

MEETING: 10 MARCH 2022

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. The Controller also seeks the Commission's consideration of proposed areas of Best Value thematic work.

Background

2. Local authority external auditors are appointed by the Commission under the Local Government (Scotland) Act 1973. The [Code of Audit Practice 2021](#), 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 2020/21, Annual Audit Reports were published for 32 councils (including comment, if applicable, on 201 registered charities within 68 sets of charity accounts), 30 integration joint boards (IJBs), 11 pension funds and 32 other small boards and partnerships.
7. These have all been reviewed as part of this exercise. The AARR also summarises the key findings and risks across all local government audit work undertaken in the previous year. This includes Best Value Assurance Reports (BVARs), performance audits and other publications such as briefings.

Annual Assurance and Risk Report

8. The AARR is an important part of the assurance that the Commission provides from the audit work that it oversees. It aims to provide assurance to the Commission that the range of audit work undertaken on its behalf provides effective coverage of local government performance and risks, including coverage of key Commission priority areas of audit interest. It also highlights key local government risks identified through local and national audit work, including summarising significant issues in individual councils where appropriate.
9. The AARR helps inform the Commission's consideration of its wider work programme (also on today's agenda). Any issues raised by the Commission during its consideration of the AARR will inform future revisions of the work programme.
10. This year's AARR is in a separate paper in the **Appendix**. The Controller has structured it around the Commission's stated strategic priorities to enable a shift of focus and alignment of the AARR towards the key areas of focus set out in the [Commission's Strategy \(2021-26\)](#).
11. This year, for the first time, as part of the Commission's new approach to auditing Best Value, the Controller is also using the AARR as a basis for proposing to the Commission areas of Best Value thematic work.

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

12. The Controller reports that based on the findings in the AARR he is assured that the audit work undertaken by local government auditors is providing good coverage of the Commission's priorities in councils. He states his confidence that areas of risk are well understood and there are plans in place to cover these risks through our audit work.
13. The Controller sets out more detailed conclusions in the AARR.

Annual Assurance and Risks Report: proposals for BV thematic work

14. The Commission has agreed previously that from 2022/23, under the new Code of Audit Practice 2021, Best Value auditing work in councils will be fully integrated with the annual audit and, after completion of the current programme of council Best Value audits in 2022, no further BVARs will be produced. BV work will, in future, be reported in annual audit reports including annual risk based, follow-up and thematic BV reporting.
15. An important part of this new approach is thematic BV reporting, which will enable the Commission for the first time to report nationally on key Best Value related issues of interest on an annual basis.
16. The broad Best Value theme for use in the first year of the new audit appointments needs to be considered at this point in the year (ie. alongside the AARR) to allow sufficient time for the scoping of the work to be discussed with Commission members as part of the Commission's strategy seminar as part of its consideration of its strategic aims and further consultation to then take place with appointed auditors in advance of the work being started from October 2022.
17. What the Controller of Audit seeks from the Commission is an indication of which statutory BV theme (i.e. Vision and Leadership, Governance and Accountability, Effective Use of Resources, Fairness and Equality, Partnership and Collaborative Working, Working with Communities, or Sustainable Development) is its preferred candidate for Year 1 BV thematic work. He also advises that it would be useful if as part of that discussion the Commission is able to highlight any specific areas of focus it would like to see covered within the chosen priority BV thematic area.

18. The Controller sets out areas of discussion and proposals in his attached paper.

Next steps

BV thematic work

19. Once the Commission has identified a preferred broad Best Value theme at today's meeting, this will be considered by the Commission as part of its wider strategic considerations as part of its Strategy Seminar.
20. Following the Commission's Strategy Seminar, the Commission will discuss a proposal with appointed auditors at a meeting in April involving representatives from all auditors, i.e. Audit Scotland's Audit Services Group (ASG) and the firms.
21. The Commission's expectations of appointed auditors in relation to the BV thematic work will be reflected in the 2022/23 Planning Guidance to be published by September 2022. The BV thematic work will be started by the appointed local auditors from October 2022 and reported in the Annual Audit Reports, to be published by October 2023.

Local government risks

22. The risks identified by the Controller in his AARR will be used as a basis for reporting and assessing audit risks to help the Commission ensure that its work programme is reflective of those risks. This will be done by the Commission as it considers its work programme on a quarterly basis, and by the Commission's committees throughout the year.

Conclusion

23. The Commission is asked to:
 - a) Consider and note the attached AARR, in particular the Controller's conclusions.
 - b) Consider any implications for its:
 - i. overview reporting
 - ii. strategy
 - iii. work programme.
 - c) Specifically, identify broad themes for local BV thematic audit work in 2022/23, as set out in paragraphs 14 to 18 above and in the Controller's paper, for further consideration and engagement with auditors.

Paul Reilly
Secretary to the Commission
3 March 2022

APPENDIX:

CONTROLLER OF AUDIT PAPER

See separate paper