

FALKIRK COUNCIL

Subject: AUDIT SCOTLAND: AUDITING BEST VALUE – A NEW APPROACH
Meeting: SCRUTINY COMMITTEE
Date: 3 DECEMBER 2015
Author: DIRECTOR OF CORPORATE & HOUSING SERVICES

1. INTRODUCTION

- 1.1 This report updates Members on the thinking of the Accounts Commission and Audit Scotland on the future of Best Value and Best Value audits. A letter from Douglas Sinclair Chair of the Accounts Commission is attached which notes the work commissioned by Audit Scotland in reviewing its approach to best value which is then further outlined in this report.

2. BACKGROUND

- 2.1 Last week the Chair of the Accounts Commission wrote to Council Leaders to provide an update on the Commission's review of the audit of Best Value. This was followed up by correspondence from Audit Scotland outlining how they are taking the new arrangements forward.
- 2.2 Members will be aware that the requirement to secure best value was introduced for Councils as part of the Local Government in Scotland Act 2003 along with the duty of well-being and a responsibility for community planning. In those early days, the achievement of best value was assessed as part of the external auditor's review of the Council. This was developed into a Performance Management and Planning assessment and then into a full audit approach which was extended to cover community planning.
- 2.3 In order to ensure Best Value is being delivered Audit Scotland many years ago provided a range of toolkits which they used as part of their audit process. These checklists covered the following range of areas:
- Asset management
 - Challenge and improvement
 - Community engagement
 - Customer focus
 - Effective partnership
 - Efficiency
 - Equalities
 - Financial management
 - Governance and accountability
 - Information management
 - People management
 - Performance management

- Planning and resource alignment
- Procurement
- Public performance reporting
- Risk management
- Sustainability; and
- Vision and strategic direction.

2.4 Each of the topics come together to provide a picture if a Council is approaching best value but is not prescriptive in that approach. This has led to a great deal of flexibility in the way a Council approaches its best value obligations and this to an extent has been reflected in the subsequent audit reports.

2.5 Falkirk Council has had two best value audits since 2003 - one in 2007 and the latest being reported this year. Every year external auditors undertake a shared risk assessment of Councils which identifies areas of risk or uncertainty. This risk assessment results in either future improvement actions being identified or can in some circumstances result in specific targeted inspections or audits. Members will recall that it was the result of previous shared risk assessments of the Council that highlighted the need to look further at the Council's decision making processes and also performance management arrangements through a 'targeted' best value audit.

3. REVIEW OF AUDIT ARRANGEMENTS

3.1 There have always been issues about the proportionately of best value audits and questions over the scope and focus of these, in addition to the other audit and inspections local authorities and their partners are subject to. Members will recall that a review of audit and inspection was carried out by the Government some years ago with a commitment to proportionality. Latterly there has been discussion about how best value can best be demonstrated and particularly if a traditional audit approach can measure this.

3.2 In order to respond to these questions, the Accounts Commission have asked Audit Scotland to review its approach to Best Value.

3.3 The Commission's review has identified opportunities to improve the current arrangements and it has set out a number of principles for the development of Best Value audit arrangements in the future. These are:

- The essential elements of Best Value remain as relevant and critically important today as when it was first established, although there is some need for the statutory guidance on Best Value to be reviewed;
- There is a real need for the pace, depth and continuity of improvement to increase across local government and driving improvement will be at the core of the audit process for Best Value;
- There can be no compromise on the importance of good governance in Councils, including the need for effective scrutiny arrangements that contain the checks and balances which lie at the heart of our system of government;
- A proportionate and risk-based audit approach should be taken, but the Commission requires more frequent assurance on Best Value across all 32 Councils;

- Greater synergy, and a better experience for Councils, can be achieved through integrating audit processes across the range of audit work applied in local government, alongside continued joined up working with other scrutiny bodies; and
- Audit work should have a strong focus on the quality of service experienced by the public and the outcomes achieved by councils for their communities.

- 3.4 Audit Scotland has started a programme of work to develop the new approach to auditing Best Value and discussions with the Scottish Government about refreshing the statutory guidance have begun.
- 3.5 The new arrangements will develop over time. The Commission and Audit Scotland will maintain dialogue with stakeholders on the approach and develop and refine the arrangements on an on-going basis. It is anticipated that auditors will consider Best Value audit work as part of the shared risk assessment process and planned Best Value audits will continue to take place during 2016/17.
- 3.6 The new approach will mean much greater integration of the range of audit work taking place in Councils. Auditing Best Value will be undertaken alongside the annual audit process and reported through the Annual Audit Reports to Members and to the Controller of Audit. Each year, a number of Best Value themes will be included in the annual audit process, with a summary reported to the Accounts Commission at the end of each year.
- 3.7 The new approach will retain the principle of being proportionate and risk based but with more regular assurance provided to the Commission. Next autumn, the new five year audit appointments begin. At least once during the five year appointment, a Best Value assurance report will be produced for each Council, reported to the Accounts Commission and published. The Commission will consider the first of these reports in Spring 2017. This report will be a collective picture of the evidence from the annual audit work, other audit and scrutiny activity and any specific Best Value audit work required to complete a picture of Best Value in a Council.
- 3.8 Audit Scotland have advised that the new approach to auditing Best Value will have a clear focus on improvement and outcomes, including service user's experience. The audit work will consider the effectiveness of a Council's approach to self-evaluation, its improvement plans, supporting performance management, review activity and leadership of improvement. Members will appreciate these are all areas included within the improvement plan agreed by Council in October.

