in how they deliver services.
  - Ensuring their people - members and officers - have the right knowledge, skills and support to design, develop and deliver effective services in the future.
  - Involving citizens more in making decisions about local services and empowering local communities to identify and help deliver services they need.

- Reporting their performance in a way that enhances accountability to citizens and communities.
17. The SAPs are considered by all auditors involved in local government work, both locally and nationally. They are considered as an integrated part of the risk assessment, five year BV and annual planning processes. Annual audit reports provide an assessment of the council's performance against the SAPs across the five year audit appointments.
  18. This report provides the Commission with assurance on the progress made by councils against these priorities. The evidence on these priorities is being gathered and reported by auditors as part of their five year approach to auditing BV and through annual audits. When these are covered will depend on the risk assessments carried out by local auditors as part of their annual planning processes. Not all SAPs will be reported at every council each year.

#### **Quality assurance arrangements for audit work**

19. Audit Scotland's Audit Quality Framework describes our approach to achieving world-class audit quality across all audit work. The framework sets out how Audit Scotland provides the Auditor General and the Accounts Commission with robust, objective and independent quality assurance over all audit work referred to in this report.

# Key messages

20. The outputs used to inform this report are detailed in the following section on page 10. They include annual audit reports at local authorities and related bodies, BV reports, national performance reports and other reports and outputs of interest to the Commission. My review of these reports demonstrates that:
  - auditors have an effective approach to identifying and following up audit risks in individual councils, integration authorities and pension funds.
  - in BVARs and BV follow-up reports, auditors have reported a mixed picture on the pace, depth and continuity of improvement across Scotland.
  - auditors have provided good coverage of the Commission's five SAPs. There are some areas in which we could provide more assurance in future, such as the quality of public performance reporting, councils' approach to people development and the effectiveness of community engagement.
  - in many ways, councils have made good progress against the Commission's strategic audit priorities, but there remains scope for improvement in a number of areas.
21. Auditors have reported that most councils have clear corporate plans, with a focus on strategic priorities, but the extent to which these align to budgets varies across Scotland. Effective financial planning and effective leadership is of increasing importance with financial challenges continuing to grow, and more work is required to establish effective long term financial planning arrangements across Scotland.
22. Councils are at various stages in their change programmes, and different approaches have been adopted. There is limited evidence of councils collaborating or sharing services at a local level, although nationally there are a number of initiatives which aim to support local authorities in key areas.
23. Councils provided comprehensive induction training for elected members following the local elections in May 2017, although some auditors identified that councillors do not always make the most of the training available to them. Few auditors reported on the arrangements in place to ensure officers have the right skill sets, instead focusing on wider aspects of workforce planning which is an area for development in many councils.
24. Auditors highlighted a range of ways of engaging with the public, ranging from the traditional to new and innovative, and there is evidence that councils plan to make more use of participatory budgeting.
25. Public performance reporting was reported as satisfactory at most councils, but more detail is required on the effectiveness of arrangements in place. The need for scrutiny arrangements to be strengthened was also reported by a number of auditors.
26. 2016/17 was the first full year of audit reporting for most integration authorities. Auditors found a need to improve medium to long term financial planning.

27. Work on pension funds identified that a continued increase in pensioner numbers will make funding pension payments increasingly reliant on returns from invested assets. Our reports on housing benefits concluded that benefit services are well managed and can deliver value for money and high quality services for customers.
28. Looking ahead, a further six BVARs are scheduled to be presented to the Commission in the coming year. Auditors will report on BV arrangements in their 2017/18 annual audit reports, including following up the previous year's findings. Auditors will also monitor arrangements in place to demonstrate how each integration authority is meeting its BV duties.

# Audit outputs

29. During 2016/17 the Controller of Audit and the Accounts Commission have overseen the publication of a variety of reports. This has included annual audit reports in local authorities and related bodies; Best Value Assurance Reports (BVARs) under the revised approach to auditing BV in local government; and statutory reports. Both BV and statutory reports are issued under Section 102 of the Local Government (Scotland) Act 1973. The Commission's Financial Audit and Assurance Committee (FAAC) and Performance Audit Committee (PAC) also both received a number of updates and reports during the year, while our correspondence team continues to respond to a variety of issues.

## Summary of outputs

### Annual audit reports

30. During the 2016/17 audit year, annual audit reports were published on:
- 32 councils
  - 30 integration joint boards
  - 11 pension funds
  - 32 other small boards and partnerships
  - 270 registered charities within 91 sets of charity accounts.
31. The majority of local audit time and resource continues to be focused on the audit of financial statements. This is critical work, allowing the appointed auditors to reach their conclusions on the quality of the councils' accounts. This is a core part of the assurance provided to the Accounts Commission, and the public more widely, about how public money is being spent by councils and other local authorities.
32. There were no qualified audit opinions in 2016/17. Modified opinions were issued for three councils and one joint committee. The modified opinions all related to trading operations which failed to achieve their statutory objective of ensuring income is not less than expenditure over each three-year period.
33. General themes arising from the review of annual audit reports are reflected in the local government overview reports. The [local government in Scotland: financial overview 2016/17](#) was published on 28 November 2017, while the draft performance overview will be considered by the Accounts Commission at its next meeting in March 2018.
34. Where local authorities were not the subject of a BVAR during 2016/17, local auditors undertook focused reviews against specific BV characteristics as detailed at [paragraph 36](#) below.

## Local scrutiny plans

35. Local scrutiny plans (LSPs) were published for all 32 councils in May 2017. These describe the audit and scrutiny work planned by scrutiny bodies that make up the local area networks (LANs) for each council. The LSPs are published on Audit Scotland's website, and demonstrate how all key risk areas identified by the LAN are covered by audit or scrutiny work. The results of this scrutiny work are reported on the websites for each scrutiny body, and are included in annual audit reports and BVARs reflected in this report. A [national scrutiny plan](#) which summarises the planned work for all councils was also published in May 2017.

## Best Value reports

36. In the first year of the new audit appointments, I produced six BVARs, under section 102 of the Local Government (Scotland) Act 1973. This is in line with the planned work programme. The Commission has made findings on the following reports:
- Inverclyde Council (published June 2017)
  - Renfrewshire Council (published August 2017)
  - East Renfrewshire Council (published November 2017)
  - West Lothian Council (published November 2017)
  - Orkney Island Council (published December 2017)
  - Clackmannanshire Council (published January 2018).
37. I also reported three BV follow-up reports to the Commission under the previous approach to auditing BV.
- Angus Council (published October 2016)
  - East Dunbartonshire Council (published November 2017)
  - Falkirk Council (published February 2018).
38. As required by the 2016/17 planning guidance, all council auditors prepared a five year Best Value Audit Plan (BVAP). Based on the risk assessment at each council, the five year plans will ensure all BV characteristics are covered by audit work in every council over a five year period. In councils where a BVAR was not published in the first year of the new appointment, the main focus of BV work during 2016/17 was on financial and service planning, financial governance and resource management. This reflects the fact that the financial challenges for councils currently represent the highest risk area to the sector. The results from this work are reported through each council's annual audit report.

## Statutory reports on specific issues

39. Section 102 of the Local Government (Scotland) Act 1973 provides for the Controller of Audit to make reports to the Accounts Commission about any matters arising from the accounts of local authorities, or the auditing of those accounts, that he thinks should be considered by the local authority or brought to the attention of the public.

40. Other than the BV reports detailed above, no statutory reports were published under section 102 during 2017. The Controller of Audit is currently considering the following issues with a view to issuing statutory reports in 2018:
- City of Edinburgh Council - Edinburgh schools closures
  - Dundee City Council - prevention and detection of fraud
  - Fife Council - Dunfermline flood prevention scheme
41. The Auditor General for Scotland prepares reports under Section 22 of the Public Finance and Accountability (Scotland) Act 2000 if any specific concerns or issues have been raised in the audit of one of the public bodies for which she is responsible. While section 22 reports focus on the health and central government sectors, some issues reported are of interest to the Commission.
42. The non-domestic rate (NDR) account is prepared by the Scottish Government, and reports on a national basis the financial position of contributions and sums paid to local authorities in respect of NDR taxes. The NDR account for 2016/17 showed an in-year deficit of £8 million and a cumulative deficit at the year-end of £297million. It is the fourth year in a row that a deficit balance has occurred, and the third year in a row that a cumulative deficit balance remains on the account. This means that over time the Scottish Government has redistributed more to councils than it has received in NDR contributions from councils.
43. The Auditor General for Scotland took the decision to produce a separate section 22 report on NDR, and published [the 2016/17 audit of the Scottish Government's non-domestic rating account](#) in December 2017. The report notes that the Scottish Government plans to reduce the cumulative deficit in 2017/18 to £60 million by setting the redistributable amount lower than expected NDR income. There is, however, no formal plan to bring the account into balance. The report calls for increased transparency in the reporting of NDR, and recommends that the Scottish Government should develop and maintain a strategic plan of how it intends to manage the NDR account balance in the future.

