

The background of the slide features the coat of arms of the Government of Nunavut. It is a shield divided into four quadrants. The top-left quadrant shows a stylized sun with rays. The top-right quadrant shows a caribou head with antlers. The bottom-left quadrant shows a sailing ship on wavy lines representing water. The bottom-right quadrant shows a beaver. Above the shield is a crown with four maple leaves. Below the shield is a banner with the text "ANNE FOR A".

## **AGENDA ITEM**

**5**

# **Auditing Best Value – A New Approach**

**Falkirk Council**

**Title:** Auditing Best Value – A New Approach  
**Meeting:** Performance Panel  
**Date:** 11 August 2016  
**Submitted By:** Director of Corporate and Housing Services

**1. Purpose of Report**

- 1.1 This report outlines a new approach being taken by the Accounts Commission to audit best value.

**2. Recommendation(s)**

- 2.1 It is recommended the Panel notes the Accounts Commission's new approach to auditing best value outlined in the appendices.

**3. Background**

- 3.1 There was a previous report to Scrutiny Committee on 3 December 2015 outlining the Accounts Commission's thinking with regards to establishing a new best value auditing regime. This new regime is based on a more proportionate and equitable risk based approach to audit.
- 3.2 The Annual Audit Report prepared by the Council's external auditors will in future be a broader report and will cover an assessment of the best value work undertaken by the auditors that year. The controller of audit will prepare a Best Value Assurance report on each Council at least once in a five year period. Assurance reports will not be the product of an intensive audit period as we have known over the last year within Falkirk Council, but rather will be an aggregation of annual audit work alongside any other inspection and audit that has reported within that period. These reports will be considered by the Commission who will then determine what action if any is required.
- 3.3 Appendix one is the letter from the Chair of the Accounts Commission to the Leader of the Council setting out the new approach and the Councils that will be the subject of a Best Value Assurance Report in year one. Falkirk is not one of the six Councils who will be subject to Best Value Assurance Reports to the Commission in the first few years of the new arrangements which will commence in April 2017. Appendix two sets out more detail on the proposed approach to the new audit arrangements.

**4. Consultation**

- 4.1 Nil

## **5. Implications**

### **Financial**

5.1 Nil.

### **Resources**

5.2 Nil.

### **Legal**

5.3 Nil.

### **Risk**

5.4 Clearly there are risks to the Council if we do not and cannot demonstrate we are delivering best value including reputational risk, ability to deliver services our communities' value and also ultimately risk of a public enquiry.

### **Equalities**

5.5 Nil.

### **Sustainability/Environmental Impact**

5.6 Nil.

## **6. Conclusions**

6.1 While a refocus of the Best Value Auditing regime is welcomed, more of the practical aspects will become clearer when the new audits are undertaken and then reported on. It is hoped that these reports will be more rounded and balanced focussing on all aspects of best value rather than targeted aspects of best value as they are at the moment.

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Director of Corporate and Housing Services

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**Date:** 2 August 2016

## **APPENDICES**

Appendix One – letter from Chair of Accounts Commission to Leader of the Council

Appendix Two – Auditing Best Value – A summary of the overall framework for our new approach – Audit Scotland.'

### **List of Background Papers:**

**The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:**

- None

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Councillor Craig Martin  
Council Leader  
Falkirk Council  
Municipal Buildings  
FALKIRK  
FK1 5RS

1 July 2016

Dear Councillor Martin

### **Auditing Best Value – a new approach**

I am writing to update you on an important stage in the Commission's review of its audit of Best Value, and to seek your view as to the desirability of further formal engagement between us on the new approach.

You will recall that I wrote to councils in November last year advising of the Commission's commitment to review its approach to auditing Best Value, in order to assure itself that the approach is reflective of the changing and complex challenges faced by local government in the current political, demographic and financial environment.

At its recent meeting on 9 June, the Commission agreed the overall framework of the new approach. The new approach fulfils the Commission's desire that it is proportionate, risk-based and outcome-focused, providing the Commission and the public with more regular assurance about the performance of councils. We are bringing together audit work on Best Value, the annual financial audit and the multi-agency shared risk assessment process, and this will continue to support our working with our strategic scrutiny partners.