4. CONCLUSIONS

- 4.1 Audit Scotland anticipates that the approach noted above will provide a better experience for Councils with a more rounded picture of Best Value at each Council and across all Councils resulting. There are indications that this will enable Audit Scotland to identify both poorer and stronger performance in relation to Best Value criteria and therefore support improvement more effectively. It is important though that the flexibly to approach Best Value in a way that makes sense locally needs to be central to this approach. Audit Scotland and other audit partners will be looking at more regular engagement and integrated planning and audit activity which will enhance the depth of understanding about each Council and the richness of their reporting, without adding additional layers of audit activity.
- 4.2 Officers have started to engage with Audit Scotland on this work and will when the process is further developed report back to Members outlining the exact implications for the Council and indeed practical issues such as reporting etc.

5. RECOMMENDATIONS

- 5.1 **It is recommended that Members note the content of the report.**

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DIRECTOR OF CORPORATE & HOUSING SERVICES

Date: 25 November 2015

Ref: ABC1215FC – Best Value Audit

Contact Name: Fiona Campbell

LIST OF BACKGROUND PAPERS

Any person wishing to inspect the background papers listed above should telephone Falkirk 01324 506230 and ask for Fiona Campbell.

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Dear

I am writing to update you on the Commission's review of its audit of Best Value.

It has been eleven years since the Commission launched the audit. The audit fulfils the Commission's responsibility, under the 2003 Local Government in Scotland Act, to hold councils to account and report on the extent to which they comply with their Best Value duties. Since then, we have periodically reviewed our approach. Following the legislation, we applied the Audit of Best Value and Community Planning across all 32 councils between 2004 and 2009. From 2009, the audit became more risk-based and proportionate.

In more recent years, we have been reporting in our recent annual overview reports about the changing and complex challenges faced by local government in the midst of the current political, demographic and financial environment. We need to assure ourselves that our auditing work around Best Value is fully responsive to such a landscape and, as a consequence, we are reviewing our approach to auditing Best Value.

We believe that we - and councils and the public - can get more from our Best Value work. It enables the Commission to get a better appreciation of how councils contribute to improved outcomes for their citizens and communities. In doing so, we want to better reflect the extent of councils fulfilling their responsibilities in partnership with other agencies and the experience of the citizen and service user in their interaction with their council. Finally, we need an approach to audit that recognises the need for councils to be applying preventative approaches in the provision of services.

We want councils to be fully engaged in our design of the audit arrangements. We believe that an updated approach to auditing Best Value should be proportionate, risk-based and outcome-focused, enabling the public to assess the performance of their council over time and in comparison with similar councils. Given the scale of the challenges currently faced by councils, there is a need for the pace and depth of improvement to increase across local government, and an assessment of this should be at the audit's core. The new approach will be to reflect these themes and to provide the Commission and the public with regular assurance about the performance of all councils. The audit will make better use of the annual financial audit and the shared risk assessment process, and will continue to support our working with our strategic scrutiny partners.

We have recommended to the Scottish Government and COSLA the desirability of reiterating the basis of Best Value. We believe that Best Value is as relevant and vital today as it was when it was introduced. The initial phase of our review has identified that having a solid legislative basis for the audit of Best Value has been a powerful factor in its credibility and impact, and is still relevant given the passage of time since it was introduced. There needs to be a clear consensus and understanding that the statutory guidance is still relevant to local government and its services. In our view, therefore, there is merit in consideration being given to the guidance being revised, refreshed or reiterated to ensure its applicability to the issues that will be facing councils in the coming years. The Cabinet Secretary has indicated his agreement with our view.

Audit Scotland has commenced a programme of development work to respond to the Commission's review. Work is underway to develop a new approach to auditing Best Value and discussions with the Scottish Government and COSLA about refreshing the statutory guidance have begun. The team leading this programme will engage with stakeholders throughout. They will be in touch with your chief executive in the next week or so.

Meantime, if you have any queries about the review, then please do not hesitate to get in touch.

Yours sincerely,

Douglas Sinclair
Chair

Copied to: Chief Executive