

INTERNAL AUDIT'S ROLE IN BEST VALUE

1. SUMMARY

Set out below is a report to the Audit Committee containing views about the role internal audit can play in relation to the Council's duty of Best Value and Community Planning. The report was prepared at the request of Internal Audit and through discussion and co-operation.

2. RECOMMENDATIONS

2.1 Internal Audit should discuss the ideas contained in this paper with Senior Management Team (SMT), external audit and the manager responsible for progressing Best Value within the Council. Thereafter, Internal Audit should agree a process outline for approval by the Audit Committee as to how the skills of the audit team will be used to assist the Council with its duty of Best Value.

3. DETAILS

3.1 The Local Government in Scotland Act 2003 imposes a statutory duty of each Scottish local authority to deliver Best Value. It suggests that a successful council will:

- work with its partners to identify a clear set of priorities that respond to the needs of the community in both the short and longer term;
- be organised to deliver those priorities;
- meet and clearly demonstrate that it is meeting the community's needs; and
- operate in a way that drives continuous improvement in all its activities.

A Best Value and Community Planning report published by Audit Scotland in February 2006 concluded that Argyll and Bute Council had made limited progress in establishing Best Value and urged that efforts be made to make up for lost time. In order to be consistent with the principles of Best Value, the Council will need to make best use of its resources. Because of the overlap in responsibilities and knowledge between the areas of internal audit and Best Value, the internal audit function can assist the Council meet this challenge. Argyll and Bute internal audit has allocated 125 days in the 2007-2008 plan to Best Value.

3.2 Internal audit currently provides council management with assurance on internal control systems put in place to secure:

- overall management and financial probity;
- compliance with statutory requirements;
- the reliability of performance information; and

- the effective use of resources.

These elements will be fundamental to the council's approach to Best Value. Hence Best Value will impact directly on the remit of the internal audit function. This paper suggests the role of the internal audit function at Argyll and Bute Council in relation to the Best Value agenda.

3.3 Guidance was issued by the Best Value Task Force in pursuance of the Local Government in Scotland Act 2003 and provided characteristics of Best Value arrangements where local authorities in Scotland should be able to demonstrate compliance. These were:

1. Commitment and leadership

- a commitment to delivering better public services year on year through Best Value, and acceptance of the key principles of accountability, ownership, continuous improvement and transparency;
- elected members and senior managers have developed a vision of how Best Value will contribute to the corporate goals of the authority which informs the direction of services and is communicated effectively to staff;
- a commitment to high standards of probity and propriety, to honour the trust given by the electorate.

2. Responsiveness and consultation

- responsiveness to the needs of its communities, citizens, customers, employees and other stakeholders, so that plans, priorities, and actions are informed by an understanding of those needs;
- an ongoing dialogue with other public sector partners and the local business, voluntary and community sectors; and
- consultation arrangements which are open, fair and inclusive.

3. Sound governance at a strategic, financial and operational level

- a framework for planning and budgeting that includes detailed and realistic plans linked to available resources, to achieve the authority's goals (including community planning commitments) at service delivery level
- effective performance management systems, which include the use of external comparison, through which performance issues can be identified, monitored and addressed.

4. Sound management of resources

- Making the best use of public resources, including employees, contractual agreements, ICT and other systems, land and property, and financial resources – keeping a considered and appropriate balance between cost, quality and price.

5. Use of review and options appraisal

- an approach to review that is rigorous and robust with no areas of work protected from consideration for review;
- review activity achieves quantifiable benefits for key stakeholders accepting that change may be necessary;
- services are expected to remain competitive and to provide

consistently good service quality. In considering opportunities for improvement a fair and open approach will be taken in evaluating forms of service delivery from whatever the sector.

6. A contribution to sustainable development

- Contribution to the achievement of sustainable development – consideration of the social, economic and environmental impacts of activities and decisions both in the shorter and longer term.

7. Equal Opportunities Arrangements

- A culture which encourages both equal opportunities and the observance of the equal opportunities requirements
- Measures are in place to meet the UK-wide equal opportunities requirements e.g.
 - Equal Pay Act 1970
 - Sex Discrimination Act 1975
 - Race Relations Act 1976 as amended by the Race Relations (Amendments) Act 2000
 - Disability Discrimination Act 1995

And all relevant subordinate legislation made under such Acts.