### **Accounts Commission committees**

44. The Commission has two committees - the Financial Audit and Assurance Committee (FAAC) and Performance Audit Committee (PAC). The committees complement each other by reviewing on the Commission's behalf current audit or policy issues.
45. The FAAC reviews matters arising from the annual audit process in each council and joint board. It also reviews intelligence from other bodies concerned with local government such as the Ombudsman, Standards Commission and Information Commissioner. During 2017, the FAAC considered:
- four updates on current issues in local authorities;
  - briefings on digital audit; the Aberdeen City Council capital bond issue; and non domestic rates and the business rates incentive scheme;
  - the emerging messages from the performance audit on equal pay in Scottish councils;

- reports covering the scope and emerging messages for both local government overview reports.
  - presentations from local audit teams.
46. The PAC reviews policy issues affecting local government and oversees the performance audit programme. During 2017, the PAC received:
- five updates on the Commission's work programme;
  - eight reports covering the scope or emerging messages for overview reports and performance audits;
  - briefings on digital audit, educational attainment and community justice;
  - seven policy briefings on areas including health, care and communities and justice, education and lifelong learning;
  - a consultation from the Scottish Parliament Budget Process Review Group.

### Correspondence

47. Audit Scotland handles a wide range of correspondence from members of the public, elected representatives and organisations because they have concerns about an issue within a public body that falls under the remit of the Commission or Auditor General. Neither the Commission nor Audit Scotland has a statutory duty to consider issues of concern or respond to correspondence, but we do so under our Code of Audit Practice and the Commission receives regular reports on correspondence received as part of the Secretary's monthly reporting.
48. During 2016/17 Audit Scotland received 66 new issues of concern or whistleblowing disclosures relating to the local government sector. These covered 21 councils and 11 audit themes including BV, fraud, service delivery and governance, accountability and scrutiny. As of 31 December 2017, 52 new issues had been raised during 2017/18.
49. Of the issues received in 2016/17, 32 per cent were already covered by audit work planned at the council, or the issues were sufficiently relevant that auditors felt audit work was warranted as part of the annual audit; a further 32 per cent of issues were redirected as the issue of concern was not within our remit; 28 per cent were used as intelligence to help with the annual audit and risk assessment; and in 8 per cent of cases we were unable to provide further assistance.

### National performance reports

50. Audit Scotland carries out a programme of national performance audits that it undertakes on behalf of the Accounts Commission and Auditor General for Scotland. Several performance audits covering local government were reported over the last year including:
- [Principles for a digital future](#) (May 2017) - the digital briefing aimed to support public bodies embarking on ICT projects.

- [Self-directed support: 2017 progress report](#) (August 2017) - the report identified that new ways of offering people more choice and control over their social care can make a real difference but further work is needed to ensure everyone can benefit.
- [Equal pay in Scottish councils](#) (September 2017) - the report concluded that implementing equal pay remains a challenge for local government in Scotland more than a decade after the process was agreed, with around £750 million spent on settling claims so far and nearly 27,000 claims still outstanding.
- [Local government in Scotland: financial overview 2016/17](#) (November 2017) - the report highlighted that councils are showing increasing signs of financial stress and face even tougher challenges ahead. We also collaborated with SPICE on the delivery of a briefing on fees and charges in local government

### **Housing benefit reports**

51. During 2016/17, auditors issued eight reports to councils covering housing benefits. The results of this work are summarised in the [housing benefit performance audit - annual update 2016/17](#) which was published in June 2017.

# Pace, depth and continuity of improvement

52. In its [strategy and annual action plan 2017-22](#) the Commission says 'our over-riding aim is holding councils to account for their pace, depth and continuity of improvement facilitated by effective governance. It is for councils to make choices in where they focus their improvement work but they need to be able to show how they have arrived at such choices'.
53. To reflect the Commission's overarching strategic priority, the new approach to BV ensures that all BVARs include judgements on the pace, depth and continuity of improvement. Auditors form these judgements based on the evidence available to demonstrate improvement by the council in the BV characteristics and service performance. Auditors are forming these judgements for the first time and have commented that this can be challenging.
54. In BVARs and BV follow-up reports, auditors have reported a mixed picture on the pace and depth of continuous improvement across Scotland. Relevant extracts from the key messages from 2016/17 BVAR and BV follow up reports are shown below.

## **Inverclyde Council (published June 2017)**

55. Since the 2005 BV report Inverclyde Council has changed significantly, improving the way it manages services and developing a positive culture of improvement. Service performance has improved overall and improvement activity is happening across the council.
56. Inverclyde Council has made significant progress over the last ten years to address weaknesses highlighted in previous BV reports. In 2005, the Accounts Commission's findings highlighted extensive and fundamental weaknesses in leadership and direction, preventing the council from delivering BV. Since then, the council has built a positive working culture in the organisation that supports innovation. Key elements contributing to this include a clear vision and stable leadership.

## **Renfrewshire Council (published August 2017)**

57. Since the 2006 BV report, Renfrewshire Council has maintained a steady pace of change, supported by effective leadership that has allowed it to improve the way it plans, manages and delivers its business. It has made these improvements while dealing with financial constraints and challenging socio-economic issues such as high levels of economic deprivation, low population growth and an increasing elderly population.
58. Since 2006, the council has steadily improved how its services perform. Renfrewshire's overall performance is improving and is comparable to similar councils within its family group. The council has implemented initiatives which have been delivered with partners and are focused on making a difference at a local level.

### **East Renfrewshire Council (published November 2017)**

59. Under the council's Public Services Excellence programme during 2009-15, there was a steady pace of change. Since 2015, the council has developed a more ambitious programme of business transformation, and the scale and rate of change have increased significantly. This presents risks to the capacity of the workforce and continuing service provision. Increasing demand from growing numbers of children and older people is already placing pressure on council services.
60. The council continues to perform well. Children's services and education continue to improve from an already-high level. Other council services' performance is more varied, partly reflecting the council's range of policy priorities. Results from the Citizens' Panel indicate that most residents are satisfied with services.

### **West Lothian Council (published November 2017)**

61. Since the 2005 BV report, the council has continued to demonstrate a number of strengths. Outcomes for local people are improving and the council continues to perform well when compared to others. It has effective processes to manage performance, a clear commitment to continuous improvement and a well-developed self-evaluation process. However, some areas for improvement identified in 2005 still remain.

### **Orkney Islands Council (published December 2017)**

62. Since our 2008 BV report, the council has gradually improved how it plans and manages its activities. The council has improved its planning framework, performance management, its use of self-evaluation and the way it engages with communities. The pace of improvement in the council has increased over the past three years since it has focused its improvement work around a change programme and its medium-term financial planning. It now needs to ensure it maintains the increased pace by focusing on its change programme and continuing to improve essential processes such as workforce, capital and asset planning.

### **Clackmannanshire Council (published January 2018)**

63. In our report on Best Value and Community Planning in 2007 we concluded that the council faced significant challenges with limited resources. The council has made improvements in some areas, but the financial challenges are much more significant meaning that it now needs to take urgent and decisive action. Only then will the council be in a position to demonstrate the pace, depth and continuity of improvement associated with BV.

### **Angus Council Best Value audit report (published October 2016)**

64. Overall, the council has made progress since the Accounts Commission last reported in 2010. It has clearly set out where it wants to be as an organisation and how it plans to get there. It is heading in the right direction, but it needs to increase the pace of change and the momentum of key projects.

**East Dunbartonshire Best Value follow-up audit (published November 2017)**

65. The council is demonstrating progress in improving its BV arrangements. It has responded positively to the key findings in the 2016 report. It has made satisfactory progress against a plan of improvement, in line with expectations given the short time period since December 2016.

**Falkirk Council Best Value follow-up audit (published February 2018)**

66. The council has demonstrated that it has responded positively to the Accounts Commission's December 2016 findings. It has made satisfactory progress against the Commission's findings, given the relatively short time period since December 2016 and the impact of the local government elections in May 2017.

