

PERTH AND KINROSS COUNCIL

Audit Committee

18 June 2014

**AUDIT SCOTLAND REPORT – AUDIT SERVICE QUALITY – RESULTS OF THE
2012/13 LOCAL GOVERNMENT SURVEY**

Report by the Head of Finance

PURPOSE OF REPORT

This report accompanies the Audit Scotland Report on the results of the 2012/13 Local Government Survey on Audit Performance.

1. BACKGROUND / MAIN ISSUES

- 1.1 Service quality surveys are part of Audit Scotland's audit quality appraisal framework. These surveys are carried out independently of the appointed External auditors by the Audit Strategy Group. The attached report summarises the results of the 2012/13 Local Government survey which returned high satisfaction rates overall with 97% of respondents reporting a high quality audit service.

2. CONCLUSION AND RECOMMENDATIONS

- 2.1 The Audit Committee is requested to
- I. Note the contents of the Audit Scotland report on the results of the 2012/13 Local Government Survey.

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	None
Corporate Plan	Yes
Resource Implications	
Financial	Yes
Workforce	Yes
Asset Management (land, property, IST)	Yes
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	Yes
Sustainability (community, economic, environmental)	Yes
Legal and Governance	None
Risk	None
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

1.1. Corporate Plan

1.1.1. The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

1.1.2 This report relates to all of these objectives.

2. Resource Implications

2.1. Financial

2.1.1. There are no direct financial implications arising from this report other than those reported within the body of the main report.

2.2. Workforce

2.2.1. There are no direct workforce implications arising from this report other than those reported within the body of the main report.

2.3. Asset Management (land, property, IT)

2.3.1. There are no direct asset management implications arising from this report other than those reported within the body of the main report.

3. Assessments

3.1. Equality Impact Assessment

3.1.1. Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

3.1.2. The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

3.2. Strategic Environmental Assessment

3.2.1 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.

3.2.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

3.3. Sustainability

3.3.1 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.

- 3.3.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

4. Consultation

4.1 Internal

- 4.1.1 The Chief Executive has been consulted in the preparation of this report.

2. BACKGROUND PAPERS

- 2.1 No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. APPENDICES

Appendix 1 – Audit service quality – Results of the 2012/13 Local Government Survey

Audit service quality

Results of the 2012/13 Local Government Survey

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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Local Government survey results 2012/13

Introduction

1. Service quality surveys are part of Audit Scotland's audit quality appraisal framework. Surveys are carried out on a rotating sector basis. The surveys of 2012/13 audits covered the Central Government (CG) and Local Government (LG) sectors.
2. These surveys are carried out independently of the appointed auditors by the Audit Strategy Group and should not be confused with any quality assurance or quality control surveys carried out locally by auditors.
3. This paper summarises the results of the 2012/13 LG survey which returned high satisfaction rates overall with 97% of respondents reporting a high quality audit service.

Survey questionnaires

4. Surveys are carried out using a service quality questionnaire designed to record feedback and comments from audited bodies on aspects of the annual audit service, in particular views on the quality and impact of the external audit service provided and the national performance reports issued by Audit Scotland's Performance Audit & Best Value Group.
5. The survey was extended this year to ask that the Chief Executive complete the section on seven performance reports (Local Government Overview, Major Capital Investment in Councils, Protecting Consumers, Health Inequalities, Managing Performance: Are You Getting it Right?, Using Cost Information to Improve Performance: Are You Getting it Right? and Improving Community Planning in Scotland). As per the previous survey, the Chief Financial Officer completed the main sections and the Audit Committee Chair completed the section on the auditors' interaction with the audit committee. The 2012/13 survey also asked the Audit Committee Chair to comment on the committee's consideration of national performance reports.
6. Both the Chief Financial Officer and the Audit Committee Chair were asked about the overall impact of the audit on the organisation. In addition, questions on the impact of local external audit across four specific areas of impact used the new impact dimensions as identified in Audit Scotland's revised impact framework. These are:
 - financial sustainability
 - transparent reporting of financial and other performance
 - value for money
 - governance and financial management

Response rate

7. Surveys were issued to 35 LG bodies of which 32 (91%) submitted a completed questionnaire (10/11 73%). Surveys were emailed to the Chief Financial Officers during the first week of November and were followed up in December and January, the final deadline for return (by email) being 31 January 2014.