The introduction of the framework coincides with the new five-year audit appointments by the Commission. Audit Scotland has already written to your Chief Executive to this end. As such, auditors will use the framework as the basis of audit work from October this year.

I have attached a summary of the framework.

Also at its 9 June meeting, the Commission agreed the schedule of councils determined by the Controller of Audit and on whom he will be reporting to the Commission, through the new Best Value Assurance Reports, in the first year from April 2017. These councils (in alphabetical order) are:

- Clackmannanshire
- East Renfrewshire
- Inverclyde
- Orkney
- Renfrewshire
- West Lothian

I would also like to propose to you the option of further engagement with the Commission. We wish to explore with councils the benefit of the Commission holding a brief series of event in the Autumn, over three venues, setting out in more detail what we expect from our new approach to auditing Best Value, and also what we hope the public and councils can gain from it. The event would be aimed at council leaders and chief executives. I would therefore like to get your view as to whether you would find such an event useful. I look forward to hearing from you to this end.

In developing its new approach, the Commission is clear that Best Value is as relevant and vital today as it was when it was introduced in 2003. We recognise, however, that the statutory guidance which supports the legislation for Best Value would benefit from being refreshed and updated, to reflect the various changes in the local government and public sector environment. The Scottish Government has indicated its agreement with this view, and it will be working with local government in the coming weeks and months to take forward this task. But the Commission is firmly of the view that a refresh exercise, whilst ultimately benefitting the public and councils in ensuring that the characteristics of Best Value comprehensively reflect the current environment in which local government operates, does not compromise councils' statutory duty to demonstrate Best Value. We will therefore work with councils in starting to apply the new approach to auditing Best Value whilst the process of updating the statutory guidance is being undertaken.

The Commission looks forward to working with you and all councils in taking forward its new approach to auditing Best Value in order to continue to provide assurance to the public on the performance of all councils.

Please note that I have copied this letter to your Chief Executive.

Yours sincerely,

**Douglas Sinclair**  
**Chair**

Copied to: Chief Executive

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# Auditing Best Value

A summary of the overall framework for our new approach

## The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website:

[www.audit-scotland.gov.uk/about/ac](http://www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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## Introduction