# Strategic audit priorities

67. Audit work covering the SAPs feeds into the auditors' judgements on continuous improvement discussed in the section above. Conclusions from all of our audit work on each of the SAPs are summarised in the following section.

## SAP 1 - Having clear priorities and better long term planning

68. Auditors reported on council priorities and long term planning in most annual audit reports. Information was also obtained through data returns provided by auditors, and in BV reports published by the Commission. Overall, there was a consistent message that most councils have clear priorities and there is evidence of medium term financial planning. More work, however, needs to be done to establish sustainable long term planning arrangements and to demonstrate that outcomes are being delivered. The local authority elections in May 2017 led to changes in the administrations in a number of councils. As a result, many councils are reviewing their priorities during 2017/18. Auditors will consider the extent to which these priorities are reflected in councils' 2018/19 budget setting processes.

### **Most councils have clear corporate plans and strategies with a focus on strategic priorities, but the extent to which these align to budgets varies across Scotland.**

69. There is evidence that most councils have clear corporate plans and strategies with a focus on strategic priorities, but the extent to which these align to budgets varies across Scotland. In a number of cases, local auditors highlighted that this had been developed in conjunction with community planning partners.
70. Annual audit reports identified that some councils are looking to develop or strengthen strategic planning arrangements following local elections in May 2017. For instance, Dundee City Council acknowledged that clearer links could be made between budgets and strategy, while the auditors of Orkney Islands Council reported a need to develop a clearer link between budget and corporate priorities.
71. At Moray Council the local auditor noted that the majority of the council's 10 year capital plan was not directly linked to priorities, but identified that this arose from the priority need to invest in the council's current asset base.
72. Auditors have reported mixed performance in how effectively councils demonstrate the link between strategic priorities and delivering outcomes. The BVAR for Renfrewshire Council noted that the council is working closely with its partners to improve local outcomes with a clear focus on intervening early to identify and address potential problems. East Renfrewshire Council's BVAR was also positive in this area. Recommendations for improvement were, however, made in other BVARs:
- Inverclyde Council - performance has improved in recent years but the council needs to demonstrate more clearly the link between planned activity and outcomes. It also needs to better assess how activities are expected to improve outcomes.

- West Lothian Council - there is scope to improve how the council monitors and reports what it does to improve outcomes for local people. Improvements could be made by better articulating, monitoring and reporting how key performance indicators link to council priorities.
  - Orkney Islands Council - measurable outcomes are not evidenced, and the council does not yet clearly demonstrate how successful it is in improving outcomes for the local community when measuring and monitoring performance.
73. It is likely that this will also be an area for improvement in a number of future audit reports for other councils.
74. Where areas for improvement have been identified, recommendations have been agreed with councils and timelines agreed for remedial action. The new approach to auditing BV includes a more strategic approach over the five-year audit appointment, and we will continue to monitor annual audit plans to ensure that local auditors are addressing all BV characteristics throughout their appointment.

**Councils' financial challenges continue to grow, with signs of increasing financial stress. In this environment, sound financial planning and effective leadership is more important than ever**

75. The [local government in Scotland: financial overview 2016/17](#), published in November 2017, includes the following key messages:
- Councils' financial challenges continue to grow. Funding reductions are compounded by increasing costs and demands on services. In response, councils have needed to achieve ambitious savings plans, including around £524 million of savings for 2016/17.
  - Councils are showing signs of increasing financial stress. They are finding it increasingly difficult to identify and deliver savings and more have drawn on reserves than in previous years to fund change programmes and routine service delivery. Some councils risk running out of general fund reserves within two to three years if they continue to use them at levels planned for 2017/18.
  - Debt increased by £836 million in 2016/17 as councils took advantage of low interest rates to borrow more to invest in larger capital programmes. Councils' debt levels are not currently problematic, but some are becoming concerned about the affordability of costs associated with debt within future budgets.
  - Councils' budget-setting processes for 2016/17 were complicated by late confirmation of funding from the Scottish Government and the funding arrangements for integrating health and social care. Councils' expenditure and use of reserves often differed noticeably from that originally planned, indicating the need for budget-setting to become more robust and reliable.
  - All councils received an unqualified audit opinion on their 2016/17 accounts but auditors found that in several councils financial management could be improved. Councils can use their accounts to more clearly explain their financial performance over the whole year to support better scrutiny.

- The financial outlook for councils continues to be challenging, with the need to deliver savings being increasingly critical to their financial sustainability. As such, robust medium-term financial strategies and effective leadership to deliver them are of increasing importance.

76. These areas will continue to be the focus of future annual audit reports.

**There is evidence of medium term financial planning, with some councils using scenario planning, but a small number of councils are behind the curve and have no plans beyond their annual cycle. More work is required to establish effective long term financial planning arrangements across Scotland**

77. Audit Scotland defines short, medium and long term financial planning as:

- short term - one to two years;
- medium term - three to five years;
- long term - over five years.

78. Most councils have some form of medium or long term financial planning in place that supports the delivery of a financial strategy. Fife Council has developed a budgeting model to forecast expenditure and income levels over the next 10 years. The approach details the best, worst and medium scenarios. Inverclyde Council's eight year financial strategy uses scenario planning in a similar way, while Argyll and Bute Council's approach is set out at [case study 1](#).

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## Case study 1

### Argyll and Bute Council: long-term financial strategy

Argyll and Bute Council prepared a medium to long-term financial strategy (2018/19 to 2027/28) that was approved by their policy and resources committee on 19 October 2017. It covers the period from 2018/19 to 2020/21 in detail, including scenario planning (worst, mid-range and best case scenarios) and provides high level estimates for 2021 to 2028. The preparation of this strategy is a significant step for the council that is now one of the few to have a long-term financial strategy in place. The quality of the strategy will be considered by the local audit team as part of the 2017/18 audit.

*Source: Current issues in councils - report to Financial Audit and Assurance Committee (30 November 2017)*

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79. Falkirk Council has improved its approach to financial planning, using scenario planning in its medium-term financial paper which forecasts budget gaps over a five year period. At East Renfrewshire Council, the auditor noted that the council has taken the positive step of using scenario planning and producing a range of funding scenarios in preparing three-year cyclical budgets. Renfrewshire Council's three year financial outlook report also includes scenario planning, setting out the best and worst case scenarios for the council.
80. East Dunbartonshire Council's strategic planning and performance framework 2017/18 includes financial projections which include best and worst case scenarios with regards the level of grant funding from the Scottish Government. The strategy includes a number of risk

areas that could affect the savings and budget figures in the medium term, up to 2020/21 in some cases.

81. Instances were highlighted, however, where financial strategies were not fully developed and where no evidence could be identified of long term financial planning. The auditors at Dundee City Council reported that no long term financial planning information is presented to members. The council has recognised the need to develop medium term financial forecasting, and has agreed to develop a medium term financial strategy.
82. East Lothian Council does have a three year strategy, but no long term financial plan (5-10 years) to demonstrate the feasibility of significant longer term projects within the council. The auditor for Moray Council reported limited medium and no long term financial planning, while North Lanarkshire Council does have a medium to long term financial plan but it has not been updated since May 2014.
83. Orkney Islands Council has also been slow to respond to the need to prepare medium to long term financial plans due to its strong financial position, while at South Lanarkshire Council the auditor noted that medium to longer term financial planning could be further developed and refined.

**Councils need to demonstrate that resources are being managed to secure the sustainability of services into the future. Many councils are using revenue reserves to deliver services, which is not sustainable in the longer term.**

84. The [local government in Scotland: financial overview 2016/17](#) identified that in 2016/17, 20 councils drew on their usable revenue and capital reserves. Of these, 19 drew on their revenue reserves, an increase from the eight councils that did so in 2015/16. At North Ayrshire Council auditors reported that the planned use of reserves to fund investments is only possible in the short-term, and that a more sustainable approach is required going forward. Similar messages were reported at other councils including West Dunbartonshire, East Ayrshire, Shetland Islands and East Dunbartonshire.
85. At Moray Council the current level of reserves is significantly above the approved reserves strategy, however financial plans identify that existing reserves will be exhausted by 2019. The outlook is more positive at East Lothian Council, where the council has developed a three year financial plan, aligned to its priorities, that seeks to deliver a balanced budget and avoid the use of reserves by 2019/20.
86. At Renfrewshire Council, Inverclyde Council and Orkney Islands Council auditors reported that each council has significant levels of reserves, and that these have increased in recent years. Using reserves has allowed these councils to meet short and medium term budget pressures, and to a degree protect front line services. West Lothian Council's auditors also reported a significant level of reserves, but highlighted low levels of uncommitted reserves.
87. While the level of reserves varies across councils, local auditors presented a consistent message highlighting the importance of sustainable policies for the use of reserves. In general, council's need longer term financial plans to ensure the sustainability and feasibility of

spending plans, and where relevant to show that dependency on reserves to subsidise service delivery is limited to the short term.