Survey results

8. Table 1 shows a high level summary of the results of the 2012/13 survey taking all auditors together and all questions within the areas of audit.
9. Strongly agree' and 'agree' responses and 'strongly disagree' and 'disagree' responses have been combined to make the analysis easier to interpret. In total, of the 1,150 individual responses received, 91% were positive and only 5% were negative. Note that there was an option to choose a 'not applicable' response (3%) and a 'don't know' response (1%).

Table 1: 2012/13 LG audits – responses by category (all auditors, all questions)

Area of audit (no of Qs)	Agree %	Disagree %	Not applicable or Don't know %
Staffing & working relationships (3)	98	2	0
Planning (3)	97	2	1
Corporate governance (3)	95	2	3
Audit of the financial statements (3)	97	3	0
Grant claims, other returns, WGA & SPIs (4)	84	2	14
Reporting the audit (6)	98	2	0
Overall views of the audit (7)	82	12	6
The auditors' interaction with the audit committee (8)	90	6	4
SRA, BV audit work (3)	84	2	14
Local Government Overview report (4)	88	6	6
Major Capital Investment in Councils report (4)	78	13	9
Protecting Consumers report (4)	53	21	26

Health Inequalities report (4)	68	14	18
Managing Performance: Are You Getting it Right? report (4)	89	5	6
Using Cost Information to Improve Performance: Are You Getting it Right? report (4)	85	8	7
Improving Community Planning in Scotland report (4)	74	15	11

10. Table 2 summarises the responses to the key questions on the quality of the local external audit service and the impact of audit work. Note that the 'overall views of the audit' section in table 1 above contained the six questions in table 2 plus a question on oral reports. The main reason why this section received lower positive response is due to the impact questions per table 2.

Table 2: 2012/13 LG audits – responses to key questions on quality and impact (all auditors)

Question	Agree %	Disagree %	Not applicable or Don't know %
External auditors provided a high quality service	97	3	0
The annual audit contributed to a better understanding of financial sustainability	72	22	6
The annual audit contributed to more transparent reporting of financial and other performance	78	16	6
The annual audit contributed to our body providing better value for money	56	25	19
The annual audit contributed to improved governance and financial management	84	6	10
The external audit has made or will make a positive impact in our organisation	91 (89: audit committee chairs)	9 (7: audit committee chairs)	0 (4: audit committee chairs*)

11. The main features of the analysis are:
 - 97% of respondents agreed that the auditor delivered a high quality service (2010/11: 100%) which is a significant result.
 - On the specific impact questions, the highest area of impact was governance and financial management with 84% agreeing. In summary, the number of respondents agreeing that audit has had an impact across these 4 areas was 73% (2010/11:94%).
 - 91% of chief financial officers and 89% of audit committee chairs agreed that the external audit had made or would make an impact on their organisation. The contrast between these significantly positive views and the weaker responses to some of the specific impact areas noted above suggests respondents are identifying other areas where the audit is having a positive impact; some of these were reported in the comments received as noted in paragraph 15 below.
 - The Managing Performance: Are You Getting it Right report was the most positively received of the seven performance reports, closely followed by the Local Government Overview report. Scores reflect the relevance as well as the impact of each report, and the report with the lowest overall impact score of 53%, Protecting Consumers, also had the highest number of respondents stating that it was not applicable or that they didn't know what impact it had had.
 - The questions on the performance reports asked about impacts, using the new impact areas as discussed above. The results mirror those impact questions on external audit in that governance and financial management came out as the strongest impact area and value for money was ranked last. The average impact score of 77% was marginally higher than for external audit (73%).
12. Seven questions received 100% positive responses, covering good working relationships between auditors and staff in audited bodies, discussion around the audit plan, good understanding of the council's business by senior audit staff and an appropriate level of work undertaken, clear appropriate audit reporting, and good knowledge of the financial reporting framework.
13. Audited bodies disagreed only 56, or 5% of times out of 1,150 individual responses. The most negative responses were for:
 - 'The annual audit contributed to our body providing better value for money' (8)
 - 'The annual audit contributed to a better understanding of financial sustainability' (7)
14. A further two statements received 5 negative responses each:
 - 'The annual audit contributed to more transparency of reporting of financial and other performance'
 - 'Your external auditor effectively supports your consideration of other audit reports e.g. national reports, how councils work reports, CPP reports and Best Value audit reports'

Negative responses tended therefore to be on questions of audit impact. Six bodies commented on the support received by audit committees for considering other reports and asked for more support and/or more benchmarking information.

