

Priorities and Risks Framework



2008/09 – 2010/11 National Audit Planning Tool for Local Government
November 2008

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Foreword

Local government in Scotland has a key role in developing the quality of life in local communities and vital public services including education, social work, housing, roads, refuse collection, leisure services, police services and fire and rescue services. It also has to see that public money is spent wisely and properly.

Services delivered directly, or in partnership with others, involve substantial resources; councils spend around £18 billion each year, employ around 229,500 full-time equivalent staff and use assets worth about £26 billion. Currently there are significant pressures on finances: the economic downturn, meeting the needs of an aging population, requirements such as single status and new national policy expectations such as school class sizes and waste management. These pressures necessitate even greater emphasis on efficiency and the effective use of resources.

In the past year, the concordat between the Scottish Government and COSLA has been signed. The concordat provides more flexibility in how councils spend money and deliver services; in return they are required to give clear commitments through Single Outcome Agreements to achieve outcomes that are important to the government's national policies. The national priorities in the concordat cover activities that are not delivered exclusively by councils and achieving progress requires joint working among partners at a local level. From 2009, SOAs will have to be agreed through community planning partnerships between councils and other public bodies such as health boards and enterprise companies.

The focus on outcomes does not remove the need for good management processes and robust information about the quality, accessibility and value for money of services. Statutory duties relating to Best Value, Community Planning and Public Performance Reporting remain in place and need to be supported by effective performance management systems.

Significant changes are occurring in the scrutiny of public services. The Accounts Commission is assuming a coordinating role to ensure that scrutiny bodies work together to assess risks and plan scrutiny work. In 2009 we move on to the second round of BV audits (BV2) and we are currently implementing a programme of improvements in the audit process to ensure that it continues to support improving services in local government.

Against this background, I am pleased to present our Priorities and Risks Framework (PRF) for 2008-09 to 2010-11. This is now a well established part of our approach to local government audit. In producing the PRF we improve our understanding of local government business and its current context and in discussing the key national priorities and the risks to their achievement with councils as part of our local audit planning, we collect important information which informs our audit approach. We also know that councils obtain value from our application of the PRF locally which helps confirm and inform their assessment of the potential risks they face.

Caroline Gardner, Controller of Audit

Introduction

Background

1. The local government environment within Scotland has continued to evolve since we issued the last Priorities and Risk Framework document in 2007. The Concordat between COSLA and the Scottish Government has led to the successful development and signing of Single Outcome Agreements (SOAs) between all thirty two councils and the Government by June 2008. Half of these first phase SOAs were developed with Community Planning Partnerships (CPPs).
2. The 2009-10 SOAs are expected to be endorsed by CPP Boards and signed by the Scottish Government, by councils, by the statutory community planning partners and other public bodies in the planning partnerships. The evolving nature of the SOAs will bring fresh challenges and risks in respect of governance, accountability and performance management.
3. In November 2008, the Scottish Government announced a series of proposed reforms to the scrutiny landscape in response to the Crerar report. Audit Scotland, on behalf of the Accounts Commission, is developing a shared approach to risk assessment and planning to enable the delivery of more streamlined and better co-ordinated scrutiny in local government.
4. As part of a more integrated approach to scrutiny we are developing an overarching corporate assessment framework which reflects our theory of improvement, that: *Effective leadership, good governance and sound management are necessary conditions for the delivery of sustainable continuous improvement and effective outcomes*. The corporate assessment framework will be used as a primary component of our revised approach to the audit of best value and will also be reflected in the PRF process and our audit planning.
5. The PRF is now a well established part of our audit approach and this year we have moved to a three year period covering 2008-09 to 2010-11 which we will update annually to reflect changing priorities and related risks. In this edition of the PRF we also provide more detail about the role of the PRF, and its connections with our other work, including our programme of national performance audit studies and our audits of Best Value and Community Planning.
6. As in the past, we have consulted with colleagues in local government on the content of the PRF by means of a stakeholder meeting and we are grateful to them for their advice and guidance.

