inside a job?

internal audit and best value
The Audit Commission promotes the best use of public money by ensuring the proper stewardship of public finances and by helping those responsible for public services to achieve economy, efficiency and effectiveness.

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Website: www.audit-commission.gov.uk
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Summary

The best value framework requires local authorities to deliver robust, challenging reviews of their functions in order to secure improvements in service delivery. They must prepare annual performance plans that set out their achievements and targets. The Government’s guidance to authorities on best value (Ref.1) explains the statutory roles of authorities and the Audit Commission (together with its appointed auditors and its inspectors). But the guidance also points out that ‘internal auditors have a key role to play in all aspects of best value’.

This paper meets a request from the Department of Transport, Environment and the Regions (DETR) and the National Assembly for Wales (NAW) (Ref.2) for the Audit Commission to publish guidance on internal control and audit in relation to best value to strengthen authorities’ capacity for self-assessment.

Internal audit currently provides 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 an authority’s approach to best value. Hence best value will impact directly on the remit of the internal audit function.

External auditors may also use the work of internal audit when carrying out their functions.

The Government’s guidance also recommends that each authority should include a ‘statement of responsibility’ in its best value performance plan, acknowledging that it is ‘responsible for setting in place appropriate performance management and internal control systems from which the information and assessments in the performance plan have been derived’ (Ref.1). Internal audit is potentially a prime source of the assurances that authorities will need if they are to sign up to such a statement.

In addition to these basic requirements and depending on resource constraints, capabilities and the availability of alternative expertise, authorities may wish to invite internal audit to provide additional assurance on an authority’s approach to best value, drawing on internal audit’s independence and objectivity, technical skills, authority-wide knowledge and comprehensive review methodology. For example, internal auditors could:

- advise on the selection of functions for best value reviews;
- advise on the development of processes to manage best value;
- advise on (or participate in) best value reviews as a source of internal challenge; and
- help the authority to assess whether the four principles of best value – challenge, comparison, consultation and competition (the ‘4Cs’) – are being addressed.
The Audit Commission does not, however, suggest that such internal support can be provided only by internal audit – other internal or external review agencies may perform these tasks, with or without a contribution from internal audit. What is important is that someone in the authority does them.

Over time, best value will fundamentally change the way in which authorities work. Not only will this require internal audit to review its own operations to fulfil regulatory obligations and to deliver any new services that the authority asks internal audit to carry out; internal audit will also have to demonstrate that its own performance satisfies the principles of best value.

Internal audit must focus on these wider areas only once it has been able to demonstrate that its core role has been delivered...

- lead on decision-making in the best value process;
- undertake any executive functions; and/or
- blur the distinction between objective assurance work and that which aims to support best value more widely.

Subject to these constraints, each authority needs to make a judgement as to how internal audit can best contribute to its best value work. This paper, sets out what internal audit:
- must do;
- could do; and
- must not do in relation to best value.

The paper provides examples of current work by internal audit with best value in mind, and is intended to stimulate debate about which approach to the assessment of best value works best for individual authorities.

The following key questions provide a means for members, chief executives and directors of finance to assess whether they have considered the options for providing assurance on their authority’s best value framework.
KEY QUESTIONS RELATING TO BEST VALUE AND THE WORK OF INTERNAL AUDIT

For the authority

1. How do we know that we have in place appropriate performance management and internal control systems in relation to best value, to enable us to sign up to the ‘statement of responsibility’ in the Performance Plan?

2. How could internal audit be used to deliver:
   - internal challenge; and/or
   - scrutiny of the corporate management arrangements and processes that support best value?

3. What resources and skills does internal audit have to undertake the tasks agreed in relation to best value?

For internal audit

4. Is internal audit fully aware of its authority's approach to best value?

5. Has internal audit taken account of the timing and effect of best value reviews in its audit planning and reviews of internal controls?

6. Can internal audit ensure that planning and reviews are co-ordinated with external audit to optimise the effective use of the authority's resources?

For the authority and internal audit

7. How is internal audit work in relation to best value managed so that internal audit’s objectivity and independence are maintained?

8. Does internal audit have adequate resources and skills to assist in best value without detriment to its current role?

Does internal audit have adequate resources and skills to assist in best value without detriment to its current role?
Why has this paper been written?

1. Best value is integral to the Government’s modernising agenda. It requires authorities to review and reform the way that they deliver all of their services to secure continuous improvement. It will require authorities to ask fundamental questions about the underlying objectives and priorities of their work, and about their performance in relation to other organisations in the public, private and voluntary sectors. Best value authorities will be expected to consult local taxpayers and service-users about their views and priorities.

2. The key public document that will bring together an authority’s assessment of its past and current performance, and its vision of future priorities and targets for improvement, is the best value performance plan (BVPP). The BVPP will set out a programme of best value reviews (BVRs) through which the authority will scrutinise each of its functions over a five-year period.

3. Guidance issued by the Department of the Environment, Transport and the Regions (DETR) and by the National Assembly for Wales (Ref.1) recommends that each authority includes in its BVPP a statement of responsibility to the effect that ‘appropriate performance management and internal control systems have been put in place from which the information and assessments in the performance plan have been derived’. To obtain assurance that its performance management and internal control systems are adequate and effective, every best value authority will need to develop a rigorous approach to self-assessment.

4. The Government’s guidance also makes it clear that authorities’ internal auditors have a key role to play in best value. Internal audit already provides independent assurance on internal controls. This role needs to be extended to incorporate the review of internal controls that relate to best value and to provide assurance on self-assessment processes. At the same time, internal auditors will need to take on board the implications of best value for the way in which they approach the rest of their work.

5. In some authorities, there will be scope for internal audit to play a wider role, supporting and contributing to self-assessment as well as providing assurance. In such authorities, it will be important to ensure that the independence and objectivity of internal audit are not compromised by too close an involvement in decision-making and implementation of best value.

6. This paper is not intended to be a ‘self-help’ guide for best value authorities that are looking to manage the processes that will deliver best value. Rather, it focuses on:

- the function of self-assessment within a best value framework;
- the core tasks that internal audit must undertake in relation to best value;
- how internal audit might extend its role to contribute to the delivery of best value; and
- the factors that should determine how far internal audit becomes involved.