15. The survey included 13 opportunities for respondents to make comments. In particular, feedback was invited on positive examples of auditor conduct, where audit had had a positive impact on the body and examples of things that the auditor could have done better. Under positive examples of auditor conduct, 21 bodies reported their professionalism, excellent communications, approachability and strong relationships, good knowledge of the bodies and assistance with finding solutions to issues. In terms of where the audit had had a good impact, 15 bodies commended the usefulness of audit recommendations and observations, help with risk assessment, a proportionate response to matters arising and technical support around the financial statements. For areas where the audit could do better, 13 bodies responded to identify better engagement over queries and giving audited bodies more opportunity to consider issues being raised and items for reporting, better staff resourcing on audit teams and a more local focus to the audit.

Comparison with previous LG surveys

16. Appendix 1 provides a comparison of this year's survey with the previous survey in 2010/11. The current survey contained 68 individual questions (10/11: 50) across nine sections (10/11: 12) and 14 opportunities for further comment (10/11: 15); in addition, the number of questions per audit area and the names of some audit areas have changed, so the comparison is not a perfect year-on-year match. The 2012/13 survey has more emphasis on specific performance reports and the impact areas are changed as mentioned above.
17. The comparison shows that there are two areas of marginal improvement, namely the audit of the financial statements and audit reporting, and one area which has remained the same (planning). On the question of external audit providing a high quality service, one body disagreed in 2012/13 where all respondents had agreed in 2010/11. The specific impact questions have seen the largest decline in positive responses. The grants, WGA and SPI set of questions saw a 12% decline in positive responses and this is reported as being due to poor contact, discussion and knowledge on the part of auditors in regard to SPIs and delays to the WGA deadline plus problems with the WGA spread sheet. The interaction with the audit committee questions saw an 8% decline which appears to be due to a change in questions in 2012/13 and a weaker response to the question of whether the auditors' oral presentations were of a high standard.
18. The previous survey looked at the final year of the 2006/07 – 2010/11 audit appointments whereas the current survey covered year two of the new procurement round; 62% of the bodies which took part in the survey had seen a change in auditor, so there may be an element of the audit 'bedding down' in the weaker results for 2012/13.

Action taken on questionnaires and survey results

19. Copies of all completed questionnaires have been sent to the relevant auditors to discuss any issues raised with the audit team and with the audited body and to consider any actions that might be taken to improve the audit service where required.
20. Reports on both the CG and LG survey results have been considered by Audit Scotland's Management Team, Performance Audit & Best Value Group and Impact Group, and the LG results have been reported to the Accounts Commission's Financial Audit & Assurance Committee.
21. This report summarises the results for LG Chief Executives and auditors, for their information.

Conclusions

22. Overall, the results of the 2012/13 LG survey suggest that audited bodies, with minor exceptions, considered the local external audit service to be high quality and to have a positive impact on their organisation. The main issues for improvement were for auditors to better support audit committees in their consideration of other reports such as national reports, how councils work reports, CPP reports and BV audit reports; and to deliver better support on SPI work.
23. The audit service quality survey, despite its limitations, is a key part of the overall quality appraisal function that is carried out in Audit Strategy. It is important that we are aware of what audited bodies think and that Audit Scotland and auditors take an interest in their views. Audit Strategy will review the format and content of the questionnaire before the next LG survey in 2014/15. Any suggestions for improving the survey are always welcome.

Appendix 1

LG 2012/13 and 2010/11 survey comparisons (all auditors)

	2012/13	2010/11
No of surveys returned (%)	32 (35) 91%	35 (48) 73%
Area of audit:	Strongly agree/Agree %	
	2012/13	2010/11
Staffing & working relationships	98	99
Planning (10/11 consultation & communication)	97	97
Corporate governance	95	99
Audit of the financial statements	97	94
Grant claims, other returns, WGA & SPIs	84	96
Reporting the audit (10/11 split between annual audit report and other audit reports)	98	96
Interaction with the audit committee	90	98
Overall quality of service	97	100
The audit has made or will make a positive impact on our organisation	91 (CFO) (89: audit committee chairs)	(N/A CFO) (94: audit committee chairs)
The audit will have an impact on:		
Financial sustainability (10/11: Assurance & accountability)	72	100
Transparent reporting (10/11: Planning & management)	78	100
Value for money (10/11: Economy & efficiency)	56	91
Improved governance & financial management (10/11: Effectiveness & quality of services)	84	85