The role of the PRF

7. The PRF is used by auditors to help plan the risk-based audits of councils. It identifies the key national priorities facing councils and the main risks to their achievement. This helps to ensure that audit work takes account of sector specific national priorities and risks.
8. The PRF is designed primarily to inform local audit planning, but it is also an integral part of the overall approach to local authority audit. In summary, the PRF sets out the priorities for local government and the main risks to their achievement as we see them; the Sector Plan reflects our assessment of the audit priorities, what we need to do and how we are going to go about doing it; and Overview Reporting brings together the outputs and outcomes from the audit work to show themes, trends and other matters we wish to highlight.
9. Auditors discuss the risks contained in the PRF with councils and the national view through the application of the PRF is combined with the auditor's understanding of the key priorities and risks operating at the local level. This overall assessment of risk informs the auditor's decisions on where to target audit resources. This approach helps meet the requirements of the Code of Audit Practice and International Standards on Auditing which require auditors to obtain an understanding of the client's business and environment.
10. Local discussions on the PRF represent an important annual engagement with the most senior management in councils. They have the potential to make a significant contribution to our intelligence gathering and national reporting and influence our programme of national performance audit studies. The application of the PRF also provides a useful source of early intelligence for the Accounts Commission about the risks facing the local authority sector. Throughout this document most references are to the issues and risks facing councils, however many of the issues will also apply to joint boards and other bodies.
11. It is important to note that auditors do not carry out detailed audit work on all the matters set out in the PRF. Also, we recognise that even though the steps taken by councils to address issues in the PRF may be weak, it does not necessarily follow that the risks will crystallise. We also acknowledge that risks exist in all organisations committed to continuous improvement. The objective is to be risk aware, with sound processes for risk management, rather than risk averse. Organisations that seek to avoid risk entirely are unlikely to achieve Best Value as risk assessment (weighing up possible risks and rewards) is key to identifying opportunities.