Introduction
For whom has this paper been written?

The paper is intended to:

7. help members and chief officers decide how to obtain assurance about the robustness and reliability of their best value processes, using internal audit or other internal review agencies to provide such assurance as part of the self-assessment process; and

8. provide practical guidance to internal auditors on how they might best contribute to their authorities' approach to best value, using examples from a range of different authorities.

The evidence on which this paper is based

9. This paper has been prepared with the help of an advisory group, the membership of which is shown in Appendix 1. Field visits were made to 17 best value authorities in England and Wales (listed in Appendix 2). The Audit Commission is grateful for all the assistance received, although responsibility for the content and conclusions in this report rests solely with the Commission.
1. Best value and the need for self-assessment

10. The Local Government Act 1999 places a duty on every best value authority to ‘make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness’. Under the Act, best value authorities will be required to:

- publish annual BVPPs that report on past and current performance and identify forward plans, priorities and targets for improvement; and
- undertake BVRs of all their functions over a five year cycle.

11. In carrying out BVRs, authorities will be expected to demonstrate that they have addressed the 4Cs, which require them to:

- **challenge** why, how and by whom a service is being provided;
- secure **comparison** with the performance of others across a range of relevant indicators, taking into account the views of both service-users and potential suppliers;
- **consult** local taxpayers, service users, partners and the wider business community in setting new performance targets; and
- use fair and open **competition** wherever practicable as a means of securing efficient and effective services.

12. The delivery of best value will place many new demands on authorities. Among other things, each authority will need to:

- re-assess its aims;
- develop an overall strategy resulting from consultation and rigorous analysis of its performance;
- put in place a performance management system;
- consider strategically how to approach the 4Cs of best value;
- project-manage a large volume of BVRs; and
- deal effectively with internal and external challenge.

13. Authorities may take a variety of approaches to meet these requirements. They may choose service- or area-based themes, or group activities by client or customer groups. The Government’s guidance makes it clear that review programmes should comprise a mix of service-specific and cross-cutting reviews – the latter based on or around clear and recognisable themes or issues that reflect strategic choices taken with other partners.

14. The ultimate aim of all this activity is to deliver better services to meet the needs of the local community. While management and operational review processes cannot by themselves bring about improvements in service delivery, it is only when these processes are operating effectively that managers and elected members can be sure that continuous improvement is taking place, enabling authorities to sign up to the ‘statement of responsibility’ in the BVPP. It is essential, therefore, that every best value authority has a management and control framework.
15. This framework can take a number of different forms. It may involve corporate- or service-led approaches, the use of independent panels to scrutinise BVRs, or peer review. Whatever the framework, authorities will need to demonstrate that statutory requirements are being met, that performance management and information systems can be relied upon by service users, and that the programme of BVRs is being properly managed.

16. Authorities will also need to establish a clear audit trail showing how the review programme has been drawn up. They will be expected to demonstrate that it flows from an existing community strategy, from the authority’s corporate vision and from a clear analysis of current performance – based on comparisons that make use of the best value and other indicators – as well as from consultation with local people and business interests.
17. It is for members and chief officers to decide what management arrangements are appropriate and how they will manage the process of self-assessment to satisfy themselves that these arrangements are both adequate and effective.

18. Self-assessment can be undertaken by a variety of means – for example, through the use of corporate review or policy teams, through internal audit or through peer reviews that are organised internally or under the auspices of the Improvement and Development Agency (IDEA) or its Welsh counterpart, SYNIAD. Given the variety of approaches to best value, there can be no single right approach to self-assessment. What matters is what works, and that the process is clearly demonstrable to interested parties such as external auditors and inspectors and any internal review bodies.

19. All authorities should, however, ensure that they make appropriate use of internal audit. While the scope of the internal audit role in relation to best value will depend on the approach that each authority takes to self-assessment, there is a core function that internal audit will need to undertake in every case. It is essential here to distinguish between the minimum, objective assurance – that internal controls in relation to best value are adequate and that the impact of best value on the overall internal control environment is taken into account – and the wider, discretionary role that internal audit could play where the circumstances are right. The latter role embraces the potential to contribute to self-assessment, adding value to the process and improving authorities’ operations. Clearly there will also be some activities in which internal audit must not become involved in order to safeguard its independence.

20. The potential role for internal audit in the best value framework and an authority's own self-assessment process may thus be considered under three headings: [EXHIBIT 1]:

- those tasks that internal audit must do in order for it to be able to fulfil its core role;
- those that internal audit must 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.

21. The remainder of this paper considers, firstly, the tasks that internal audit must perform and how these might be approached; secondly, the tasks that could be undertaken by another agency but to which internal audit may be able to contribute; and, finally, some criteria to help authorities to decide the extent to which internal audit should be involved.
The potential role of internal audit

The potential role for internal audit in the best value framework and an authority’s own self-assessment process may be considered under three headings.

<table>
<thead>
<tr>
<th>BEST VALUE ACTIVITY</th>
<th>MUST DO</th>
<th>MUST NOT DO</th>
<th>COULD DO</th>
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</thead>
<tbody>
<tr>
<td>Corporate Review</td>
<td>Lead in decisions on strategy or policy</td>
<td>Advise on strategic issues and the corporate review process</td>
<td></td>
</tr>
<tr>
<td>Selection of functions for best value review</td>
<td>Ensure controls are adequate to achieve compliance with statutory guidance</td>
<td>Advise on selection and that criteria have been applied properly</td>
<td></td>
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<tr>
<td>Management arrangements for the programme of BVRs and the preparation of the BVPP</td>
<td>Decide on selection and that criteria have been applied properly</td>
<td>Advise on development and review processes</td>
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<tr>
<td>Performance indicators</td>
<td>Be involved in the process of preparing the plan</td>
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<td></td>
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<tr>
<td>Performance targets</td>
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<tr>
<td>Benchmarking</td>
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<td>Assisting with best value reviews</td>
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<tr>
<td>Assessing best value reviews</td>
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<tr>
<td>Continuous improvement and the impact on internal control</td>
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</table>

- **Must do** – the tasks that internal audit must undertake as part of its core role
- **Must not do** – the tasks that internal audit must avoid in order to ensure objectivity. Internal audit will, of course, need to be involved in its own best value review
- **Could do** – the tasks that an authority may give to any internal review agency

*Source: Audit Commission*
2. Internal audit – the core role

22. 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 internal control framework. Appendix 3 describes this emerging role, which has been subject to debate within the profession and more widely in local government.