88. Asset management is also important to ensure council's have the right facilities to deliver services in the future. The quality and maturity of asset planning and management varies across Scotland. Inverclyde Council has an asset management strategy, school estate management plan and roads asset management plan. These are included in the financial strategy and incorporated into the financial planning process. Perth and Kinross Council also has asset management plans for key areas such as fleet and mechanical equipment, ICT and service assets in schools. These link to the capital plan, and auditors highlighted the connection from asset management plans through to the financial planning process.
89. Orkney Islands Council has asset management plans for all services, and is currently working to ensure a new corporate asset management plan is in place in 2018 when the current plan expires. Their BVAR did note, however, that the council has been slow to develop its approach to corporate asset management planning.
90. At East Renfrewshire Council's the BVAR identified that the council's approach to asset management has been slow to develop. The report highlighted that asset management did not integrate with either strategic planning or financial budgets. A fundamental review of asset management did, however, begin in September 2015 and since then there has been significant progress.

**Reducing inequalities is a strategic priority for a number of councils.**

91. The statutory BV guidance says that a local authority which secures BV will be able to demonstrate a culture which encourages both equal opportunities and the observance of the equal opportunities requirements. Equalities is an area of interest to the Commission, and is a far reaching topic which covers both how councils deliver services to reduce inequalities for citizens and also how it addresses equalities in its own workforce.
92. Reducing inequalities is an aspiration for Renfrewshire Council. The council and community planning partners continue to face a number of challenges in addressing deep-rooted inequalities. The BVAR noted that this is reflected in the council plan with a focus on reducing poverty, raising attainment, helping people into permanent employment and improving care, health and wellbeing.
93. At Clackmannanshire Council, the new local outcome improvement plan (LOIP) was agreed after a local poverty assessment and a workshop with stakeholders, including third sector organisations and volunteer groups. Plans focus on improving local outcomes for women and children and residents in South Alloa, which evidence indicates is the most disadvantaged within Clackmannanshire's communities.

## **Councils continue to make progress in addressing equality and diversity issues**

94. Equality and diversity is a key part of BV. Equalities issues will be covered in each council by auditors at some point in the appointment, through the five year BV audit plan. Conclusions will be reported in annual audit reports, and to the Commission as part of the BVAR process.
95. The Orkney Island Council's BVAR identified that the council is making steady progress in developing its equalities arrangements. The report highlights that the council has systematic arrangements in place to ensure equalities issues are part of decision making processes, and that it works closely with community planning partners on equalities. It also notes that equalities is evident in the council's strategic planning, with the corporate value of 'promoting equality and fairness' prominent in its council plan.
96. The Commission published [equal pay in Scottish councils](#) in September 2017. This explained that since 2004, around 70,000 equal pay claims have been lodged against councils. The cost of compensation agreements and settling claims, along with legal fees, amounts to around £750 million. The number of claims made against councils varies widely. At the time of the report there were almost 27,000 live equal pay claims and workers could potentially still make new claims against councils. The report concluded that councils need to be confident they have fair and transparent pay arrangements and take necessary action, such as regular equal pay audits, to deliver pay equality in line with their public sector equality duty. Elected members need to continue to oversee, scrutinise and challenge councils' approaches to delivering equal pay and reducing the gender pay gap. Until all equal pay claims are settled this will continue to be an area of risk for councils.
97. The Accounts Commission and Audit Scotland demonstrate how they are fulfilling their duties under the Equality Act 2010 through the [equality outcomes and mainstreaming: progress report 2015-17](#) and the [equality outcomes 2017-19](#) report. Both reports were published in April 2017. An update on the work of the Commission's Equalities Sub-Group was presented to the Commission in January 2018.

## **SAP 2 - Recognising that incremental savings are not enough, and thus evaluating options for more significant changes in how services are delivered**

98. Local auditors reported on a number of different approaches being taken by councils to change how they deliver services due to financial pressures.
99. A number of local auditors are planning coverage of this SAP area later in their five year audit appointment. Where progress was reported, it was identified that most councils have some programme of change initiatives and undertake options appraisal to assist them in making decisions.

**Councils are at various stages in their change programmes, and different approaches have been adopted.**

100. Councils are at various stages in their change programmes, and different approaches have been adopted. For example some councils are on their second change programme, and Fife Council is currently on its third. Other councils, including Inverclyde Council, do not have change programmes in the traditional sense ([case study 2](#)).

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**Case study 2****Delivering differently in Inverclyde**

Inverclyde Council does not have a separate improvement programme run by a central team. A previous transformation programme with external consultants was not successful and the council has learned from this experience. The council believes that services should be responsible for improvement within their areas, rather than it being identified and led by a central team without detailed knowledge of how the service operates.

The 'delivering differently in Inverclyde' programme is Inverclyde Council's plan for changing and modernising its services to deliver better, more efficient services at a lower cost. It includes:

- considering options for further shared services
- sourcing services externally
- considering the transfer of the library service to a leisure trust
- the potential to transfer local services to communities
- expanding the digitalisation of services

In the absence of a central programme, it is important that such activities are prioritised, managed and monitored. Inverclyde Council has recognised this and is implementing change management groups within each directorate to undertake this activity.

*Source: Best Value Assurance Report - Inverclyde Council*

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101. Angus Council has established Transforming Angus, a major change programme that aims to modernise its business processes and deliver significant savings. The BV report at Angus, issued under previous BV arrangements, noted that the early stages of the programme have led to important changes in the organisational culture of the council.
102. At East Renfrewshire Council the auditors highlighted that it is still unclear how business transformation projects will contribute to service improvements and financial savings, and it is too early to assess whether these will be sufficient. The auditor notes that a fully integrated approach to financial and service planning is essential.
103. At an operational level, councils have targeted efficiencies at non ring-fenced services. Environmental services waste management, culture and community transport are all areas where service reductions have been reported, and councils continue to monitor how further efficiencies can be achieved. For example, Moray Council has reduced its gritting services, and West Dunbartonshire Council is considering reducing library opening times to reflect the most popular visiting times for users. Inverclyde Council is considering the transfer of its library service to a leisure trust. We will monitor the outcome of work to assess the progress

and performance of local authorities in relation to change over the five-year audit appointments.

**There is limited evidence of councils collaborating or sharing services with each other**

104. The Commission has highlighted the benefits to service users, communities and public sector organisations of working well together. At a national level, the Improvement Service and Convention of Scottish Local Authorities (CoSLA) have worked with local authorities to develop a number of shared initiatives. These include:

- [Tellmescotland](#) - Scotland's national public information notices (PINs) portal, allowing public notices from across Scotland to be published in a single location.
- [The Scottish Local Government Digital Office](#) - launched in 2017, this intends to be a centre of excellence in data, technology and digital, and aims to work with councils to help them with transformation and to create top class digital services for citizens. 30 councils have now signed up to become active members of the Office.
- [Myjobscotland](#) - a national jobs portal for Scotland's 32 councils, as well as for other public bodies. It has been designed to carry over 30,000 vacancies and processes 250,000 applications every year.
- [Trading Standards Scotland](#) - co-ordinates and enforces cross boundary and national casework and undertakes the specialist functions of tackling illegal money lending and e-crime. It is a resource intended to add capacity to local authority trading standards teams in these areas of activity.
- [Scotland Excel](#) - is the centre for procurement expertise for the local government sector. It was established in 2008, and is a non-profit shared service funded by Scotland's 32 local authorities. Its mission is to deliver effective and customer-orientated shared services which support collaborative, innovative and sustainable public services, add measurable value for customers, and bring tangible benefits for local communities and service users.

105. At a more localised level there has been less evidence of councils collaborating or sharing services. One example, however, is the Ayrshire Roads Alliance (ARA). This was established in April 2014 as a shared roads service between East Ayrshire Council and South Ayrshire Council. The councils consider that the joint committee arrangement provides an established governance framework, and a good forum for discussing the development of the shared service and joint decision making.

