

PAPER BY: INTERIM CONTROLLER OF AUDIT

**ANNUAL ASSURANCE AND RISKS REPORT 2022 AND OPTIONS FOR FUTURE
THEMATIC BEST VALUE AUDIT WORK**

Purpose

1. This paper sets out my conclusions on this year's Annual Assurance and Risks Report (AARR) 2022. The report also presents options for Best Value (BV) thematic annual audit work for 2022/23 for consideration by the Commission. These options are based on the key risks identified in the AARR in line with the process agreed in February by the Commission for identifying potential BV thematic work under the new [Code of Audit Practice 2021](#).

Annual Assurance and Risk Report: my conclusions

2. Based on the findings in the AARR I am assured that the audit work undertaken by local government auditors is providing good coverage of the Commission's priorities in councils. I am confident that areas of risk are well understood and there are plans in place to cover these risks through our audit work. This gives me confidence that when the Best Value approach changes under the next audit appointments from 2022/23, and becomes fully integrated into the annual audit, we will be able to continue to provide high quality work which reflects the Commission's BV auditing expectations and the requirements of the new Code of Audit Practice.
3. Notwithstanding this generally positive picture, in preparing the AARR I have identified two council AARs which did not explicitly report on whether the council in question had complied with its public performance reporting obligations under the Commission's 2018 Statutory Performance Information (SPI) Direction. I have followed this issue up with the auditor in the firm who published these AARs.
4. I shall also be liaising with local government appointed auditors to ensure that, as we enter the final year of the current round of audit appointments, follow-up audit work on all BVARs published to date takes place during 2022 and is reported in this year's AARs (2021/22). These audit findings will be used to inform the proposed scheduling of the first year of Best Value audit reporting on councils under the new Code of Audit Practice, as discussed with the Commission at its February meeting.
5. Looking beyond the audit work undertaken by local government auditors, the AARR highlights a number of significant strategic local government risks and challenges. Some of these relate to the ongoing impact of Covid-19 on local communities and council services, including the impact of the pandemic on the ability of some councils to progress their improvement and transformation agendas. Other risks, such as climate change and the long-standing pressures on social care services, predate the pandemic. The potential impact of the creation of a new National Care Service for Scotland by 2026 and the impact of the May 2020 local government elections on strategic leadership are also both major challenges facing local government in Scotland moving forward, as is workforce capacity. These major risks should, I believe, feature in the Commission's risk register.

6. The AARR provides good assurance that councils are making progress against the Commission's four key priorities (inequalities, funding, communities and recovery). It also shows that in most instances councils have robust arrangements in place to support the delivery of Best Value.
7. However, the AARR also highlights the need for further progress to be made by some councils against a number of important aspects of Best Value. These include:
 - strengthened leadership, including in some cases with partners, and an increased depth and pace of improvement
 - the need for more systematic approaches to self-evaluation to drive improvement
 - further action to be taken to address mixed progress in implementing aspects of the Community Empowerment (Scotland) 2015 Act, for example in relation to participatory budgeting
 - scope for improved performance reporting by councils to:
 - better demonstrate progress against local priorities (including with partners)
 - report more effectively on benchmarking activity and the use of the Local Government Benchmarking Framework (LGBF)
 - more clearly show how they are meeting the requirements of the Commission's Statutory Performance Information (SPI) Direction.
8. Audit responses to these risks are already well reflected in the Commission's work programme through ongoing local government annual audit work, BVARs, overview reporting, and performance audit work. I will, however, continue to monitor these risks to ensure that appropriate responses to them can either be reflected in the Commission's dynamic work programme or through reporting to the Commission under my S102 powers.