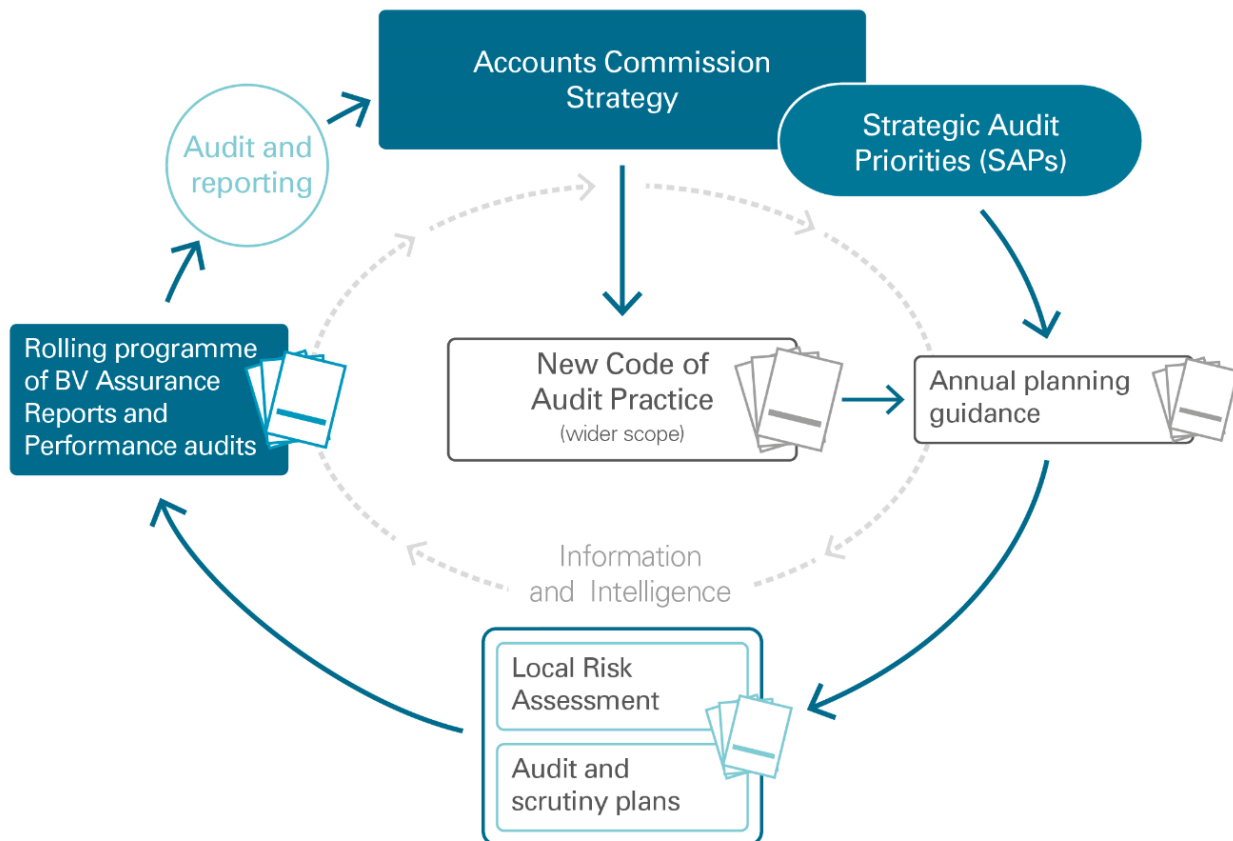
1. This paper provides a summary of the overall framework for our new approach to auditing Best Value. At this time, councils are responding to the challenges associated with ensuring both financial and service sustainability in the future. They are thinking about how they can radically change how they work and deliver services. In similar vein, our new approach represents significant change and includes considerable redesign of how we carry out our work. Not just how we audit Best Value, but how we audit a council altogether.
2. We agreed a set of principles for the new approach in December 2014, and development work has been taking place since then to establish the overall audit framework with the changes commencing at the start of the new five-year local government audit appointments in October 2016. We recognise that the new approach involves significant new ways of working for auditors, and that some of these changes cannot be fully achieved in the short term. So, we have agreed that the new approach will be evolutionary in nature. While the core elements will be in place for October 2016, some of the detailed processes and changes will continue to be developed over time. We believe councils will welcome the new approach. We have engaged with council representatives and other stakeholders during the recent development phase and the response has been very positive. The evolutionary nature of the new approach allows us to continue talking to councils in the early stages, making any adjustments in light of the early experiences of auditors and of council staff.
3. An important development principle has been to avoid additional layers of process, so wherever possible, existing aspects of audit planning and reporting arrangements are being incorporated in the new approach and improved to meet its specific requirements. The following paragraphs provide further details on the main aspects of the overall framework.



## The audit planning framework

4. The audit planning framework for the new approach is summarised in Exhibit 1.

**Exhibit 1 Audit planning framework**



Source: Audit Scotland, 2016

5. The Accounts Commission is responsible for appointing auditors to each council for a five-year period, and for setting out the principles and standards to be followed by auditors and what is required of them in the course of their duties. We express this at a high level in the Code of Audit Practice. The Code issued for the appointments commencing in October 2016 includes important changes that underpin the new approach to auditing Best Value through a “wider scope” of audit and requirements for appointed auditors to work in partnership with other performance and Best Value auditors.
6. While the Code covers the full period of the five-year appointment, additional Annual Planning Guidance is issued to auditors each year, and this is an opportunity for us to provide further strategic direction including Strategic Audit Priorities (SAPs). These are based on the Commission's five-year rolling Strategy, which it updates on an annual basis. They will reflect specific issues that the Commission wants considered in the range of audit work carried out across local government.
7. At a local level, auditors will then come together to plan their approach to the council audit for the five-year period and the year ahead. Five-year planning will consider arrangements for

