

MEETING: 11 MARCH 2021

REPORT BY: SECRETARY TO THE COMMISSION

ANNUAL ASSURANCE AND RISKS REPORT

Purpose

1. This paper introduces the Annual Assurance and Risks Report by the Controller of Audit.

Background

2. Local authority external auditors are appointed by the 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 the Controller of Audit, and are usually submitted by 30 September each year (although this year the Commission agreed to an extension of this timescale to 30 November). The reports are public and are available on the websites of the audited bodies and [Audit Scotland](#).

Controller of Audit review of annual audit reports

3. The Controller of Audit reviews the annual audit reports to:
 - Identify high-level issues and themes for inclusion in the Commission's annual local government overview reports.
 - Identify specific issues that he may wish to report to the Commission under his statutory reporting powers. In short, these powers are reporting about any matters arising from the accounts of local authorities, or the auditing of those accounts, and in certain specific situations involving illegality or loss.
4. In practice, significant findings from the audits will be known to auditors in advance of the annual audit reports, and reported to the Commission by the Controller of Audit via the Financial Audit and Assurance Committee. Statute allows the Controller of Audit to report formally to the Commission - or the Commission can direct the Controller to report - at any point throughout the audit year.
5. The Controller reports to the Commission early in each calendar year a summary of his review through his Annual Assurance and Risks Report (AARR).
6. In 2019/20, annual audit reports were published for:
 - 32 councils (including comment, if applicable, on 201 registered charities within 66 sets of charity accounts)
 - 30 integration joint boards
 - 11 pension funds
 - 32 other small boards and partnerships.
7. These have all been reviewed as part of this exercise.

Integrated audit

8. An important principle underpinning the Commission's framework for auditing and reporting Best Value is an integrated approach, in which Best Value is assessed over a five-year audit appointment as part of the annual audit. A Best Value Assurance Report (BVAR) is published by the Commission for each council at least once in this five year period, and progress against BVAR findings and recommendations reported each year in the annual audit report.
9. The Controller of Audit reports on the progress made by council against their Best Value obligations – including BVAR findings and recommendations and progress as reported in the annual audit report - through his AARR.

Statutory Performance Information Direction

10. The Commission has a statutory power to define the performance information that councils must publish for performance reporting and benchmarking purposes. It fulfils this power by issuing a Statutory Performance Information (SPI) Direction to councils. The Commission published the [current SPI Direction](#) in December 2018. The Direction covers a period of three years and applies to reporting performance for the three years from 1 April 2019.
11. In recent years the Commission has used the power to emphasise the prime importance of councils reporting performance to their citizens and communities. The Direction sets out the performance information that the Commission requires councils to publish.
12. The Commission will in coming months be reviewing the current Direction with a view to publishing a new Direction at the end of 2021. Further reports to this end will be considered by the Commission, but meantime, the Commission may wish to note the Controller's assessment of the performance of councils against the requirements of the Direction in paragraphs 151 and 152 of the AARR.

Strategic audit priorities

13. In its [Strategy and annual action plan - 2019-24](#), the Commission sets out an overall aim of holding councils to account for their pace, depth and continuity of improvement facilitated by effective governance. The Commission set out its expectation that councils show how they are making the best use of their resources and improving their performance and highlighted that by applying rigorous self-evaluation, councils can focus on where improvement is most needed to help them deliver on their priorities. Within this, the Commission also sets out five strategic audit priorities (SAPs). These are issues that the Commission considers particularly important to report through audit work. The Commission states that it will use its approach to auditing Best Value to assess how councils are progressing in relation to the following SAPs:
 - Having clear priorities with a focus on outcomes, supported by effective leadership and long-term planning.
 - The strategic appraisal of options to re-shape services in line with priorities. This should consider good practice, innovation and collaborative working with partners.
 - Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.
 - Empowering local communities and involving them in the design and delivery of local services and planning for their local area.

- Reporting councils' performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.
14. 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 Best Value and annual planning processes. Annual audit reports provide an assessment of the council's performance against the SAPs across the five-year audit appointments.
 15. The Controller of Audit uses his AARR to provide the Commission with assurance over the progress made by councils against the Commission's SAPs. This is summarised in Exhibit 1 of the AARR.
 16. In the planning guidance for auditors for the current audit year (thus reporting in late 2021 and by the Controller in the 2020/21 AARR), which the Commission approved at its October meeting, auditors will not be required to specifically consider and report on the SAPs. It is however expected that the Controller will be able to use information reported elsewhere in annual audit reports to report progress against SAPs in the 2020/21 AARR.
 17. Further, the Commission has agreed previously that SAPs would not feature in a new Code of Audit Practice from 2022 (thus covering annual audit reports in late 2023 onwards), which will incorporate a more flexible approach to identifying audit priorities on an annual basis.

Annual Assurance and Risk Report: Controller of Audit's conclusions

18. The Controller reports that overall he is assured that audit work is providing good coverage of the Commission's SAPs in councils and that the increasingly integrated approach to auditing Best Value in councils is effective. He is also confident that areas of risk are well understood and there are plans in place to cover these areas through our audit work. The BVARs are having an impact, with all councils implementing improvements in response to the reports. The Best Value approach will change under the next audit appointments from 2022/23 when it will become fully integrated into the annual audit. The new approach will include national thematic work on topics decided by the Commission. This AARR is intended to help the Commission to decide which themes are of highest priority.:

Annual Assurance and Risk Report: lines of enquiry

19. The AARR helps the Commission to:
 - Consider the messages it wishes to convey in its overview reports. The draft local government overview report will be considered by the Commission at its April meeting.
 - Consider progress being made against its SAPs, in turn allowing it to consider any implications for its strategy (to be considered by the Commission at its May meeting) or next year's planning guidance (to be considered by the Commission in late 2021).
 - Consider any implications for its wider work programme. The Commission is considering at its April meeting the outputs from its ongoing consultation with stakeholders on the refreshed work programme, with a view to publishing a refreshed programme in May. It will then consider a draft work programme at its March meeting.

20. In considering these, the Commission may in particular wish to consider:

- The progress against individual SAPs (part 3 of the AARR and summarised in Exhibit 1).
- The key risks identified by auditors and summarised by the Controller in Exhibit 2.
- The progress made by councils against their statutory duty of Best Value (part 2 of the AARR).
- The impact of Covid-19 on local government bodies, particularly on:
 - Finance (paragraph 16)
 - Governance (paragraph 22)
 - Integration joint boards (paragraph 32)
- Performance of local government as reported in national performance audits (paragraph 52).

Conclusion

21. The Commission is asked to:

- a) Consider and note the attached Annual Assurance and Risks Report, in particular the Controller's conclusions set out in paragraph 12 above.
- b) Consider any implications for its:
 - i. overview reporting
 - ii. SAPs and strategy
 - iii. work programme.

Paul Reilly
Secretary to the Commission
3 March 2021