106. Not all shared service projects have proved successful. The shared service for education and social care between Clackmannanshire Council and Stirling Council officially ended in March 2017. The Clackmannanshire BVAR notes that since the decision to end the shared service, the council has redesigned social care and education services and focused on improving performance.

107. Inverclyde Council has explored shared service arrangements with other councils for corporate functions and ICT, although the outcome has not always been successful. It is

currently exploring shared service opportunities with East Dunbartonshire Council and West Dunbartonshire Council ([case study 3](#)). The council also uses the private sector to deliver a number of council functions including street lighting, roads infrastructure projects and recycling (Greenlight Environmental Ltd), and the third sector to provide employability programmes (Inverclyde Community Development Trust).

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### Case study 3

#### Exploring shared services between East Dunbartonshire Council, West Dunbartonshire Council and Inverclyde Council

The Accounts Commission has highlighted the benefits to service users, communities and public sector organisations of working well together. However, the Commission's [local government in Scotland: performances and challenges 2017](#) report identified limited evidence of councils collaborating or sharing services.

On 1 November 2016, the East Dunbartonshire, Inverclyde and West Dunbartonshire Councils' Shared Service Joint Committee (SSJC) became effective, and established a governance framework for the potential sharing of services. A lead officer group was also established.

The SSJC met twice in 2016/17, with a strategic business case for the sharing of roads and transportation services approved in March 2017. Following this, a consultant was appointed and a project programme has been issued. A detailed business plan is being developed for roads and transportation services, and opportunities for the further sharing of services are currently being scoped.

*Source: Best Value Assurance Report - Inverclyde Council; Annual Audit Report - West Dunbartonshire Council*

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## SAP 3 - Ensuring people - members and officers - have the right knowledge, skills and support to design, develop and deliver effective services in the future

**Constructive working relationships exist between councillors and officers. However, councillors must always play an active role in effectively scrutinising policies, plans and services.**

108. The BVARs generally presented a consistent message of constructive working relationships between councillors and senior officers, with corporate management teams (CMTs) providing clear direction and leadership across councils.
  109. The Inverclyde BVAR commented that the council is dealing with challenges through effective leadership and shared ownership of a clear vision. It highlighted the good collaborative working in the council, and noted that the CMT were setting a good example by working effectively together and that councillors and officers have constructive working relationships.
  110. The Orkney BVAR also commented on the good level of mutual respect and trust between officers and councillors, noting that the council has stable, effective leadership with a strong focus on doing what is right for the communities.
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111. Renfrewshire Council's leadership was reported as effective, with the BVAR highlighting good working relationships within the CMT. It also identified, however, limited cross-party working and noted the difficult working relationships between the main political parties. The BVAR emphasised the importance of councillors working together to progress priority objectives, and recommended that councillors need to scrutinise and challenge reports more thoroughly.
112. There were similar messages at East Renfrewshire Council's BVAR, with the report noting effective leadership from the CMT while identifying both scope for greater monitoring and review at a corporate level, and the need for more active engagement and scrutiny by councillors.
113. West Lothian Council's Executive Management Team (EMT) also provides strong leadership to the council, and good working relationships between councillors and officers were again highlighted. The BVAR reported, however, that councillors need to play a more active role in committees and scrutiny panels to ensure policies plans and services are effectively scrutinised.
114. The Clackmannanshire BVAR identified that members and officers work constructively on a day-to-day basis, but auditors found less evidence of the coherent and combined political and officer leadership necessary to implement and maintain change.

**Councils provide comprehensive induction training for elected members, although councillors do not always make the most of training available to them**

115. There is evidence that councils provided robust programmes of training and development for elected members following the elections in May 2017. Auditors have not, however, reported separately on how councils ensure that officers have the right knowledge, skills and support to deliver services in the future. Audit findings focus on workforce planning which is an area for development in many councils.
116. Overall local auditors reported positively on the induction and training processes in place for elected members across Scottish local authorities, with some also referencing specific finance training. This was a particular area of focus in the 2016/17 annual audit reports due to the local authority elections in May 2017.
117. For example, Aberdeen City Council provides induction and ongoing training for elected members and staff. Throughout the summer of 2017 new training courses were developed by officers and delivered to new elected members, including accounting training for those on the audit, risk and scrutiny committee. Robust arrangements for elected member induction were also in place at Aberdeenshire Council and Perth and Kinross Council ([case study 4](#)).
118. In Argyll and Bute Council, new and returning members received induction training following the local elections on how the council works and how it is financed. The local auditors reviewed the training and concluded it was appropriately designed and should help elected members fulfil their scrutiny role. City of Edinburgh Council also had a comprehensive programme of induction and training sessions for new and returning elected members. The programme included 31 sessions that were repeated to help promote attendance.

## Case study 4

### Perth and Kinross Council

Perth and Kinross Council provides induction and ongoing training for elected members and staff. Elected members receive initial induction training, followed by an annual meeting to discuss and subsequently review their personal development and training plan. This took place in June 2017 for new elected members after the local government election. The local auditor supported training on the financial statements, role of audit and the role of the audit committee. The council will be rolling out the improvement service's continuous professional development framework to all elected members in 2018.

*Source: Annual Audit Report 2016/17 - Perth and Kinross Council*

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119. The 2015/16 annual audit report for Fife Council recommended a more robust member development programme. The council responded by implementing a more expansive induction programme. The local auditor confirmed the appropriateness of the revised programme, and noted that attendance figures were encouraging.
120. At Moray Council, induction materials were considered fit for purpose. The council has, however, acknowledged the need to develop arrangements to support elected member performance by making available personal development and training opportunities and by encouraging attendance at these events. Similarly, at Orkney Islands Council, induction training was good but the annual audit report noted that elected members would benefit from structured arrangements for ongoing training. In particular, the auditor highlighted that elected member engagement in personal development needs further improvement.
121. Renfrewshire Council has a comprehensive training and induction process for elected members, but auditors reported that historically councillors have not made the most of training and development opportunities available to them. At Stirling Council the previous auditors also commented on low attendance at training.

### **Audit findings focused on wider aspects of workforce planning as an area for development in many councils**

122. While some annual audit reports touched on the training and development opportunities for staff, there was limited evidence across annual audit reports and BVARs of how councils ensure that their people have the right knowledge, skills and support to deliver services in the future. This does not necessarily mean that councils are failing to address this strategic priority, but rather that local auditors will be considering the issue at a later date.
123. Reducing the size of the workforce has been one of the main ways councils have reduced their spend and this is set to continue. Given the changes to date, and the expected new demands on councils, effective workforce planning is essential to ensure councils have the right people and skills to deliver priorities. However, as the Commission reported in last year's performance overview report, around one third of councils did not have organisational wide workforce plans.

124. As part of the workforce strategy at Dumfries and Galloway Council, however, there is a comprehensive focus on training and development and this is embedded in the performance and appraisal processes. The council took the decision to centralise the coordination of training and related resources to achieve better impact, to improve capacity and to prioritise training and development on delivery of the council's priorities and key services.
125. In terms of workforce planning, Highland Council approved a workforce strategy in August 2017 that sets out a good framework for workforce planning and for addressing the challenges of an ageing workforce at the council. Clackmannanshire Council's workforce strategy acknowledges that it is not sustainable to simply scale down staff numbers, and identifies that a more fundamental approach to reviewing and redesigning services is required.
126. The Inverclyde Council BVAR reported that the council has a good workforce strategy and forecasts potential job reductions over the medium term, but noted that the council recognises that it needs to develop better workforce planning. Argyll and Bute Council's annual audit report also highlighted that the council needs to conclude the development of its strategic workforce plan to ensure the council has the required capacity and skills.
127. Angus Council's BV report highlighted the need to develop more detailed workforce plans, linked to ongoing projects and service reviews and other key strategies, while at Renfrewshire Council the BVAR identified that no detailed medium or long term strategic workforce plan was in place.
128. Renfrewshire Council approved a three year organisational development strategy in 2015 but is in the early stages of implementing it. The council recognises that it needs to develop better workforce planning, and auditors noted that implementation of the medium and long term workforce strategy and organisational development strategy is critical to how future services are delivered.

## **SAP 4 - Involving citizens more in making decisions about local services and empowering local communities to identify and help deliver services they need**

129. Annual audit reports and BVARs identified a wide variety of approaches to community engagement. There is also some evidence of participatory budgeting being considered in a number of local authorities.