23. 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 BVRs, and that there are robust systems in place to generate performance indicators);

- 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.

Planning audit work in relation to best value

24. Internal audit will need to take account of the implementation of best value when planning its work. Most internal audit planning uses some form of risk-analysis to determine priorities. The implementation of best value raises particular risk-management issues – given its fundamental impact on the operation and delivery of services – that, over time will affect all of an authority’s systems; any control weaknesses could have a significant impact on the authority.

25. In assessing risk, internal audit will need to have regard to the timing of BVRs and their likely outcomes. For example:

- cross-cutting reviews could impact on the way in which controls and processes are applied across a range of departments: where this is the case, systems reviews could be undertaken in conjunction with BVRs;

- audit topics may be given priority if the relevant function has been reviewed and is due for a best value inspection, or if they have an impact on a range of related functions or activities; and

- allowance may already be made in existing strategic audit plans to support management in developing systems or undertaking value-for-money reviews, and auditors may wish to consider re-allocating some of this time to work relating to best value [BOX A].
Integrating existing internal audit work with best value

26. Internal auditors should also ensure that their mainstream, on-going work takes account of best value. It may be possible to combine existing work with some testing of best value work, or to undertake a systems review as a ‘health check’ in advance of BVRs to gain assurance on the control environment. Working papers and systems methodology may be designed to reflect the way in which a service or function is being reviewed for best value purposes. It is equally important that service managers inform internal audit of any changes to internal control systems that arise from BVRs.

Source: Audit Commission

27. BVRs rely upon processes and controls being appropriate, working properly and being followed in practice. Internal auditors may use Control Self-Assessment (CSA), which places the onus on managers to assess how the controls for which they are responsible address relevant business risks. CSA uses a questionnaire or workshop approach to help participants to think about the risk of controls not working properly and to identify recommendations for improvement. CSA can help authorities make better use of internal resources, provided that the skills and resources are there to apply the technique properly.

Liaison with external audit and inspection

28. To optimise the use of resources, the work of internal audit, external audit, the best value inspectorate, other inspection regimes and other review functions should be co-ordinated so far as is possible and consistent with professional standards. The Audit Commission is currently developing a protocol that will provide a framework for co-operation between external auditors and inspectors. Similar co-operation is necessary between internal audit and the external agencies.

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BOX A

Directing planned work to best value

Several authorities included in the field-work for this paper have re-allocated some planned work that had been set aside for value-for-money reviews to work on best value, on the understanding that a contribution to the BVR process should yield many of the benefits normally arising from VFM work. One authority, which usually allocates around 50 days to responding to general requests for advice from members, has now decided to use this time specifically for assisting BVRs.

Source: Audit Commission
The role of the external auditor

29. The Local Government Act 1999 requires external auditors to report on the BVPP. The aims of the external audit are to review and assess whether the authority has:

- prepared and published its BVPP in accordance with the Local Government Act 1999 and statutory guidance;
- put in place adequate systems to produce the required performance information; and
- put in place corporate and management arrangements that are consistent with the DETR and NAW’s prescribed performance management framework.

This role is described in more detail in Appendix 4.

30. In carrying out the audit of the BVPP, external auditors will consider the work of other agencies, including internal audit. The use made by external audit of internal audit’s contribution will depend on:

- the nature of internal audit’s work in relation to best value – has it taken the form of objective, evidence-based reviews that can be relied upon for testing, or has it primarily been advisory? and
- the auditor’s assessment of the standard and quality of internal audit work generally.

31. In any case, internal audit should liaise with external audit to share plans and agree programmes, to determine specific areas of concern that might warrant attention and to decide how work relating to best value might be reported. Such liaison should not preclude informal dialogue at any stage to ensure that audit work is mutually supportive.

The role of best value inspection

32. The purpose of best value inspection is to promote service improvement. Inspections will provide the public with the answers to three questions: are current services good?; is the authority achieving continuous improvement?; and should further action be taken to improve services? The starting point will be the authority’s own best value reviews. The extent to which these have challenged and compared current practice, are based on meaningful consultation and include competition will influence the scope and conclusions of inspection. Nevertheless, inspections may also need to review evidence obtained from self-assessment or internal audit work that shows that reviews are sound and robust, that the 4Cs have been complied with and that the performance management framework is adequate. The use made of internal audit work will depend on its quality and scope.

Reporting the results

33. Many internal audit sections have well established means of communicating the results of their work. Providing internal assurance in relation to best value should form an integral part of its overall reporting on the adequacy of internal controls systems, given the significant impact that best value has on an authority’s operations and procedures.

34. Authorities may wish to place particular emphasis on best value assurance by using audit panels or committees to lead or focus on such assurance work. Such mechanisms should help to ensure that the authority as a whole is aware of how effective its arrangements for managing best value are. Internal audit should therefore consider how it can focus its reporting and profile to ensure the maximum impact for its contribution to best value.
3. Extending the internal audit role

35. While the core tasks set out in section 2 must be part of the responsibility of internal audit in every authority, in some authorities there may be scope for internal audit to play a wider role. Internal audit could become involved in aspects of the authority’s self-assessment process [EXHIBIT 2, overleaf]. The contribution that internal audit could make is explained in more detail in the remainder of this section.

Corporate review

36. The corporate review provides a framework for the way in which an authority approaches best value, identifying authority-wide objectives and translating them into a practical programme for achieving continuous improvement. An important ingredient will be an understanding of how services are currently organised and how functions relate to each other.

37. Internal audit may be able to provide information or comment on strategic issues based upon its planned work for the whole authority. For example, audit may have recently assessed the overall impact of devolved service delivery, or reviewed its authority’s approach to performance management.

