

Colin Beattie MSP
Chair
Scottish Commission for Public Audit
Room T3.60
The Scottish Parliament
Edinburgh
EH99 1SP

22 March 2017

Dear Chair

During our most recent meeting, the Commission sought further information on:

- The new approach to Best Value in local government.
- Work arising from the Scotland Act 2016 and the EU referendum result.
- Our voluntary release scheme.
- Pension fund investments.

1. The new approach to Best Value in local government

Best Value has been a statutory duty for councils since 2003 and is an important audit responsibility for the Accounts Commission. It believes that the principles and essential elements of Best Value remain fundamental to good public service delivery.

During 2014, the Accounts Commission carried out a review of its work in auditing Best Value in Scotland's councils taking into account the significant changes that have had an impact on local government since 2003, and approved a revised approach. The Accounts Commission feels that there is a real need for the pace, depth and continuity of improvement to increase across local government and driving improvement will be at the core of the audit process for Best Value. A proportionate and risk-based audit approach will continue to be taken, but the Accounts Commission requires more regular assurance on Best Value across all 32 councils. This involves establishing a more integrated approach to auditing councils to maximise the value and impact of all of our audit work in local government. Best value audit work will make even more use of intelligence from national audit work, partner public bodies and scrutiny partners. It will also reflect a council's own self-evaluation activity. Six to seven Best Value Assurance Reports will be produced each year, with the first of the new reports being published on behalf of the Accounts Commission from June 2017. The initial councils to be covered by this new approach include Inverclyde, Renfrewshire, East Renfrewshire, West Lothian, Orkney Islands and Clackmannanshire.

2. New areas of work arising from the Scotland Act 2016 and the EU referendum result

Financial devolution has significant implications for Scotland's public finances and for public audit in Scotland. Public audit has never been more important and the scope of Audit Scotland's work will become wider. Audit Scotland needs to be well placed to contribute to discussions on new financial powers being devolved to Scotland, and to inform accountability and audit

arrangements. We also need to ensure that we have the skills and capacity across the organisation to fulfil our role effectively.

Our New Financial Powers and Constitutional Change Programme Board leads our work in this area, and its aims and activities include:

- **Role and policy** - considering the implications of further financial devolution and EU exit on Audit Scotland's work and engaging with Parliamentary committees and others on reporting and audit arrangements arising from the new powers.
- **Audit work and coordination** – identifying the main audit risks arising from the new financial powers and constitutional change, and ensuring a joined-up response across audit work. For example, we have embedded consideration of financial devolution and EU exit into our programme of performance audits and we continue to work with the National Audit Office to ensure joined-up and effective public audit – including additional assurance on Scottish Income Tax.
- **Capacity building and resourcing** - building the capacity of Audit Scotland, ensuring that our audit work is properly resourced and we capitalise on opportunities for cross-organisation and new ways of working. This includes establishing and supporting audit teams for new pieces of work, such as the audit of Revenue Scotland and building awareness and knowledge across the organisation.
- **Financial scrutiny framework** – informing and supporting the Parliament and others, as they establish new arrangements to help ensure transparency, accountability and financial sustainability in relation to the Scottish public finances. We have given evidence to the Finance and Constitution Committee on the fiscal framework and are supporting the Auditor General's participation in the Budget Process Review Group.

Our 2016-17 budget included £100,000 to provide support for the programme. Our 2017-18 budget and our projections for the following two years continue to include this resource to take account of changes arising from the Scotland Act 2016 and the EU referendum.

The programme is led by an assistant director, supported by a dedicated project manager and a small number of colleagues drawn from across the business. This programme team is funded by the £100,000 specifically identified in our budget, together with staff time from our core workforce budget. A number of individuals spend part of their time on the programme alongside their other responsibilities.

The Commission asked specifically about the responsibilities of the assistant director who leads this work. Previously, he led our audit of the Scottish Government and a number of other central government bodies, combining these responsibilities with work on the new powers. Since October 2016 he has led our Financial Powers and Legislative Change agenda. He retains a reduced audit portfolio including the audits of Revenue Scotland and Transport Scotland. This helps ensure that our work on the new powers and EU exit is grounded in current audit experience.

The implications and impact of the Scotland Act 2016 and EU exit are expected to continue to emerge over the next three years and beyond. A key output from the work programme will be to assess further resourcing implications for our work, which will be a feature of future budget proposals. In some areas, such as the implementation of tax powers, timetables and arrangements are becoming increasingly clear. Others, such as the introduction of social security powers and changes to the Scottish public finances as a result of the EU exit, remain highly uncertain.

3. Voluntary release scheme (VERA).

We report to our Remuneration and Human Resources Committee each May and details will be included in our annual report and accounts to be published in mid-June. We will be happy to provide additional details to the Commission.

4. Pension fund investments

Ninety six per cent of Audit Scotland's staff (263 w.t.e.) are members of the Local Government Pension Scheme in Scotland which is accessed through Lothian Pension Fund (LPF), who administer the scheme on behalf of Audit Scotland.

Lothian Pension Fund communicates with its members through an annual Fund newsletter, which refers to its website where a 'How we invest' section can be found. The Fund provides transparency by listing all of its investments and further information on the Fund's approach to responsible investment, as well as its voting and engagement record with companies over ESG issues on their website at www.lpf.org.uk/howweinvest.

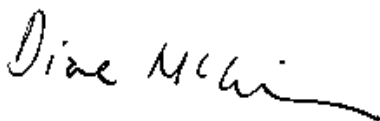
The Fund is guided in its investment strategy by the legal framework under which it operates. Administering authorities, including the City of Edinburgh Council, owe fiduciary duties to scheme employers and scheme members both generally, and specifically in relation to investment matters.

Audit Scotland alerts its staff to major updates or changes to the scheme through our intranet site and occasional pension briefings.

Audit Scotland is committed to reducing the greenhouse gas emissions caused by our own operations. We work to a climate change plan and report on our performance annually. As detailed in our latest report, by 2019/20 we plan to reduce annual carbon emissions by 15 per cent against the 2014/15 baseline. This would equate to annual carbon emissions of 292 (tCO₂e) in 2019/20 – a 45 per cent fall over a decade.

We hope that this information is useful, but please get in touch if you require anything more.

Yours sincerely



Diane McGiffen
Chief Operating Officer