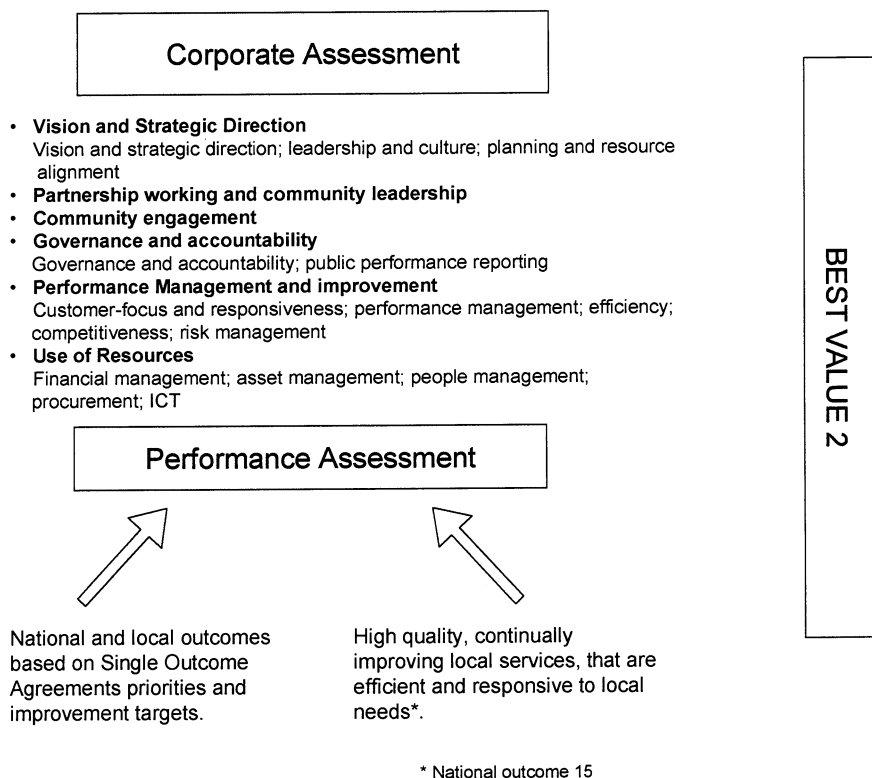
Links with the audit of Best Value

12. Outputs gathered through the application of the PRF; other intelligence such as Best Value findings and follow-up work; the views and risk assessments of inspectorates; self assessments and other performance analysis are playing a key part in ensuring that the second round of Best Value audits (BV2) is proportionate and reflects the national context and local circumstances. The PRF process is making an important contribution to streamlined scrutiny.
13. In February 2008, the Scottish Government invited the Accounts Commission to take on a gate keeping role, through Audit Scotland, in relation to local government scrutiny, with the aim of moving to a position where Best Value is the key corporate assessment tool and is better aligned with other corporate audit and performance processes.
14. The Commission welcomed the opportunity to work with other scrutiny bodies to carry out their role in providing assurance about the performance of councils and supporting improvement as efficiently and effectively as possible, and to contribute towards better public services for the people of Scotland.
15. Spring 2009 will be a watershed for most of the scrutiny bodies in local government, with major decisions due to be made about the future of BV audits and HMIE's INEA inspections; the completion of the first cycle of the HMIE-led child protection inspections and the first cycle of SWIA's performance inspections; the possible implementation of HMIE-led Services for Children inspections; and likely changes to the minimum frequencies of inspection for the Care Commission.
16. Whilst the Scottish Housing Regulator's baseline cycle of inspections of local authority housing and homelessness services is not due to be completed until 2009/10 it is committed to supporting the introduction of a single framework for assessing local authority performance.
17. The Government's National Performance Framework (NPF) assumes a continuing programme of inspection of child protection in local authority areas regarding outcomes for vulnerable children. Indicator 13 of the NPF is founded on the proportion of inspection reports that are positive.
18. The Commission has therefore agreed to work with the other scrutiny bodies over the next nine months to develop and pilot a shared approach to risk assessment and planning, to enable the delivery of more streamlined and better co-ordinated scrutiny in local government.
19. The work completed during 2008 has allowed the Commission to identify those councils where there is an immediate opportunity to improve the co-ordination of scrutiny. Round table meetings for each of these councils have been held to co-ordinate the planned work, and a schedule has been produced setting out the targeted scrutiny activity and the improvements made. Whilst the primary purpose of

these meetings was to deal with short-term improvement in scrutiny scheduling and secure more proportionate scrutiny responses, the meetings also provided useful insights into how the Commission might assess risk for future joint scrutiny planning and strengthen reliance on the work of other scrutiny bodies.

20. The Accounts Commission is committed to the development of the Best Value audit (BV2) in the light of their experience of the first round of audits.
21. The Commission has agreed with colleagues in the other scrutiny bodies that this work can fulfil the requirement for a single corporate assessment of local authorities. The audit framework includes a risk-based and proportionate corporate assessment (exhibit 1) and the Commission is committed to working together to develop it so that it fulfils the requirements of all the scrutiny bodies in this area.