Selection of functions for BVR

38. Internal auditors may be familiar with reviewing functions and activities in a strategic, planned way. They might know how services perform and relate to each other, the quality of management and financial controls and the extent to which activities have been contracted out or the potential for outsourcing them. Financial and other data on services are a key element in internal audit’s risk-based planning tools, and could therefore usefully inform decision-making on service selection.

Management arrangements for the programme of BVRs and preparing the BVPP

39. In order to deliver best value, authorities need to have in place effective management arrangements that translate corporate objectives into well-managed BVRs of functions, and effective performance management systems to relate outputs back to targets. The five-year review programme requires a high level of corporate co-ordination and planning, and each authority needs to determine how it will support and monitor the quality of the review process.

40. The aim of internal audit involvement would be to provide assurance to management that the framework and processes:

- meet statutory requirements;
- support informed decision-making, based on clear evidence and rational recommendations; and
- ensure the implementation of decisions that lead to continuous service improvement.

It is important to emphasise that this self-assurance will not replace the statutory responsibility of the external auditor or the inspector, although it may help them to achieve their objectives. Work done internally to support the best value framework may therefore optimise the use of resources.
The potential role for internal audit in best value

Internal audit could become involved in aspects of the authority’s self-assessment process.

<table>
<thead>
<tr>
<th>BEST VALUE ACTIVITY</th>
<th>NATURE OF INVOLVEMENT</th>
<th>ISSUES TO CONSIDER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Review</td>
<td>Providing advice on any overall strategic issues that internal audit may have information about – for example, the impact of restructuring or devolution on the control environment.</td>
<td>Degree of involvement depends upon the position and profile of internal audit and the views and culture of the authority. Internal audit’s involvement may be greater where an authority does not have a corporate policy function.</td>
</tr>
<tr>
<td>Selection of functions for best value review</td>
<td>Providing advice on how functions are selected, based upon internal audit’s specific knowledge and experience from planned systems work – for example a history of poor management performance, fundamental control or performance weaknesses, knowledge of relationships between activities from systems reviews, views on good performers.</td>
<td>This involvement is likely to be as an information provider, giving the authority the benefit of internal audit’s knowledge about services and functions. Internal audit can be a valuable objective, independent source to assist decision making, and could also advise on whether the criteria for selecting services for reviews has been rigorously applied.</td>
</tr>
<tr>
<td>Management arrangements for the programme of BVRs and the preparation of the BVPP</td>
<td>Advising on the development of systems and processes to translate corporate objectives into mechanisms for implementing the BVR programmes and monitoring outcomes. Objectively reviewing the operation of management arrangements, for example ensuring that the system for reviewing and implementing action plans works in practice.</td>
<td>Internal audit practice includes advising on systems development and applying an objective systems review approach to deliver management assurance. However, this cannot replace the statutory role of external audit or the inspection function.</td>
</tr>
<tr>
<td>Performance indicators</td>
<td>Reviewing the procedures for the preparation of performance information, including sample review of Performance Indicators (PIs) and advising on data collection and analysis. May draw upon any current involvement of internal audit in auditing PIs.</td>
<td>Internal audit may be familiar with and skilled in this area, and in obtaining evidence of the reliability of information used by management. Such work is a particularly important aspect of the liaison between internal and external audit. Reliable PIs will be fundamental to the effective delivery of best value.</td>
</tr>
<tr>
<td>Performance targets</td>
<td>Reviewing the processes for target setting – possibly advising on the suitability of targets and their method of calculation (following DETR/NAW guidance).</td>
<td>Internal audit may challenge the robustness of targets, for example, whether they are based on evidence from prior years or from other authorities. Challenge needs to be independent and robust.</td>
</tr>
</tbody>
</table>
**EXHIBIT 2**

The potential role for internal audit in best value (continued)

<table>
<thead>
<tr>
<th>BEST VALUE ACTIVITY</th>
<th>NATURE OF INVOLVEMENT</th>
<th>ISSUES TO CONSIDER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benchmarking</td>
<td>Internal audit may be able to assist in benchmarking initiatives through the use of its data gathering tools and access to information. It may review the reliability of benchmarking and provide information on whether judgements can be supported by documented evidence.</td>
<td>Internal audit may be able to contribute to benchmarking by examining evidence and processes, but this will not replace the judgements made by external auditors or inspectors.</td>
</tr>
<tr>
<td>Assisting with BVRs</td>
<td>Participating in BVRs by providing information from audit experience, assisting in data gathering and analysis, providing tools and skills, commenting on the control implications of decisions and ensuring that sound option appraisal techniques have been applied.</td>
<td>Assisting by supplying information on processes, verifying data collection and analytical review. This can be passive, that is, it does not require an active role in the decision process or a significant investment of time. The potential role may also be that of a ‘challenging participant’, questioning the robustness of options and decisions.</td>
</tr>
<tr>
<td>Assessing BVRs</td>
<td>Reviewing the adherence of BVRs to the ‘4Cs’ by the application of systems audit methodology – applying control matrices to each element of the reviews and testing for evidence and soundness of processes. This work may be combined with planned systems work where the audit plan and the programme of BVRs coincide. This can also cover the assurance that action has been taken to improve services as a result of the BVR.</td>
<td>The nature and extent of this involvement will depend upon how internal audit can plan and resource this work, and the relationships with other review agencies in the authority, external audit and the inspectorate. Reviewing the implementation of the BVR would be limited to obtaining assurances that action plans are monitored and that there is evidence of implementation, rather than measuring the actual effect on services.</td>
</tr>
<tr>
<td>Continuous improvement and the impact on internal control</td>
<td>Incorporating best value within systems review by; • timing reviews prior to BVRs so that the benefits of control improvements are reflected in BVRs; • where possible, obtaining assurance about the review during systems work; and • taking account of the effect of changes to services and activities as a result of BVRs on the internal control environment.</td>
<td>Better use of resources may be achieved where it is possible to integrate internal audit’s work with BV work. Internal audit may be able, for example, to assess in broad terms whether a function is ready for best value, if action plans are being implemented, and how BVRs should be reflected in risk-based audit planning.</td>
</tr>
</tbody>
</table>

*Source: Audit Commission*
41. One role that internal audit could undertake is to review the operation of management arrangements [CASE STUDY 1]. Systems-based methodology can be applied to the processes concerned to provide assurance that:

- audit trails exist to support the decision-making process;
- the best value methodology has been followed;
- statutory requirements and guidance have been met; and
- action plans are being implemented.