### **Councils continue to use traditional approaches to community engagement, but new and innovative ways of engaging with the public are also being adopted**

130. Engagement with communities is often focused around the difficult choices being faced by councils, who need to be transparent about the implications of budget and priority decisions and how these impact on services. There is evidence that councils continue to use traditional approaches to community engagement, for example citizen's panels, but new and innovative ways of engaging with the public are also being adopted.

131. Aberdeen City Council's level of consultation varies year-to-year and is mainly done by members rather than officers, while Dumfries and Galloway Council's service review process requires service user engagement.
132. The BVAR for Renfrewshire Council reported that the council and its partners are good at working with and involving communities, for example, through its work on tackling poverty and the bid for Paisley to become the UK City of Culture. At Clackmannanshire Council, the BVAR highlighted that as well as a citizen panel, the council has a citizen space website which hosts consultations covering a range of local issues. The council provides information on its website about the results of some of the public consultations and what outcomes have been delivered as a result.
133. Inverclyde Council's BVAR identified that methods used ranged from the traditional to the innovative, and encouraged participation from a wide spectrum of the community. Examples at Inverclyde included a mixture of local public meetings, focused workshops on town centres (charrettes), web-based consultations, citizens' panel responses, connecting with parent and pupil councils and advisory groups and community outreach work.
134. Orkney Islands Council has also taken an innovative approach, particularly in its engagement with remote communities through the use of 'island link officers' ([case study 5](#)).
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## Case study 6

### Island link officer

Under its Empowering Communities project, Orkney Islands Council funds two pilot 'island link officers' on the islands of Pap Westray and Stronsay and has established a 'community office' on each island. The office provides a base for the link officers, who offer some of the services provided by the council's main customer services team.

The project's objective is to provide a closer link to the council within remote communities. This allows communities to have more influence on policies, decisions and services that affect their community and also enables services to be more efficient and responsive to local issues and needs. Community representatives from both islands indicated that the scheme benefits the communities, and helps communication with the council and better joint working.

The council aims to progress the approach by engaging with communities to explore what, and how, operational services can be delivered in a different way within communities. The aim being to:

- increase employment opportunities in island communities
- help develop new skills in the island-based workforce
- increase sustainability and improve access to services by building capacity in the community to manage and deliver local services
- enable locally based community groups to work together to maximise the potential benefits to island residents
- create efficiencies in terms of public resource and/or cost.

In February 2017 Orkney Islands Council allocated additional funding to the scheme, and agreed to roll out the project to two further islands - Hoy and Sanday.

*Source: Best Value Assurance Report - Orkney Islands Council*

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### **There is evidence that councils are planning to make more use of participatory budgeting**

135. The Scottish Government's '[a nation with ambition - the government's programme for Scotland 2017-18](#)' reiterated the Scottish Government's aim to work with local authorities to have at least 1 per cent of council budgets subject to community choices budgeting. The Commission's [local government in Scotland: performance and challenges 2017](#) highlighted some case studies of participatory budgeting, and our review of annual audit reports and BVARs has also identified approaches being implemented by councils.
136. At Perth and Kinross Council a number of events are held in March and April each year to involve the community in deciding how the budget is spent. The council recognises the importance of this being a repeated exercise, and citizens are consulted on budget setting and service delivery through a number of meetings and surveys.
137. City of Edinburgh Council's ruling coalition has committed to devolved decision making, and ensuring that 1 per cent of the council's discretionary budget will be allocated through participatory budget making. Shetland Council also places a strong emphasis on encourage community participation in decision making, and has a similar aspiration that 1 per cent of its budget should be decided through participatory budgeting initiatives in the longer term.
138. The BVAR at East Renfrewshire Council noted early progress with community engagement and participatory budgeting. This included training for the council and its partners on community engagement as part of the corporate training programme; providing communities with capacity-building training and support to encourage partners; and approving a participatory budgeting process to distribute £600,000 of repair funding for residential roads based on the top two preferences chosen by community participants.
139. Community engagement and empowerment is an area where new approaches are likely to evolve, and which will potentially become more challenging as the Community Empowerment Act becomes embedded. This is an area of ongoing development for auditors, working with our scrutiny partners, and we will continue to improve our coverage of community engagement in BVARs and other audit outputs.

## **SAP 5 - Reporting performance in a way that enhances accountability to citizens and communities**

140. There is evidence that councils have processes in place for public performance reporting. More work is needed, however, to assess the impact on outcomes and the effect that council policies and performance is having on the lives of people in the communities that they serve.

**Most council's have satisfactory arrangements in place for public performance reporting. Auditors could provide more detail on the nature and effectiveness of those arrangements**

141. The Commission places a clear emphasis on councils' responsibility for public performance reporting. This is a key element of the performance management framework, and covers how effectively local authorities are reporting performance information to the public. The Commission does not prescribe how councils should report this information, but expects them to provide the public with fair, balanced and engaging performance information.
142. It is important that councils clearly report their performance to local people. Good performance reporting includes clearly stating how performance and spend is linked to the council's priorities; local indicators which demonstrate quality of service; and public satisfaction.
143. Most local auditors provided an overall assessment of the performance management framework at their councils, with additional focus on the quality of performance management information and reporting. While annual audit reports identified that most councils have satisfactory arrangements in place for the publication of performance information, there was limited detail of the nature or effectiveness of arrangements in place.
144. All auditors did, however, report on whether councils had met their duties regarding the two statutory performance indicators:
- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving BV.
  - SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.
145. Whilst auditors did include a judgement on each council's arrangements for publishing performance information relating to the two SPIs, there was limited commentary on the quality of the reporting, and the difference it makes. Auditors have been reminded that they should provide more detail on the quality of performance information published by councils in 2017/18.
146. The local auditors at Comhairle nan Eilan Siar (CNES) noted that the comhairle is committed to having a strong framework in place for monitoring and reporting performance. A continuous improvement sub-committee (of both the policy and resources committee and audit and scrutiny committee) considers the self-assessment and improvement agenda, and the comhairle uses the 'how good is our council?' self evaluation tool together with the public service improvement framework (PSIF).
147. In North Ayrshire Council there is a clear framework in place to ensure that performance is monitored and reported. Performance information is readily available to citizens, and the provision of the interactive 'North Ayrshire Performs' portal allows information to be presented in a way that is visually interesting.
148. Moray Council also has a performance management framework in place that demonstrates how components of performance management fit together, and how the council's ten year

plan is used to inform corporate, service and team level plans. Auditors reported that the framework is currently undergoing review to ensure it is fit for purpose and reflects best practice.

149. At Dundee City Council, the performance management framework is going through significant changes, including the development of service scorecards. Service scorecards are being designed to align service performance reporting with the council's key priorities and outcomes through its council plan and local outcome improvement plan. Performance arrangements at City of Edinburgh Council are more embedded as detailed at [case study 7](#).
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## Case study 7

### City of Edinburgh Council - public performance reporting

At City of Edinburgh Council public performance arrangements are based on council-wide performance reports that are presented to the council on a six-monthly basis. These reports include an update on pledges by the ruling administration; an annual report against the strategic outcomes in the Edinburgh Partnership Community Plan; annual comparator reports on a range of performance indicators included in the local government benchmarking framework (LGBF); and an annual performance overview report.

The final report on the previous administration's pledges was considered in December 2016. The report summarised the progress and achievements towards meeting the priorities set out in the capital coalition agreement in April 2012.

At the time of preparing the annual audit report, the council were preparing the Annual Performance Overview 2017 which would complete the suite of public performance reports for 2016/17.

*Source: Annual Audit Report - City of Edinburgh Council*

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150. Renfrewshire Council has an established performance management report which is well understood by councillors and provides a base for improvement. Progress against service plans are reported on a six-monthly basis, but auditors noted that the level of scrutiny is limited. The council publishes an annual performance report which is refreshed following customer feedback, although more detailed performance information is less accessible.

### Auditors have reported on the need to strengthen scrutiny in councils

151. Scrutiny of council performance is an important part of accountability arrangements. The West Lothian Council BVAR reported that councillors need to play a more active role in committees and scrutiny panels to ensure policies, plans and services are effectively scrutinised. The East Renfrewshire Council BVAR also highlighted that councillors should have a more transparent and active role in the scrutiny and challenge of decisions, and should have greater oversight of the transformation of the council. The report also noted that a large proportion of scrutiny occurs informally outside established committee structures.
152. At Renfrewshire Council, the BVAR highlighted that past performance of the Audit, Scrutiny and Petitions Board was weak and put at risk the overall effectiveness of scrutiny within the
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council. The council reviewed and revised the remits of its committees and established the Audit, Risk and Scrutiny Board following the 2017 local elections.