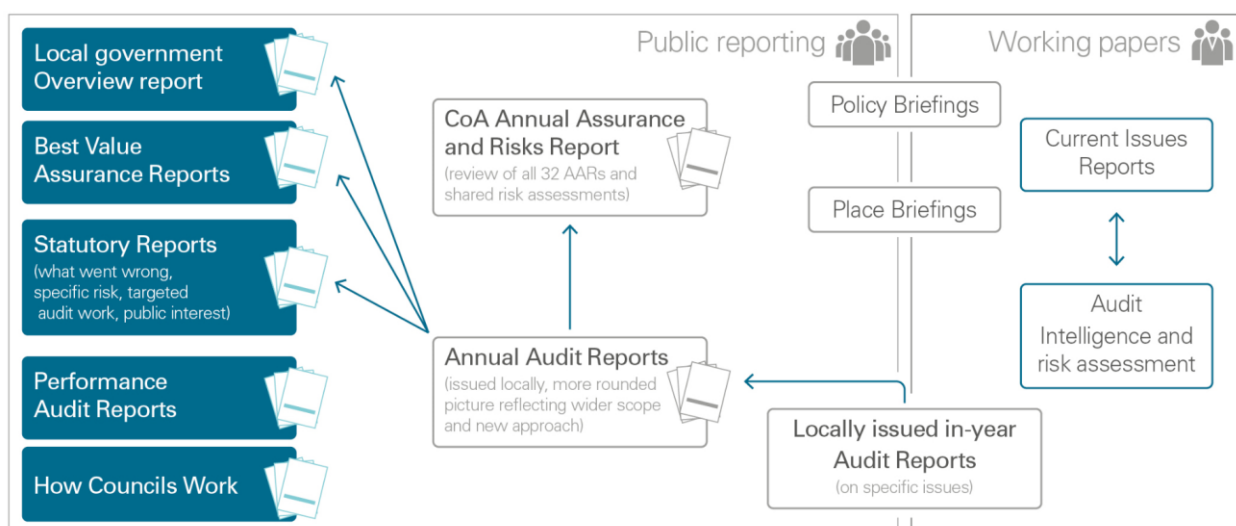
how the characteristics of Best Value will be covered over that period, reflecting the specific circumstances, risks and performance of the individual council. Annual planning will respond to the guidance issued nationally, including SAPs, and include details of both financial statements work and Best Value as expressed through the wider scope. It will incorporate current arrangements for the shared risk assessment, local audit plans and local scrutiny plans which include work by other scrutiny bodies.

8. At a national level, the results of local planning will inform a rolling programme of Best Value Assurance Reports and Performance Audits, and the National Scrutiny Plan.
9. As with current arrangements for audit planning, auditors will fully engage and discuss their plans with councils and take account of views expressed.

## The assurance and reporting framework

10. The assurance and reporting framework for the new approach is summarised in Exhibit 2.

### Exhibit 2 Assurance and reporting framework



Source: Audit Scotland, 2016

11. As with the planning framework, in developing the new approach we have built on current arrangements, adjusting these to meet the requirements of the new approach. A key objective is to allow the Commission to provide more regular assurance to the public about how councils are performing in relation to their Best Value statutory duties. We will do this by requiring the Controller of Audit to submit a Best Value Assurance Report (BVAR) on each council at least once during the five-year audit appointment. These reports will differ from the current Best Value reports in that they are not audit reports produced directly at the end of an intensive period of specific BV audit work. Instead, they will provide a more longitudinal perspective, contain broader coverage across BV characteristics and a more rounded picture on the performance of the council concerned. They will in effect be an aggregation of the conclusions from a range of audit and other scrutiny work over time. Commission members will consider these reports in public, and decide what action we will take. The options available

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to the Commission on considering these reports, are set out in legislation and include options to direct the Controller of Audit to carry out further investigations, to hold a hearing, and to state Commission findings (which can include recommendations).