42. As well as providing assurance, some internal audit sections may also advise on:

- the development of overall management arrangements;
- applying systems-based review methodology to the design of processes to ensure that corporate objectives are communicated and translated into specific service objectives; and
- whether there are clear responsibilities for project managing reviews and monitoring actions against targets.

43. Many authorities have developed guidance for managers and staff to follow when implementing the BVR programme. Internal audit can advise on whether the guidance:

- clearly sets out reporting lines and responsibilities;
- reflects statutory requirements; and
- provides clear links between overall objectives, performance information and BVRs.

44. Finally, internal audit can also supply and advise on the use of tools that may already be a part of internal audit’s own toolkit, such as analytical review, data interrogation and option appraisal [CASE STUDY 2].

Performance indicators

45. Robust and reliable systems for producing performance information are essential for both BVRs and BVPPs. External auditors will be reviewing authorities’ systems and processes for recording and calculating the best value corporate health and service delivery PIs, local PIs and Audit Commission PIs.

46. Internal audit’s responsibility to review internal control already covers the adequacy and reliability of management information, and it could therefore contribute to this 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 authorities or re-calculation from base data; and
- agreeing a programme of review with the external auditor.¹

¹ Some internal audit sections have already agreed joint programmes with external audit for auditing Audit Commission PIs. This arrangement should provide useful experience for internal auditors to build upon when providing internal assurance about the reliability of best value performance data.
CASE STUDY 1

Brighton and Hove Council – reviewing best value management arrangements

Brighton and Hove Council is planning to ask internal audit to review the council’s overall management arrangements in 2000. Internal audit was involved in 1998 and 1999 in developing the Council’s approach at a corporate level. The aim of the review is to provide an independent assessment of the overall effectiveness of the Council’s best value framework and to assess whether recommendations made by a previous review, undertaken by the Institute of Local Government Studies (INLOGOV), have been actioned.

CASE STUDY 2

Manchester City Council – assisting with corporate guidance

Internal audit is a member of a small inter-departmental team that is reviewing best value project plans as they are produced to assess their robustness and whether intervention is required by the Core Chief Officer’s group.

Internal audit has also worked closely with the Council’s best value project officer on the production of corporate guidance, setting out the process for reviews to follow, such as requiring details of all analyses, discussions and decisions relating to reviews to be recorded to form a trail of evidence, and on the development of guidance, setting out a range of approaches that review groups may use, including analytical review, the European Foundation for Quality Management (EFQM) model and others.

Internal audit have already reviewed a sample of BVRs, as part of the corporate evaluation of the best value process, to assess whether the guidance is being followed.

Robust and reliable systems for producing performance information are essential for both BVRs and BVPPs.

Performance targets

47. Internal audit may be able to review the appropriateness of target-setting to help the authority to comply with Government guidance, for example, by:

- contributing information from other sources to which audit has access (for example, by exchanging data with other audit sections);
- ensuring that there is a clear management trail; and
- reviewing the evidence showing that judgements and calculations have been reasonable and are soundly based.
Benchmarking

48. Benchmarking is an essential tool for authorities in meeting the requirement to report on local indicators within the BVPP, and in delivering robust comparisons within BVRs. Internal audit can assist by:

- applying its own data-gathering and handling tools to data benchmarking;
- using its knowledge of current systems and processes in process benchmarking;
- providing information or contacts from initiatives in which internal audit may already be involved; and
- challenging the reliability of benchmarking by reviewing whether partners have been identified to ‘stretch’ the review rather than provide comfort.

Assisting with best value reviews

49. Participants in BVRs will need to be able to provide sufficient challenge, drawing on skills and knowledge outside the existing service management structure to allow the consideration of the best available options, not just those that match current service patterns.

50. Internal audit input may be either passive – providing information, evidence and data-handling skills, or active – acting as an internal challenger to the process. Internal audit could assist BVRs by:

- providing information on data, costs, the nature of processes and activities and links to other activities;
- assisting in data-gathering and analysis;
- providing tools and analytical skills – internal audit should be skilled in the objective examination and collection of evidence upon which best value judgements will rely;
- advising on the impact of any potential options on internal control; and
- acting as an internal but objective challenger.

Assessing best value reviews

51. Each BVR must apply the principles of challenge, compare, consult and compete rigorously to all aspects of the function that is being reviewed. From different perspectives, external audit and the inspectorates will be looking for evidence that the authority’s BVR process is robust and challenging. The case studies presented in this paper (section 4) illustrate how internal audit might provide evidence of the robustness and completeness of an authority’s approach to the 4Cs.

52. Authorities will have to decide how to obtain this assurance. Some authorities use independent panels that include external representatives to provide objective scrutiny of the BVRs. An authority’s scrutiny or internal control arrangements should provide assurance that:

- each element of the best value process has been applied;
- there is sufficient evidence and documentation;
- the plan for the BVR has been followed;
- there is a clear audit trail over the selection of options and judgements reached; and
- the action plans that emerge are fed into the BVPP.
**Tasks that internal audit should not undertake**

53. Although successful implementation of best value will require authorities 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.

54. 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 audit should ensure that it does not become involved in day to day decision-making.**

55. 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 [CASE STUDY 3]. They may from time to time, because of their professional expertise, knowledge and position in the authority, 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.