Options for Best Value thematic work for 2022/23 audits

9. Reflecting on the systemic risks facing the Local Government sector we have used the AARR to identify a high-level risk register for Local Government (Table 1 below). In preparing the table we have:
 - organised the identified risks against the Commission's four strategic priorities
 - mapped them against the Best Value themes set out in the [revised 2020 Best Value statutory guidance](#)
 - identified where these risks are already being covered as part of the Commission's wider work programme (eg. BVAR, overview, performance audit or annual audit work)
 - used a Red, Amber, Green status (RAG) to identify areas where thematic work could have most impact (red being most significant gaps in audit work coverage, amber partial coverage, and green identifying full coverage in existing work).
10. The key risks set out in Table 1 not only draw on the findings in the AARR but also draw on and reflect engagement with local government auditors during 2021/22 at sector meetings, local government forum meetings, and audit partner meetings with the firms. The table also incorporates key risks identified by local government auditors in the

Controller of Audit current issues reports to the Commission's Financial Assurance and Audit Committee (FAAC).

11. The main purpose of this table is to support the Commission in identifying which overarching BV theme it believes is most likely to generate greatest national and local impact if it is selected for inclusion in annual audit planning guidance in autumn 2022.
12. What I am seeking from the Commission today is an indication of which statutory BV theme (eg. Vision and Leadership, Governance and Accountability, Effective Use of Resources, Fairness and Equality, Partnership and Collaborative Working, Working with Communities, or Sustainable Development) is the Commission's preferred candidate for Year 1 BV thematic work under the new Code of Audit Practice. 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.
13. 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.

Table 1: AARR Risks by BV theme: planned or current audit coverage and risk-assessed potential thematic BV work

Commission Strategy (2021/26) Priority Themes	Risks identified from 2021 audit evidence	Link to planned or current audit work including an assessment of current levels of audit coverage in the Commission's work programme	Related BV Theme RAG assessment of potential for BV thematic work
Inequalities	Councils fail to address the longstanding and significant inequalities experienced in their communities, many of which have been exacerbated by the impact of the Covid-19 pandemic. These include the poverty-related education attainment gap, inequalities of access to high quality sustainable employment and the potential impact of current cost of living rises.	<p><i>Partial:</i> There is some coverage of equality-related issues as part of appointed auditors' wider scope annual audit work (Use of Resources and Improving Outcomes).</p> <p>Equalities issues will also be reported through the AAR if previous BV work has identified that improvements are required in this area or equality-related risks have been identified during local audit risk assessments.</p> <p><i>Partial:</i> Local Government Overview</p> <p><i>Partial:</i> cluster monitoring of poverty, health outcomes, employment, and education attainment</p> <p><i>Full:</i> The joint AGS/Commission planned performance audit on Child poverty will focus heavily on equality-related matters.</p> <p><i>Full:</i> Audit Scotland's ongoing development of an equalities and Human Rights based auditing approach</p>	<p>Fairness and Equality</p> <p>There is partial coverage of the BV theme in some existing work (national and local), but potential exists for specific focus through local BV theme work.</p>
Funding	Councils and integration joint boards (IJBs) struggle to deliver long term sustainable financial	<i>Full:</i> Local annual audit and BVAR work on Financial Management and Financial Sustainability	Vision & leadership