12. The new Best Value Assurance Reports will sit alongside existing published reports that councils will be familiar with. These include the annual Local Government Overview Report, Performance Audit Reports and the How Councils Work series. The Controller of Audit will continue to issue Statutory Reports where considered necessary, and submit these to the Commission. These cover specific issues in individual councils that raise significant concern and public interest. They will also, under the new approach, be the route for additional reports on Best Value where specific risks have been identified and targeted work is considered proportionate and appropriate.
13. At a local level, appointed auditors will continue to issue an Annual Audit Report (AAR) to each council and the Controller of Audit. However, in future, these reports will be more rounded (reflecting the wider scope from the Code of Audit Practice), will summarise the results of the Best Value assessment work that took place during the past year, and comment appropriately on both the Commission's Strategic Audit Priorities and local audit priorities identified through audit risk assessments and planning. In line with current practice, local auditors will continue to issue reports to councils within the year on specific issues. These will also be summarised in the AAR.
14. Greater use will be made of the AARs under the new approach. They will contribute significantly to BVARs, other Statutory Reports and the Local Government Overview. But, they will also contribute to more regular assurance being provided to the Commission. Currently, the Controller of Audit reports to the Commission each year following his review of the AARs across the 32 councils. He also provides an overview report on the Shared Risk Assessments<sup>1</sup>. Under the new approach, these will be brought together in an Annual Assurance and Risks Report. This will provide Commission members with details of the key issues arising from audit work in councils in terms of common strengths and areas for improvement. It will also include commentary on those councils where auditors have expressed particular concerns that will require audit attention in the forthcoming year, examples of positive practice and progress being made by councils on which we have previously reported. Consideration of this report will inform the rolling programme of Best Value Assurance Reports and identify councils where some targeted risk based audit and reporting may be required.
15. The content of the range of audit reports under the new approach will reflect our principles set out following our 2014 review. These include an emphasis on judgements, conclusions and recommendations for improvement; coverage of the wider scope for public audit as set out in the Code of Audit Practice; commentary on a council's self evaluation and the effectiveness of

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<sup>1</sup> Shared Risk Assessments are carried out in each council by the Local Area Network, which comprises representatives of all the main scrutiny bodies that engage with councils. The process enables local government scrutiny bodies to work together to set out scrutiny risks and the proposed scrutiny responses over the coming year.

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its performance management arrangements; and, commentary on the performance of a council in meeting the needs of its customers and communities.

16. Arrangements for providing assurance to the Commission and its committees on Best Value and the overall performance of councils will continue to include less formal elements, including Current Issues reports, Policy and Place briefings and other outputs based on audit intelligence and programme development work.

## **How auditors will assess Best Value**

17. Auditors assess the extent to which a council is meeting its statutory duties under the Local Government in Scotland Act 2003. These duties are set out in the primary legislation and expressed in more detail in Statutory Ministerial Guidance - which describes the characteristics of a council that is demonstrating Best Value. It therefore represents what auditors are looking for when carrying out their work, and the benchmark on which their judgements are measured and their conclusions reached.
18. While Best Value remains as relevant and critically important today as when it was introduced, the statutory guidance would benefit from strengthening and refreshing in a number of areas and the Commission has made representations to both the Scottish Government and councils in this regard.
19. In the meantime, it remains the responsibility of a council to demonstrate that it is meeting its statutory duties. Our new approach does not alter this fundamental aspect of auditing Best Value. Where councils evidence robust and effective self-evaluation, across corporate activities, service and outcome delivery, auditors are able to take a proportionate approach to audit activity.
20. Best Value audit reports in recent years have tended to focus on a small number of issues around only certain aspects of Best Value. While this was not unexpected in a risk-based approach, we are concerned that important issues, such as equalities for example, have not featured as much as they should in public reports. The new approach offers an opportunity to provide public assurance across the range of Best Value characteristics in a more comprehensive manner. We will achieve this through assessing Best Value on an ongoing basis over the five years of the audit appointment. As stated above, this will be done through audit planning in individual councils so that the particular context and circumstances in each can be taken into account.

## **What will be different from a council's perspective**

21. We have taken the opportunity in recent months to discuss the new approach to auditing Best Value with stakeholders, including council chief executives. The response we have received has been positive and supportive, with the general direction and key features being welcomed.

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22. While the new approach represents significant change, such as the integration of the range of audit work for a council, much will remain the same, such as audit judgements and conclusions being rooted in the expectations that arise from the statutory guidance.
23. We want to improve the effectiveness and efficiency of the audit, while minimising any unnecessary burden on councils and their resources. Many of the changes we are making will be to internal audit procedures that will not really be evident to councils but there are a number of areas - such as around planning and reporting as set out in this summary - where they will notice a difference and we hope these will represent an improved experience.
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