Exhibit 1
The audit framework for Best Value 2

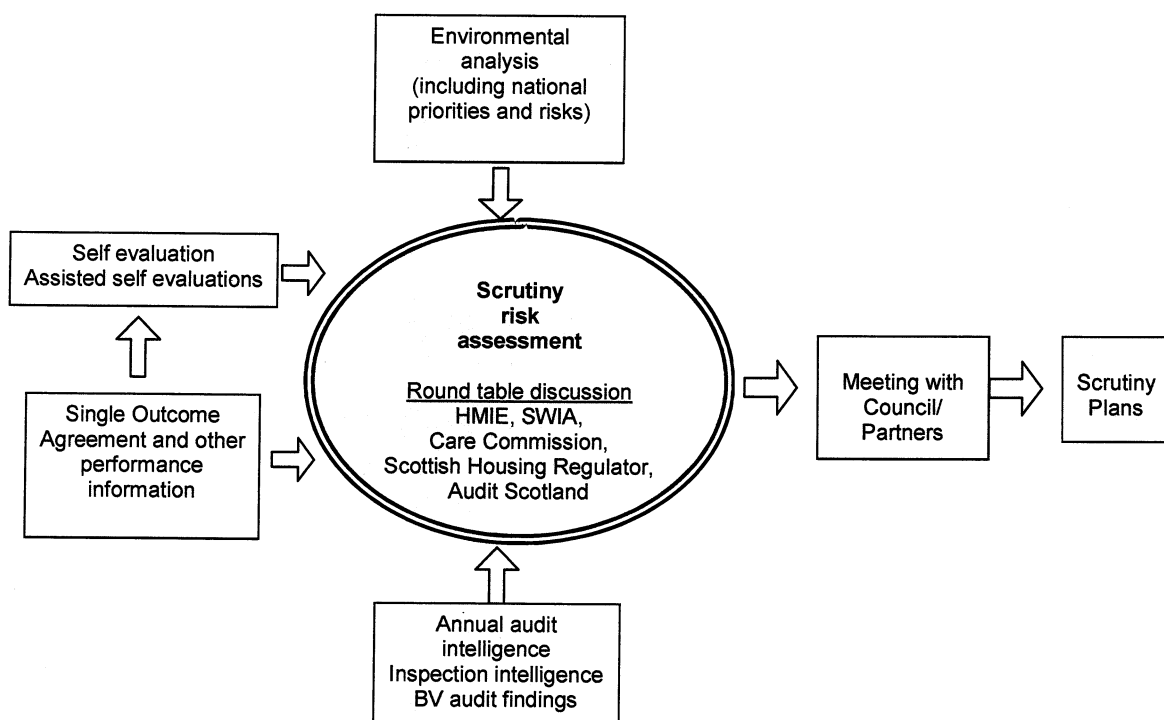


Source: Audit Scotland
 National Outcome 15 – Our public services are high quality, continually improving, efficient and responsive to local people's needs

22. One of the distinctive features of BV2 is the central role of risk assessment. Current thinking is that a shared risk assessment would be carried out annually for each council; this would form the starting point for planning, leading to a rolling three year scrutiny programme and a plan for each council. The scrutiny plan would set out the detailed scrutiny activity to be undertaken during this period, and how and when this work will be undertaken (with the caveat that there will always be a need for regulation to be able to react swiftly when a significant problem is identified). Note that the timing of a second programme of HMIE child protection inspections will be considered as part of the BV2 scrutiny plan.
23. A potential model for delivering the shared scrutiny risk assessment and joint scrutiny planning is shown at exhibit 2. This model also reflects the recent proposals from the Reducing Burdens Action Group to Scottish Ministers designed to deliver a proportionate and intelligence-led approach to audit and inspection.

Exhibit 2

Shared scrutiny risk assessment and joint scrutiny planning



Source: Audit Scotland/RBAG report to Ministers

24. Effective risk assessment needs good intelligence on the organisation being assessed. This is likely to include a range of quantitative data (e.g. service performance activity, quality and cost) supported by qualitative information.

Looking Forward – Shared Risk Assessment

25. There is still a good deal of work to do to develop a risk assessment methodology that offers assurance that planned audit and inspection activity is both proportionate and adequate, but the Commission and Audit Scotland are confident that this can be delivered in 2009. Achievement of this, however, will also require a much stronger commitment from local government in developing consistently good performance management systems that can provide the performance information required. As Crerar pointed out, responsibility for performance lies primarily with service providers and external scrutiny arrangements should complement performance management arrangements.
26. Experience to date has confirmed that there is real commitment from all the scrutiny bodies to this work but this is a complex issue and there are many challenges still to overcome, including:
- trust and reliance on the work of each scrutiny body
 - the need for enabling legislation
 - risk management and a mechanism for resolving disputes about the scrutiny required
 - communication with local government and other stakeholders.
27. Expectations are that this work will lead to reductions in the overall cost of scrutiny and also to improvements in effectiveness. This will require changes in working practices and changes in the focus of our work. As part of that process we anticipate seeing more flexible use of resources and a greater emphasis on risk assessment and improvement support.

Cross cutting issues

28. In addition to the headings under the corporate assessment heading at Exhibit 1, there are a number of cross cutting issues that are important elements of the overall audit approach, including equality and diversity, and sustainability.