Commission Strategy (2021/26) Priority Themes	Risks identified from 2021 audit evidence	Link to planned or current audit work including an assessment of current levels of audit coverage in the Commission's work programme	Related BV Theme RAG assessment of potential for BV thematic work
	and service planning in the context of reducing levels of funding and ongoing uncertainties over longer-term funding settlements.	<i>Full:</i> Local Government Financial Overview and IJB Financial Overview	Governance and Accountability Effective Use of Resources These BV themes are already fully covered in existing annual audit and BVAR audit work so not proposed as an option for local BV thematic work
Communities	<p>Councils do not deliver improved outcomes for communities because:</p> <ul style="list-style-type: none"> limited opportunities are provided for communities to influence or take control of decision-making processes and/or local services there is ineffective collaboration with Community Planning Partnerships and third sector partners councils focus on recovery not renewal performance against strategic priorities deteriorates as a consequence of financial and demand pressures. 	<p><i>Full:</i> Communities BV themes are central to all current BVAR reporting.</p> <p><i>Partial:</i> The annual audit routinely includes risk-based wider scope audit work on Vision, Leadership and Governance and the Use of Resources to improve outcomes.</p> <p>Communities issues will also be reported through the AAR if previous BV work has identified that improvements are required in this area or relevant audit risks have been identified during local audit risk assessments.</p> <p><i>Partial:</i> Local Government Overview (includes links to LGBF reports and CPOP reports, and IS Covid dashboard)</p> <p><i>Partial:</i> SPI coverage in AARs/BVARs</p> <p><i>Partial:</i> Performance audit work on digital exclusion and connectivity</p>	<p>Vision & leadership</p> <p>Effective Use of Resources</p> <p>Partnerships and Collaborative Working</p> <p>Working with Communities</p> <p>Fairness & equality</p> <p>These BV themes are currently fully covered in BVAR audit work, but this will not be the case under the new audit approach.</p> <p>There is therefore potential to look at individual councils' approaches to implementing the ambitions of the Community Empowerment Act.</p>
Recovery	<p>There is insufficient leadership capacity and skills at elected member and senior officer level:</p> <ul style="list-style-type: none"> to deliver the transformation required for Covid-19 recovery and renewal at sufficient pace to address underlying financial sustainability challenges that pre-date Covid 	<p><i>Full:</i> Reporting on councils' approaches to Covid-19 recovery is now embedded in all current BVAR reports.</p> <p><i>Partial:</i> Local limited wider scope audit work reported by exception on Vision, Leadership and Governance and the Use of Resources.</p> <p><i>Partial:</i> Local Government Overview</p> <p><i>Partial:</i> Scottish councils' ability of to deliver key national policy commitments and 'build back better'</p>	<p>Same BV themes as Communities (see above).</p> <p>Partial coverage through existing work but leadership challenges and local government elections in 2022 mean there is potential for BV thematic work around elected</p>

Commission Strategy (2021/26) Priority Themes	Risks identified from 2021 audit evidence	Link to planned or current audit work including an assessment of current levels of audit coverage in the Commission's work programme	Related BV Theme RAG assessment of potential for BV thematic work
	<ul style="list-style-type: none"> to deliver other public policy commitments e.g., net zero, reducing child poverty, reducing homelessness for effective scrutiny and challenge to develop the workforce to deliver transformation and improvement. 	in the context of Covid-19 recovery will be assessed in the following performance audits: child poverty; mental health; digital exclusion and connectivity; climate change.	member leadership, member training, scrutiny and challenge, strategic workforce planning and/or staff development.

Source: Audit Scotland

14. Table 1 shows that the Commission's strategic priority theme of funding and the related Best Value themes of Vision and Leadership, Governance and Accountability and Effective Use of Resources are all comprehensively covered through existing and future annual audit work. The picture across other Commission strategic themes (Inequalities, Communities and Recovery) and their related Best Value themes is more mixed, with potential gaps in coverage in some important local government risk areas identified in the AARR.

Where might Best Value thematic work for 2022/23 audits add greatest value?

15. Examining the risks and existing work outlined above, there are some areas where there is less or partial audit coverage that the Commission may wish to focus on through its themed Best Value approach. These include leadership (including workforce capacity), community empowerment and inequalities.

Leadership theme (including staff and workforce issues) (Red status)

16. With the local government elections imminent, the Accounts Commission decided at its scoping meeting for the Local Government Overview 2022 (due for publication in May), that leadership and collaboration should be a theme running throughout that report, building on the lessons learned in the response to the pandemic in affecting change at pace, but also as a 'primer' for new elected members including re-establishing an Elected Members Checklist.
17. The combination of the May 2022 local government elections and the extraordinary pressures on local government at this time mean that the quality of leadership and scrutiny in this sector is more important than ever, not least when the evidence from recent BVARs suggests that leadership across the local government sector, particularly in relation to the delivery of change and transformation, remains variable. Whilst councils have generally responded very well to the leadership challenges generated by the Covid-19 pandemic, questions still remain about whether that leadership drive, and in particular the collaborative leadership demonstrated with partners, can be maintained. A further two key areas of leadership uncertainty which will be of interest to the Commission relate to:
- how quickly new administrations formed after this May's local government elections are able to establish clear priorities for change and improvement within their area, and