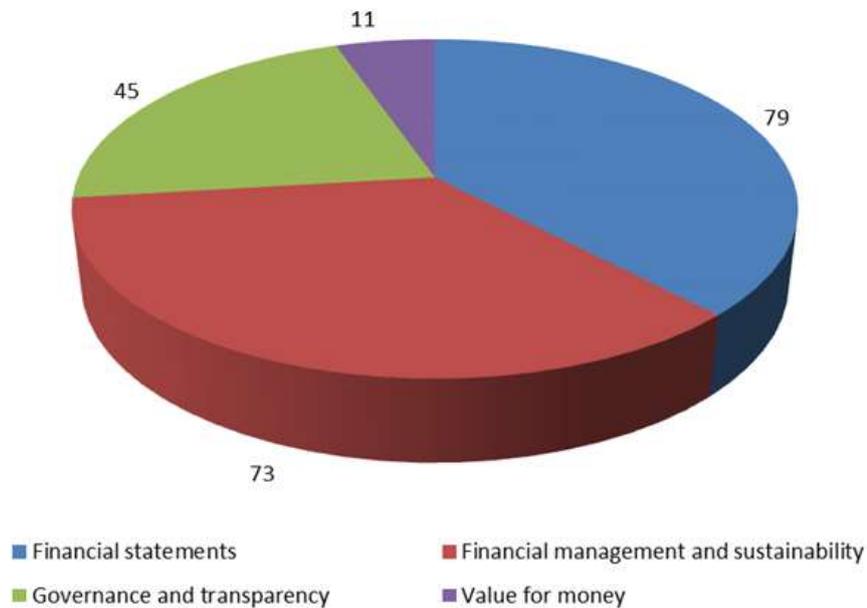
153. The Annual Audit Report for South Lanarkshire Council comments on the limited terms of reference of its Risk and Audit Scrutiny Forum. The forum has not been delegated the responsibility to approve the annual accounts for signing; its role is only to consider audit reports, and other relevant matters, and to report to the Executive Committee. The auditor is of the view that this dilutes the status of the forum and may not promote the most effective level of scrutiny of governance and performance. In response, the council have advised that these arrangements are to be reviewed.
154. The issues noted above regarding scrutiny were not, however, replicated at all councils. Inverclyde Council's BVAR noted that the quality of councillors' scrutiny appears effective, while Orkney Island Council's BVAR concluded that governance arrangements provide an appropriate and effective framework for decision making and scrutiny.

## Other areas of interest arising from our audit work

155. Auditors have focused on ensuring coverage of the five SAPs in their audit work this year, so audit findings on the SAPs make up a large proportion of the issues reported on councils in 2016/17. However, auditors have made conclusions and recommendation in a number of other important areas.
156. During 2016/17, local auditors raised 208 recommendations for improvement in annual audit reports across Scottish local authorities. As detailed in [exhibit 2](#), 38 per cent of recommendations related to the financial statements; 35 per cent to financial management and sustainability; 22 per cent to governance and transparency; and 5 per cent to value for money. Auditors will follow up these recommendations and report an updated position in their 2017/18 AARs.

## Exhibit 2

### Improvement actions in Scottish councils



Source: Scottish local authority annual audit reports 2016/17

157. I have recently written to all council Chief Executives to highlight key messages from each AAR. I have said that, overall, the first year of the audit appointments has gone well and confirmed the benefit of rotating the audit appointments every five years. I took the opportunity to remind all councils of the importance of the final accounts process. I noted that some auditors had reported issues with the quality of accounts prepared, along with some concerns about the scrutiny, approval and signing of the financial statements. I have therefore stressed to all councils the importance of ensuring the production of their accounts is effectively planned and conducted well. Comments from some auditors where improvements are required to the accounts preparation are included below.

- Aberdeen City Council - the auditor reported a relatively high number of audit misstatements and presentational adjustments. The auditor also made recommendations related to improving documentation of accounting judgements.
- Highland Council - the auditor reported a need to improve financial internal control arrangements to reduce the number of adjustments to the financial statements.
- Midlothian Council - the auditor reported that the annual accounts were not signed until early October 2017, and there were a number of adjustments required to the unaudited financial statements. In addition, the accounts were not made public by the statutory deadline.
- North Lanarkshire Council - the auditor identified issues with the group accounts preparation process, which led to adjusted/ unadjusted errors in the audited financial statements.

# Audit work in other local authority bodies

158. During 2016/17 auditors produced reports on integration authorities, pension funds and housing and council tax benefit. The findings from these reports were presented in annual audit reports for relevant bodies, as well as through performance audit reports.

## Integration authorities

159. Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force in April 2016. This brought together NHS and local council care services under one partnership arrangement for each area. There are 30 Integration Joint Boards (IJBs) in Scotland.

### **Reliance on financial reserves is not sustainable, and integration authorities would benefit from improved medium to long term financial planning**

160. In December 2015, the Accounts Commission and Auditor General published the first of three national reports looking at the integration of health and social care. The report recognised that the Public Bodies (Joint Working) (Scotland) Act 2014 introduced a significant programme of reform affecting most health and care services and over £8 billion of public money. The reforms are designed to address barriers to providing the right care for people, closer to home. However, the report recognised the significant challenges involved, including complex governance arrangements, difficulties in budget-setting and consequent delays in strategic planning. A second audit is scheduled for 2018, looking at progress to date and following up on these risks. The audit will examine changes to the system, including evidence of shifting service delivery from acute to community-based and preventative services, and the impact on the lives of local people.

161. All IJBs were operational in 2016/17 and received an unqualified audit opinion on their accounts. Auditors did, however, acknowledge the challenge to IJBs of producing the accounts during what was the first year of reporting for most boards. Auditors also reported that a number of disclosures required by accounting guidance and regulations had not been included in the annual governance statements and management commentaries. Amendments were made to these statements before they were published.

162. Another area for improvement consistently highlighted in IJB annual audit reports was in relation to BV. IJBs should have arrangements in place to ensure that they can demonstrate how they are fulfilling their duty of Best Value. This is an area that IJBs need to develop, and which local auditors will monitor and report on as part of the 2017/18 audit.

163. In relation to finance, IJB chief finance officers have put in place processes to obtain assurances from health boards and councils on the expenditure included in IJB accounts, but

recorded in the financial ledger of the board and council. No significant issues were reported by local auditors in relation to these assurances.

164. IJBs are permitted to hold reserves under section 106 of the Local Government (Scotland) Act 1973. The integration scheme and the reserves policy for each IJB sets out the arrangements between the partners for addressing and financing any overspends or underspends. The reserves policies vary across Scotland. Some integration authorities can retain underspends as reserves, whilst others return them to the boards and councils.
165. A number of integration authorities reported operating surpluses. These arose from underspends of funds transferred from the health board or council which were not required to be returned. As with councils, any reliance on reserves is not sustainable. More work is therefore required to achieve savings going forward, and integration authorities would benefit from improved medium to long term financial planning. The challenge of agreeing integration authority budgets due to the different settlement timetables for NHS boards and councils was also highlighted by local auditors as a continuing problem.
166. Governance arrangements across integration authorities were in place, but auditors acknowledge that arrangements in areas including financial planning, budget monitoring, risk management and performance management were continuing to evolve. A number of auditors also commented on the late establishment of internal audit arrangements, and noted that clarity still had to be provided to ensure that the internal audit service operates effectively.
167. Some auditors reported on the challenges for the public in understanding who is delivering health and care services. In order to ensure transparency, information about the nature of the IJB, its performance and governance should be readily accessible to the public.
168. While most IJB auditors did not report many issues regarding transparency, at East Dunbartonshire IJB, for example, the auditor reported that there is no information available to the public on how to arrange attendance. In South Lanarkshire, the auditor reported that the IJB does not have its own website and therefore committee and board papers are only available on the NHS Lanarkshire website. Auditors said the absence of a dedicated information site for citizens, board members and staff means there is a risk that the nature and performance of the IJB is inaccessible to stakeholders.
169. In an effort to increase transparency, a number of public sector organisations broadcast meetings live on the web or make recordings of meetings available via their websites. As part of the commitment to openness and transparency, integration authorities should consider whether greater public engagement could be achieved through improved promotion of public attendance at meetings or the use of technology to reach a wider audience.