**CASE STUDY 3**

Cambridgeshire County Council – participating in best value scrutiny outside the internal audit role

The Head of Internal Audit was invited to participate in a scrutiny panel to assess the robustness of BVRs. The aim of the panel is to assess whether options for service improvement arising from BVRs are realistic, robust and follow the Council’s guidance. In this role, the Head of Internal Audit contributed expertise and knowledge as a key senior manager, but it is clearly recognised that this function is separate from his internal audit role.
4. Matching the role to the capabilities

56. It is clear that there is considerable scope for internal audit to contribute to self-assessment and so help to deliver best value. But before internal audit carries out any work relating to best value beyond its core role, or indeed before its work can be used to any extent by either external audit or the inspectorates, it is essential that it should be able to:

- demonstrate that it is meeting professional standards;
- provide sufficient assurance to the relevant accounting officer (the Section 151 officer) concerning the reliability and adequacy of internal control systems;
- deliver the scope and quality of work that has been agreed jointly with the external auditor;
- operate at a level and position in the authority that allows sufficient objectivity, independence and effectiveness in reporting audit opinions; and
- demonstrate that there are sufficient skills and resources to add value and provide assurance in relation to best value without detracting from existing responsibilities.

57. The decision on whether to use internal audit for work relating to best value, beyond its basic role of providing assurance on internal control, depends on a number of considerations, including:

- how internal audit is currently delivered;
- its scale and quality;
- its ability to provide resources and time to best value, over and above its current work, without jeopardising regularity work;
- what other internal review agencies are available to do this work.

Delivery

58. Beyond the broad definition of internal audit’s role there is no sector-specific manual for internal audit in local government. While central government and health bodies have specific internal audit manuals which define reporting responsibilities, planning, scope of audit work, staffing, skills and audit techniques, nothing comparable currently exists in local government.

59. Internal audit can be organised and delivered in a number of ways. Structures may be devolved or centralised, depending upon the authority’s policy, and may include specialist functions such as risk management or housing benefit fraud investigation. Internal audit may be provided either through in-house staff or on a contracted-out basis. Because of the variety in internal audit provision, this paper suggests a range of potential areas for involvement in best value, rather than prescribing a single approach.

I Authorities may decide to use internal audit to cover core audit work and to resource best value work separately. Some authorities use contract staff to perform core work and rely on in-house staff with local expertise to advise and support service delivery improvements.

II The Chartered Institute of Public Finance and Accountancy is now developing a Code of Practice for Internal Auditors in Local Government and will subsequently develop a manual.
Scale and quality

60. The Commission recognises that the extent to which internal audit can be involved in best value will depend partly upon the resources available. Small district councils may have difficulty resourcing a programme of work in relation to best value that goes beyond control assurance. Partnership or consortium arrangements for small organisations may be a solution, provided that there is common agreement to the approach among participating authorities [CASE STUDIES 4 and 5].

61. Internal audit also has to be of appropriate quality if it is to contribute to best value as well as meeting its minimum assurance role. The quality of internal audit varies. Internal audit itself needs to strive for continuous improvement, requiring auditors to develop and apply new techniques to keep pace with changes in local government finance and management. Although the best internal audit sections are progressive and have led developments in auditing practice, inevitably not all meet the same level or keep pace and it is unlikely that the work of all audit sections can be used to the same extent in the context of best value.

CASE STUDY 4

North Yorkshire Audit Partnership – partnership approach to internal audit

The North Yorkshire Audit Partnership was initiated in the summer of 1998 and has operated from February 1999, by Ryedale, Scarborough and Selby Councils (later joined by the City of York) initially in response to problems with recruitment and retention of internal audit staff. The partnership provides economies of scale, aims to bring about improvements to service quality and performance and gives the potential for internal audit to take an active role in relation to best value.

CASE STUDY 5

Chelmsford Borough Council – managing internal audit across boundaries

Chelmsford Borough Council’s Head of Internal Audit also manages the internal audit function of a neighbouring authority that has had problems with recruitment, and provides members of staff to another. This assistance not only allows the authorities to have sufficient capacity to develop work in relation to best value, but has also ensured a consistent approach to internal audit and best value.

Small district councils may have difficulty resourcing a programme of work... that goes beyond control assurance.
Authorities are more likely to use internal audit for best value work if it has a track record of:

- meeting professional standards, using analytical skills such as those applied in the objective review of evidence, analysis and understanding of systems and procedures, handling of data and effectively communicating results;
- exploiting its continuous presence within the organisation to pass on learning points from its work and identifying and spreading good practice across the authority; and
- demonstrating an innovative, rigorous and challenging approach. As an independent appraisal function, internal auditors should have experience in challenging practices and generating solutions, and should therefore be able to contribute to the development of the challenge aspect of best value.

Resources

In some authorities, internal audit’s staffing or performance may need to be enhanced before it can absorb work in relation to best value. Authorities and their internal audit sections must be confident that the core work on objective assurance is already being delivered adequately before internal audit takes on a wider role in best value. However, internal audit sections that are able to offer assistance beyond the core role may secure better use of resources for their authority.

Where an authority decides to use internal audit in any or all of the roles in relation to best value, it will need to consider the management and staffing implications. Some of the possible areas for internal audit work in relation to best value may be outside the scope of core control work; internal audit management may consider separating responsibilities so that the different types of work are seen to be independent and objective. For example, advisory or development tasks may be given to one group of staff, and objective review to another.

Carrying out BVRs will involve people from a cross-section of the authority, requiring a wide range of different skills and experiences. Internal auditors may find it helpful to consider exchanging staff or allowing auditors to work on particular best value projects in order to promote both audit skills and a greater understanding of internal audit’s role [CASE STUDY 6].

CASE STUDY 6

West Sussex County Council – staff exchange to promote skills and understanding

West Sussex County Council’s internal audit section has transferred an audit manager to work with the best value corporate team on the Council’s BVR of procurement. During the transfer, the manager functions not as an auditor but as part of the team. The transfer brings internal audit skills and discipline to the BVR, as well as bringing back an understanding of the Council’s approach to best value that can be shared among other internal audit staff.
Best value within internal audit

66. Internal audit therefore needs to demonstrate that it is itself achieving quality and continuous improvement. It should only be invited to play the full part in best value of which it is potentially capable if it can demonstrate its own effectiveness. Internal audit can improve its impact by subjecting itself to a formal BVR process at an early stage. This will aid understanding of the BV process as well as establishing credibility when internal audit reviews the delivery of other BVR action plans.