- the leadership risks within IJBs, but also more widely across the health and social care system, created by the uncertainties created by the proposed new National Care Service (NCS).
18. Local auditors' experience of council audits this year tells a story of a sharp increase in the volume and scale of errors in the annual accounts, reflecting the pressures on council finance staff. This highlights staff capacity issues within local government finance teams which are a risk moving forward. There has also been a noticeable reduction in the level of scrutiny by elected members of the AARs and accounts which underlines the need for a renewed focus on the quality and effectiveness of elected member scrutiny.
 19. For all of those reasons, it is proposed that the Accounts Commission consider leadership as an option for the theme of its national Best Value work for 2022/23 under its priority of 'recovery'.
 20. The theme of leadership could also allow the Commission to take a 'deep dive' on a specific leadership and scrutiny challenge in relation to other improvement areas as set out in the AARR. For example, leadership in:
 - delivering transformation, or
 - reducing inequalities, or
 - improving performance reporting against priorities and evidencing outcomes, or
 - driving forward community empowerment and participatory budgeting.
 21. Alternatively, the Commission could choose to focus on a specific area in relation to either elected member or officer leadership and development. The Commission may also wish to consider strategic workforce planning and staff development as an option for BV thematic work given the pressures on local government staff experienced during the pandemic and the known workforce capacity issues linked to emerging risks around recruitment to key local government roles.

Community empowerment theme (Amber status)

22. Based on the risks identified in Table 1, there are some gaps in audit coverage in the Commission priority of 'communities'. With that in mind, instead of focusing on leadership, the Commission may wish to consider aspects of community empowerment for their thematic work. This would allow the Commission to undertake a deeper dive into this long-standing area of strategic interest to many Commission members where BVAR evidence suggests wide variation in performance by individual local authorities. For instance, the Commission could choose to focus their specific 'ask' on areas such as:
 - how councils have involved communities in setting their new council priorities and objectives
 - participatory budgeting and asset transfer trends
 - involvement in decision-making on service changes and transformation.
23. Local BV thematic work in the area would also provide a powerful opportunity for the Commission to gather evidence of good practice with an emphasis on the difference that effective implementation of the Community Empowerment (Scotland) Act 2015 is having on individuals and communities.

Inequalities theme (Amber status)

24. In addition, based on the risks identified in Table 1, there are also some gaps in audit coverage in the Commission's priority of 'inequalities'. The Commission may therefore wish to consider aspects of inequalities for its thematic work. For instance, the Commission could choose to focus its specific 'ask' on areas such as:

- how councils have reflected addressing inequalities in their new priorities and the extent to which there are coherent plans that can be measured, and progress demonstrated
- how councils are focusing on inequalities exacerbated by Covid-19 and directing resources to vulnerable groups and communities including addressing backlogs
- how councils are focusing on reducing poverty, or
- how councils are focusing on tackling homelessness.

Recommendations

25. The Commission is asked to:

- Consider the risk analysis and work programme coverage (Table 1).
- Identify one of the following broad themes for local BV thematic audit work in 2022/23:
 - Leadership
 - leadership of specific policy implementation
 - elected member/officer strategic leadership
 - staff support and development
 - strategic workforce planning.
 - Community Empowerment
 - community involvement in the setting of new council priorities and objectives
 - participatory budgeting and asset transfer trends
 - community involvement in decision-making on service changes and transformation.
 - Equalities
 - measuring and reporting
 - actions being taken to address Covid-19 related equality impacts
 - specific targeted equality-related audit work (e.g., addressing poverty, homelessness).

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