## Pensions

170. In November 2017, the Accounts Commission published a pensions supplement to accompany the [Local Government in Scotland: Financial Overview 2016/17](#), providing an overview of the Local Government Pension Scheme in Scotland. This supplement was compiled from the annual reports and accounts of the 11 pension funds administered by

councils in Scotland and on the reports of their appointed auditors. All 11 pension funds received an unqualified audit opinion on their accounts.

171. Overall, net pension liabilities on council balance sheets were approximately £11.5 billion at the end of 2016/17, an increase of 51 per cent on the previous year. This increase was mainly due to a change in actuarial assumptions used to value future liabilities. It was a good year for Local Government Pension Scheme (LGPS) investments, which increased by almost 22 per cent.

### **The continued increase in pensioner numbers will make funding pension payments increasingly reliant on returns from invested assets**

172. Not all council pension liabilities are the responsibility of the LGPS fund. Where councils have awarded added-year pension benefits as part of severance arrangements, for both teachers and other staff, they have to meet the ongoing cost of pensions themselves. This also helps explain why the increase in council liabilities outstripped investment returns. These liabilities are not matched with any pension fund assets.
173. Public service pension scheme benefits have been reduced on a number of occasions to make the schemes more affordable. However, pension contributions have been a significant cost pressure for councils in recent years. The need for any increase in employer contributions will be determined through the results of the 2017 triennial funding valuation.
174. During 2016/17 the Controller of Audit overseen annual audit reports at 11 pension funds. A consistent message in these reports was that the continued increase in pensioners in the fund's membership will make funding pension payments increasingly reliant on returns from invested assets. .

## **Housing benefits**

175. During 2016/17, the auditors issued eight reports to councils on housing benefits:
- South Ayrshire Council (May 2016)
  - Inverclyde Council (May 2016)
  - East Renfrewshire Council (July 2016)
  - East Ayrshire Council (August 2016)
  - Aberdeenshire Council (October 2016)
  - Dundee City Council (November 2016)
  - South Lanarkshire Council (December 2016)
  - Fife Council (March 2017)
176. The results of this work are summarised in the [housing benefit performance audit - annual update 2016/17](#) which was published in June 2017.

**Benefit services are well managed and can deliver value for money and high quality services for customers**

177. The annual update identifies that benefit services that are well managed can deliver value for money and high quality services for customers. It noted that 80 per cent of risks identified during risk assessments in previous years had been either fully or partially addressed (85 cent in 2015/16).
178. In total eight reports were issued during 2016/17, and in two of these no risks to continuous improvement were identified. At two councils only one risk was identified, with 16 risks identified across the remaining four councils. The report identifies that:
- Management checking was an issue in five of the eight councils. The level of analysis carried out on the outcomes was insufficient to inform a risk-based approach to checking or training programmes.
  - In three councils the report identified business planning and performance reporting risks where targets were not set for all aspects of the benefit service. Holistic performance was not therefore being reported to senior management and elected members.
  - Interventions were an issue in four councils, with intervention outcomes not recorded and analysed in sufficient detail to allow the service to determine the effectiveness of their approach.
179. Universal Credit (UC) continues to be rolled out across Scotland with all councils having some local residents claiming UC. During 2016/17, the full digital UC service for all claimant types began to roll out nationally. The Department for Work and Pensions expect a full roll-out across the UK to be completed by September 2018, with the migration of the remaining working age existing housing benefit claimants to the full UC service to start thereafter and be completed by 2022.
180. The Scotland Act 2016 devolved a number of areas of social security to Scotland. These cover eleven benefits totalling £2.8 billion of spending in Scotland. The Scottish Government is committed to delivering these social security benefits by the end of the current parliamentary session in 2021. Ten of the eleven devolved benefits will be delivered directly by the Scottish Government's new social security agency with discretionary housing payments continuing to be delivered by local authorities.

# Looking ahead

## Assessment of key risks in councils

- 181.** I am satisfied that auditors have an effective approach to identifying and following up audit risks in individual councils, integration authorities and pension funds. The annual audit work carried out by auditors is planned to address the key risks in each council. It is clear that long term financial planning, financial management and sustainability continue to represent significant risks in local government, and will remain a main focus for auditors in 2017/18 and beyond.
- 182.** The need for all councils to change how they deliver services in the future in this environment will also continue to be a focus. Alongside these areas, local audit work will be informed by local risks. The results of this work will be reported in annual audit reports next year. These findings will be summarised in the 2017/18 Annual Assurance and Risk Report.

## Best Value in councils

- 183.** A further six BVARs are planned during the second year of the audit appointments in line with the planned work programme. The reports planned to be published in 2018/19 are:
- Dumfries and Galloway Council
  - East Ayrshire Council
  - East Lothian Council
  - Fife Council
  - Glasgow City Council
  - West Dunbartonshire Council
- 184.** A further six or seven BVARs are planned in each of years three, four and five of the audit appointments. We have not yet confirmed the timing of BVARs for individual councils beyond year two, as this provides flexibility to react to any issues identified by local auditors during the course of the audit appointment. A schedule of planned BV work for each council during the remainder of the audit appointment is contained in the auditors five year Best Value Audit Plan (BVAP).
- 185.** The 2017/18 annual audit reports for those councils where a BVAR has been published will include comment on the councils overall response to the BVAR; a judgement on the progress made against each recommendation included in the BVAR; and any additional recommendations made by the Commission in their Findings. The results of this work will be reported in the 2017/18 Annual Assurance and Risks Report.

## Best Value in IJBs

- 186.** The Code of Audit Practice sets out how BV duties apply to organisations across the public sector, not just councils. This applies to auditors of integration authorities, health and central

government bodies. The 2017/18 Planning Guidance requires auditors to include comment in their annual audit reports on how each IJB demonstrates that it is meeting its BV duties. Auditors will report on the authority's own arrangements for doing this, but will not carry out detailed audit work against the BV characteristics. The results of this work will be reported in the 2017/18 Annual Assurance and Risks Report.

## National performance audits

187. Audit Scotland carries out a programme of national performance audits on behalf of the Commission and Auditor General for Scotland. The Accounts Commission has several performance audits covering local government planned in the coming year including:
- Early learning and childcare (February 2018)
  - Local Government Performance Overview (April 2018)
  - Are ALEOs improving council services? (Spring 2018)
  - Children and young people's mental health (Autumn 2018)

## National scrutiny plan 2018/19

188. The National Scrutiny Plan for local government is one of the key outputs from the shared risk assessment process. It summarises the strategic scrutiny activity planned from April to March each year across Scotland's 32 councils. The 2018/19 plan is scheduled to be published in spring 2018.

## Strategic audit priorities

189. SAPs are issues that the Commission considers are particularly important to report through annual and BV audit work. The Commission reviews its SAPs in the spring of each year to inform annual planning guidance for local government auditors issued in the autumn.
190. Progress by councils against the Commission's SAPs is detailed from page 18 of this report. In some areas, for example in exploring options for service delivery and engaging citizens and communities, limited work was undertaken by local auditors out-with the BVARs. This is consistent with the new audit approach, which requires auditors to address BV over the five year appointment as part of their audit work.
191. In order to support continuous improvement, the Commission plans to review its strategic audit priorities. This report demonstrates that, overall, the SAPs reflect the key risk areas and audit findings being reported by auditors. However, it also suggests that in some areas, as our expectations of councils have changed over time, the emphasis of some SAPs could be usefully updated. For example, the Commission could consider :
- **Reporting performance in a way that enhances accountability to citizens and communities** - whilst most councils have adequate and transparent arrangements in place for public performance reporting, most are not good at demonstrating the impact of its improvement activity on outcomes. The Commission may wish to consider the focus of this priority to take account of these findings.

- **Ensuring their people (members and officers) have the right knowledge, skills and support to design, develop and deliver effective services in the future** - most annual audit reports provided a good level of detail on arrangements for elected member training and development. There was, however, limited information on this for officers, although some local auditors did report on the effectiveness of workforce plans and strategies. One of the key messages identified from this was limited evidence of detailed workforce planning. The Commission could consider revising this priority to reflect the importance of effective workforce planning to support financial and operational strategies.
- A number of local auditors identified the need for councils to strengthen the level of oversight, scrutiny and challenge provided by elected members. As the scrutiny of council performance is an important part of governance and accountability arrangements, the Commission should consider whether this area is adequately covered within the current SAPs.
- The importance of effective leadership from officers and members is reported in all BVARs. It is considered in this report, but its prominence could be increased in the SAPs.

192. We will continue to monitor performance to ensure adequate coverage of BV characteristics throughout the five year audit appointments.