Internal audit... should only be invited to play the full part in best value... if it can demonstrate its own effectiveness.
67. Internal audit will need to prepare itself for best value by applying the 4Cs:

- **Challenge** – although a statutory service, is it better for the internal audit function to be provided internally or externally? Can some aspects of the service be provided in alternative ways, and is there scope for partnership or shared working?

- **Compare** – is internal audit actively seeking comparisons with others, not just those in the same sector or location, to ensure the widest possible options for improving practices and performance?

- **Consult** – is internal audit aware of all of the potential users of its service and those affected by it, not just those to whom it reports directly, such as directors and elected members? Can it demonstrate effective consultation on its aims, scope and the quality of its work – for example, by feedback questionnaires?

**Can internal audit demonstrate that it is providing the most efficient and effective service...?**

- **Compete** – can internal audit demonstrate that it is providing the most efficient and effective service – for example, through market-testing or delivering some or all of its functions externally?

68. Many internal audit sections will have considered the use of accredited quality schemes, and these can have an important role to play in securing effective comparison and service improvement. While such schemes are not sufficient in themselves to deliver best value, they can support the necessary cultural changes required, ensure that staff and members are fully involved, and create a commitment to quality and efficiency.¹

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**CASE STUDY 7**

Flintshire County Council – inviting ideas

Flintshire County Council’s internal audit section is extending the use of its ‘fraud hotline’ to invite members of the public to suggest services or functions that they consider to be operating inadequately, poorly or inefficiently, and could therefore benefit from review by internal audit. While core audit work remains the responsibility of the internal audit function, the aim is to build up a small proportion of ‘response’ related work into the audit plan each year.

**Case studies**

69. The following case studies (8–10) illustrate in some detail the approaches that several internal audit sections are already taking to best value.

¹ Source – DETR circular 10/99, Local Government Act 1999: Part 1 Best Value (Ref.1)
MATCHING THE ROLE TO THE CAPABILITIES

CASE STUDY 8

London Borough of Haringey – assessment of best value reviews

Headlines

• Audit of BVRs using a matrix approach to check that the corporate framework has been followed.
• Advice at an early stage on whether project plans for best value are robust.

Outline

Internal audit assesses whether the corporate framework for best value has been followed for each BVR by undertaking an audit review based on a matrix. The review follows four stages, each related to the challenge, compare, consult and compete requirements. The matrix sets out, for each stage:

• the best value objective – for example, stakeholder consultation;
• expected evidence – for example, that evidence exists of consultation with taxpayers, users, the wider community;
• actual evidence – for example, that there is documentation available to support the consultation, such as a schedule of replies, and that these have been acted upon; and
• recommendations – for example, that the BVR group obtains evidence or undertakes further work to meet an objective in full.

There is an additional stage to the review whereby the action plan from the BVR is followed up after an appropriate period. Evidence at this stage is obtained to assess whether:

• the service has improved as a result of the BVR, looking for quantifiable improvements in performance, customer satisfaction, reduced costs and/or increased efficiency, improved service range and/or better service provision, demonstrated by published performance indicators;
• continuous improvement can be identified in terms of ongoing stakeholder participation, assessment of client needs and the systems put in place to monitor achievements;
• staff performance is being assessed and training needs have been identified;
• there are corporate systems to ensure proper monitoring, including the link between review outcomes and financial monitoring and planning; and
• there is external monitoring, for example, quality systems assessment.

continued overleaf
Review of project plans give an early warning of any potential shortcomings in the BVR programme.

CASE STUDY 8 (CONT.)

London Borough of Haringey: assessment of best value reviews

Reporting
Internal audit provides a report to the Corporate Management Group and relevant member groups/forums, expressing an opinion on whether the BVR has been conducted in accordance with the corporate framework, and if there are any major concerns.

For example, an audit was undertaken of the BVR of highways management. Internal audit concluded that although the BVR had been conducted in accordance with the corporate framework, the service had been insufficiently challenged and further analysis of the benchmarking data was required.

Since the audit, the service is being included in a cross-cutting review of all street services that affect the public, which should address the concerns raised. The follow-up stage is now scheduled for next year.

Audit planning
Planned systems work is co-ordinated wherever possible with the BVR plan so that maximum benefit is derived from audit work. Resourcing best value is taken into account in the audit plan so that core financial systems work can still be delivered effectively.

Key messages
- Provides a source of evidence that BVRs have been conducted in accordance with the 4Cs.
- Reporting to members pulls no punches and provides independent challenge.
- Review of project plans give an early warning of any potential shortcomings in the BVR programme. It is planned that, for the future, internal audit should scrutinise project plans at the initial stage to assess whether the BVR will cover each stage, before work commences.
CASE STUDY 9

Cambridgeshire County Council – support and challenge

Headlines
• The Head of Internal Audit assists the development of the corporate framework as a senior manager.
• One audit team member assists in each of the BVRs.
• Internal audit is planning to review independently the robustness of the reviews.
• PIs are audited in a joint programme with external audit.

Outline
Corporate support
The Head of Internal Audit is a member of the Corporate Best Value Group of senior managers, chaired by the Chief Executive. The group advises members and the chief officer team on the approach to best value, develops and co-ordinates the five-year review programme, and promotes an organisational culture of continuous service improvement.

The Head of Internal Audit has assisted in the drafting of corporate guidance on the BV framework and chairs panels scrutinising the results of the BVRs. It is important to emphasise that this role derives exclusively from his position as a senior officer of the Council, not as the manager of the internal audit section. The Head of Internal Audit is not directly involved in any best value work that internal audit has already contributed to, so the independence of the internal audit function is not compromised.

Support to reviews
One member of the audit team provides assistance to each of the reviews by:

(1) Project support
Undertaking research for the review, providing reliable data to the group, carrying out data extraction and analysis, and advising on the implementation of action plans. Some audit staff are qualified Business Excellence assessors, and can advise on the implementation of the Business Excellence model, which underpins the county’s approach to best value. This work is managed and organised separately from the internal audit role.

