

REPORT TO: AUDIT SUB-COMMITTEE 19 JUNE 2001
REPORT ON: OVERVIEW OF THE 1999/2000 LOCAL AUTHORITY AUDITS
REPORT BY: AUDIT SCOTLAND
REPORT NO: 826-2001

ITEM 3

OVERVIEW REPORT



Overview of the 1999/2000 Local Authority Audits

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

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The Accounts Commission

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

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

The Commission secures the audit of 32 councils and 34 joint boards (including police and fire services). Local authorities spend over £9 billion of public funds a year.

Audit Scotland

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

About this publication

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

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

Accounts Commission's findings

Completion of accounts and audits

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

Governance

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

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

Financial position

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

DLOs/DSOs

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

Executive summary

Introduction

- 1 This statutory report is prepared under section 102(1) of the Local Government (Scotland) Act 1973 to advise the Accounts Commission of the main issues arising from the 1999/2000 local authority audits. It is also made available to all local authorities to enable them to assess their progress in key areas of financial stewardship and performance. The report draws on reports prepared by appointed auditors at the conclusion of their audits and agreed with individual local authorities. It focuses on the 32 main council audits and also covers the 34 'other' local authority bodies (including police and fire services) in place in 1999/2000.
- 2 The report is in two parts. The first relates to matters of a recurrent nature and shows the broad results and trends for local authorities in Scotland as a whole. The second part relates to matters arising primarily during 1999/2000, either at individual councils or more widely.

Part 1: Annual results and trends

Completion of accounts and audits

- 3 All 32 councils submitted their 1999/2000 accounts for audit by the statutory date of 30 June. This is the first time that all accounts have been completed by that date and represents a commendable achievement by councils. The deadline for completion of 1999/2000 audits was brought forward by two months to 30 September by when 20 audits had been completed. This also represents significant progress over earlier years though there is clearly scope for further improvement.
- 4 Of the 1999/2000 audits completed at the date of the overview report the accounts of three councils were qualified in respect of four matters. This represents a notable reduction compared with previous years (1998/99: nine accounts qualified in respect of 15 matters; 1997/98: 21 accounts qualified in respect of 27 matters). Of the 34 'other' local authority bodies' audits completed, none contains qualifications.

Corporate governance/financial controls

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

- 7 The Accounts Commission has endorsed the audit committee concept as an integral component of good corporate governance. While it is for each local authority to determine arrangements appropriate to its particular circumstances, the adoption and implementation of audit committee principles is regarded by the Commission as an important step in raising the standard of corporate governance in local government.
- 8 Overall, there is encouraging evidence from appointed auditors' 1999/2000 reports of an increasing move in councils towards setting up an audit committee or similar mechanism. One of the most important roles under these arrangements is to review internal and external audit reports and to monitor the implementation of their recommendations.
- 9 Similarly, following criticism in previous years' overview reports, there is evidence from appointed auditors' 1999/2000 reports of improvement in councils' internal audit arrangements. But, given councils' increasing reliance on information technology, there is a need for more specialist computer audit expertise to be available to internal audit.
- 10 While progress is being achieved on governance arrangements, there is evidence of continuing weaknesses in basic accounting controls including instances of no regular and timely accounting reconciliations. This and other instances of weaknesses in internal control have been a recurring theme in the four years since local government reorganisation. Sound financial procedures and effective controls are essential and, without them, councils cannot know if their financial procedures have been compromised, exposing them to unacceptable risk.

Financial position

- 11 Many councils utilised part of the balances they had built up in previous years to support 1999/2000 service expenditure but, overall, the total level of balances across councils was similar to 1998/99. At 31 March 2000, the total net value of General Fund balances across councils was £177 million (2.7% of net expenditure) and the total value of Housing Revenue Account balances was £113 million (9.7% of gross expenditure). Other funds amounted to £264 million but, within this total, there is a wide variation in the amounts held by individual councils.
- 12 General capital expenditure (excluding council housing) across councils in 1999/2000 was £611 million of which £97 million (16%) was financed from current revenue. For the Housing Revenue Account, capital expenditure in 1999/2000 totalled £344 million of which £104 million (30%) was financed from current revenue. Within these overall figures, there is wide variation in the extent to which councils finance capital expenditure from current revenue.
- 13 The statutory basis and purpose of reserves is not always clear and there is wide variation in the amounts held. There is also significant variation in the extent to which capital expenditure is financed from current revenue. These are areas which may warrant closer review by councils and their appointed auditors in future years.

DLO/DSO performance

- 14 Following financial problems in earlier years, the performance of councils' Direct Labour and Direct Service Organisations (DLOs and DSOs) showed further improvement in 1999/2000. For 21 councils, all DLOs/DSOs achieved the statutory break-even target and, overall, break-even was achieved at 94% of DLOs/DSOs operating in 1999/2000. However, there appears still to be scope for further improvement in the quality of financial and other performance information provided to councillors who have responsibilities for DLOs/DSOs.
- 15 More generally, there are early indications that new methods and structures being developed under Best Value initiatives may not fit easily with the ongoing statutory requirements of the compulsory competitive tendering (CCT) regime. Future audit work may help to identify the extent to which this may be an issue across councils.