- adoption of the meaning of “equal opportunities” as is set out in Schedule 5 to the Scotland Act 1998, namely, “the prevention, elimination or regulation of discrimination between persons on the grounds of sex or marital status, on racial grounds or on grounds of disability, age, sexual orientation, language or social origin or of other personal attributes, including beliefs or opinions, such as religious beliefs or political beliefs.

8. Joint Working

- a culture which encourages joint working and service delivery where this will contribute to better services and customer-focused outcomes.

9. Accountability

The use of public performance reporting so that stakeholders are told what quality of service is being delivered and what they can expect in the future.

3.4 It can be seen that these characteristics have considerable overlap with the focus of internal audit attention. Accordingly, members of the internal audit team have skills and knowledge which would assist the Council with its approach to Best Value. The potential role for internal audit in the Best Value framework and Argyll and Bute’s own self-assessment process may be considered under 3 headings :

- those tasks that internal audit *should do* in order for it to be able to fulfil its core role;
- those that internal audit *should not* become involved with because they lie outside its competence or remit; and
- those to which internal audit *could* contribute but which may be carried out by

others.

3.5 What internal audit should do

The role of internal audit has traditionally been to provide independent assurance on the adequacy and effectiveness of systems of internal control that are designed to promote the effective use of resources. In recent years, the role has developed to embrace assurance about the management of business risks (financial and operational), corporate governance and the entire risk and internal control framework.

In order to provide objective assurance in relation to Best Value, internal audit should, as a minimum:

- provide assurance that the authority has put adequate arrangements in place for self-assessment and that the corporate framework is being followed (for example, that there are systems to monitor the implementation of action plans from Best Value Reviews (BVR), that those actions identified for improvement are being implemented and that there are robust systems in place to generate performance indicators);
- Provide assurance that the authority has in place adequate arrangements in place for ensuring that Council funds allocated to partner organisations are used for their proper purpose and deliver Best Value;
- ensure that the BVR programme is taken into account in risk-based audit planning, in terms both of its effect on the internal control environment and the timing of audit work; and
- ensure that it has a detailed understanding of the requirements of Best Value, that it keeps abreast of developments in best value, and that it appreciates how the authority is implementing Best Value.

3.6 What internal audit should not do

Although successful implementation of Best Value will require Argyll and Bute to make the maximum use of all their internal resources, internal audit should ensure that it does not become involved in day to day decision-making or in carrying out executive functions in relation to Best Value. Internal audit must avoid losing its ability to provide independent assurance.

It is not possible to be prescriptive about all the types of work that might compromise internal audit's independence. Some examples might be:

- making or leading on decisions about corporate review or service selection;
- becoming a part of the process for managing and delivering the corporate Best Value framework;
- producing or collecting performance data, or setting targets;
- leading on BVRs; and
- being a key part of the process for implementing BVRs.

Internal auditors should always be clear about the distinction between advising on and supporting corporate developments and processes, and being an integral part

of them. They may from time to time, because of their professional expertise, knowledge and position in the council, be invited to do work outside their usual internal audit remit. They may be able to make a potentially valuable contribution in this way, but such work should be clearly recognised in some form of protocol or memorandum of understanding as being quite distinct from the assurance role of internal audit.

3.7 What internal audit could do

There are several areas where internal audit are in a position to offer help in relation to Best Value which goes beyond their core role as outlined at paragraph 3.4. This is based on their knowledge of the council and comes from their work across all functions and at all levels of the Council. Areas where Internal Audit could be involved with the Council's approach to Best Value they are:

- High-level assistance by Internal Audit in developing guidance and acting as a challenger on review panels – this role is separate from the internal audit function;
- Use of audit skills to ensure that BVRs are robust and have a sound base of evidence and reliable data;

Internal audit's responsibility to review internal control already covers the adequacy and reliability of management information, and it could therefore contribute to the element of self-assessment by:

- reporting on the adequacy of performance systems on the basis of recent audit work;
- obtaining evidence on the reliability of performance information as part of the sample testing for the systems review;
- verifying PIs by analytical review, comparisons with other councils or recalculation from base data; and
- agreeing a programme of review with the external auditor.

Support and challenge work will not be at the expense of core systems work.

4. IMPLICATIONS

4.1	Policy:	None
4.2	Financial:	None
4.3	Personnel:	None
4.4	Legal:	None
4.5	Equal Opportunities:	None

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