Housing/council tax benefits

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

Financial relationships with external parties

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

Audit follow-up

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

Part 2: Matters arising during the year

Statutory reports

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

General accounting issues

- 21 As in previous years, appointed auditors continued to comment adversely on some councils' progress in complying fully with the capital accounting requirements. The main focus of attention in 1999/2000 was the failure by several councils to undertake a full revaluation of assets within the five year timescale specified by the Accounting Code of Practice (ACOP). In most cases this did not impact on the auditors' opinion on the accounts but the 1999/2000 accounts of Clackmannanshire Council were qualified in this regard. In addition some appointed auditors continue to report weaknesses in procedures for maintaining asset registers.
- 22 The Accounting Code of Practice also specifies the nature of the information which local authorities need to disclose in their accounts in relation to pensions costs. In general, appointed auditors have reported that few local authorities complied fully with these requirements in 1999/2000. But appointed auditors have indicated that authorities are seeking actuarial advice to ensure that the disclosure requirements are met. Appointed auditors have reported a particular issue concerning the firefighters' pension scheme, an unfunded 'pay as you go' scheme. A large number of firefighters who joined the service in 1974 will be eligible for retirement in 2004, which may place additional pressure on the resources of fire authorities.

Matters arising at individual councils

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

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

Specific value for money findings

- 25 The Accounts Commission approves an annual programme of value for money studies undertaken centrally by Audit Scotland. This work may culminate in the publication of national reports, management papers and management handbooks. Councils are expected to use these to challenge their current levels of performance and take action to achieve the standards of the best.
- 26 Exhibit 1 summarises the value for money reports published by the Accounts Commission relating to study work undertaken during 1999/2000.

Exhibit 1: Reports published on 1999/2000 study topics

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

- 27 The refuse collection study found that there have been substantial productivity improvements in councils' refuse collection services since the Commission's last review in 1990. The cost of refuse collection has risen from £90 million in 1990 to £98 million in 1998/99, a 9% increase, which is less than the rate of inflation. Over the same period, the tonnage of refuse collected increased by 14%, the number of employees fell by 44% from 4,800 to 2,700 and the number of vehicles fell by 25%.
- 28 The report concluded that councils will have to give waste management a higher priority if they are to meet government recycling and landfill targets, as set out in the National Waste Strategy. This will involve them developing an effective waste management strategy, in partnership with other councils and agencies, and allocating sufficient funding to support expensive but environmentally desirable, collection and recycling activities.
- 29 The study into community safety partnerships found that multi-agency partnerships led by councils and involving many different organisations, such as police and fire services, health boards and hospital trusts, have been set up across Scotland to tackle jointly problems such as anti-social behaviour, domestic violence, crime and reducing accidents and injuries.

- 30 A joint study between the Accounts Commission and Scottish Homes provided a snapshot of the extent to which all councils and a representative sample of Registered Social Landlords (RSLs) were implementing good practice in managing rent arrears. Overall the RSLs sampled performed better, by meeting more of the good practice standards than councils. This helped RSLs to achieve lower levels of rent arrears.
- 31 The report concluded that the £44 million rent arrears bill in Scotland could be reduced by as much as £8 million if councils and RSLs adopted better management practices to prevent and recover rent arrears. Councils could reduce their arrears from £37 million to £31 million and RSLs from around £7 million to £5 million.

Best Value

- 32 Appointed auditors have the task of assessing the progress made by each council in terms of meeting the expectations set out in the Performance Management and Planning (PMP) framework. The PMP audit assesses a council's approach to Best Value under ten criteria related to the four key questions identified by the Best Value Task Force.
- 33 For 1999/2000 each council selected three services for review. Appointed auditors validated the self-assessments and agreed with each council what improvements would be made to the PMP framework in each of the selected services. The Accounts Commission published a progress report in October 2000 (*'Making Progress with Best Value'*) which provided a snapshot of councils' performance management and planning arrangements, based on the PMP audit.
- 34 Despite the overall positive picture, there were three aspects of performance management and planning where many councils were making limited progress:
- identifying the costs and benefits of different options for service delivery, and evaluating the current service against these
 - linking budgets and other resources to key service priorities
 - reporting a full and accurate picture of service performance to decision-makers.
- 35 Best Value also requires councils, over a five-year period, to subject all of their activities to a rigorous review that incorporates the '4Cs' – challenge, compare, consult, compete. This process will help councils to be sure that they are doing the right things and achieving Best Value. About a quarter of councils had made little progress with their programme of Best Value reviews at the time of the audit. In a small number of councils, it also appeared that services were waiting until a Best Value review was undertaken before effort was put in to achieving continuous improvement.

Performance indicators

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

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