(2) Corporate challenge
Within the BVR team, developing the project plan, examining review findings to ensure the adequacy of analysis, providing robust and independent challenge of existing methods of service delivery and ensuring all possible alternatives are explored.

continued overleaf
CASE STUDY 9 (CONT.)

Cambridgeshire County Council – support and challenge

(3) Independent review
Internal audit is planning to review separately a selection of BVRs on a risk-based approach to ensure compliance with the corporate framework and the 4Cs.

(4) Performance indicators
Internal audit already audits statutory PIs as part of an agreed programme with external audit. This work will carry on under best value, focusing also on the review of systems to produce PI data.

Audit planning
Internal audit currently reviews all fundamental financial systems annually and undertakes systems testing to meet the requirements of the managed audit. Some elements of non-financial work that are currently provided outside the core systems work may be redirected to best value.

Changes to internal control systems arising from BVRs will be assessed by internal audit as part of its current role.

The approach taken should not impinge upon the resources that are available to deliver financial systems assurance.

Key messages
- High-level assistance by Head of 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 challenge in the BVRs comes from an understanding and involvement in the subject area and therefore has credibility.
- Internal audit’s work in relation to PIs may be used by the external auditor in the audit of the BVPP.
- Support and challenge work will not be at the expense of core systems work.
CASE STUDY 10

Brighton and Hove Council – corporate support and independent assessment

Headline
Internal audit approaches best value in four ways:

- advice and support at corporate level;
- independent audit of BVRs;
- assistance with individual BVRs; and
- planned systems coverage co-ordinated with BVRs to evaluate the adequacy of system processes

Outline
Corporate advice
During 1998/99, internal audit management participated in the Council’s best value steering group, advising on the development and implementation of the framework, commenting on the progress of pilot reviews and suggesting improvements.

Due to internal audit’s close involvement in establishing the control framework in the pilot stage, INLOGOV were commissioned to carry out an independent review. This recommended further improvements to the scrutiny and challenge aspects of the BVRs. Such reviews are now planned annually and will be carried out by internal audit.

Assistance with specific reviews
Internal audit uses its skills and experience to provide assistance to individual BVRs, often as part of the project group. Assistance covers:

- benchmarking and performance data;
- data-extraction, modelling and analysis;
- information on system processes from previous audit work;
- obtaining best practice information through internal audit networks with other authorities;
- specialist support on information systems, contract audit and quality issues; and
- facilitating workshops and training in areas such as project management.

Being part of the BVR group, internal audit provides further challenge to best value processes and outcomes at an early stage. Independent audits of BVRs are carried out by staff separate to those who have been involved in the BVRs.

continued overleaf
CASE STUDY 10 (CONT.)
Brighton and Hove Council – corporate support and independent assessment

Assessment of reviews
Internal audit undertakes an independent scrutiny of a selection of BVRs to assess how robust they have been and whether the corporate framework has been followed. A standard approach has been developed for all BVRs, using a control questionnaire that gathers evidence that the challenge, compare, consult and compete requirements have been met. Activities include:

- validating the suitability of benchmarking data used;
- clarifying and evaluating methodology;
- confirming the robustness of performance targets;
- providing independent challenge to the outcome of review groups;
- assessing the effectiveness of systems to monitor and evaluate the results of BVRs;
- ensuring the robustness of best value processes and targets set;
- identifying reasons for failure to meet targets; and
- ensuring that all options are considered;
- validating the integrity of local baseline indicators;
- challenging the implementation of action plans;
- evaluating the effectiveness of project planning.

While the audit is based upon clearly defined documentation and is evidence based, the emphasis is on challenging the robustness of the BVR, rather than just focusing on the ‘tick and check’ approach.

Reporting
Internal audit reports findings to the lead officers for each BVR. Reports have been found to be challenging, effective and sometimes unpopular. Best value work is summarised for the Chief Executive and the best value steering group regularly.

Audit planning
Internal audit work is planned to ensure co-ordination of the systems reviews of internal controls with the council’s best value programme. Systems are assessed not only in terms of delivering control objectives but also in terms of best value, so that any BVR can benefit from the audit perspective.

Key messages
- Structured, planned approach to involvement.
- A good mixture of support and challenge.
- Development of an Internal Control Questionnaire to gather evidence.
- Specific time allocation for best value which does not detract from core systems work.
- Adding value, but also maintaining independence.
Conclusion

70. Best value requires authorities to undertake robust, challenging reviews of their functions to deliver continuous service improvement. An important element in managing the implementation of best value is how an authority obtains assurance on the reliability of the management and control arrangements that it has developed to assess performance, review activities and implement improvements to services.

71. Best value places heavy demands upon authorities and they should consider how best they could make use of internal resources such as internal audit as a source of self-assessment. Authorities may decide to use functions other than internal audit to provide assurance about best value, but should at least ensure that they have in place some form of self-assessment.

72. There is no single standard approach to either best value or the way in which internal audit is delivered, and therefore internal audit’s role cannot be prescribed; opportunities do exist to use internal audit to provide assurance on the management of best value, but internal audit’s potential contribution to best value should not detract from its defined role. Internal audit should, as a minimum, focus on providing assurance that there are sound internal controls in relation to best value.

73. The potential benefits of any internal audit involvement could be:

- assisting in an authority’s self-assessment process by independently reviewing best value control arrangements;
- contributing knowledge, skills and techniques to the scrutiny of functions in best value reviews; and
- acting as a key element of internal challenge.

74. This paper has indicated how best value authorities might use internal audit to provide assurance on self-assessment and challenge. The nature and extent of internal audit’s work in relation to best value will depend on how best value is being managed and delivered in an authority and the characteristics, resources and skills of internal audit. Best value should be seen as an opportunity for internal audit provided that it can itself demonstrate quality, value and continuous improvement.
Appendix 1: Advisory group

The Audit Commission would like to thank the members of the advisory group:

**John Bradley**
Head of Internal Audit
Manchester City Council

**Steve Bundred**
Chief Executive
London Borough of Camden

**Gerry Cox**
Chief Internal Auditor
South Somerset District Council
(and President of the Institute of Internal Auditors)

**Lyn Graham**
Chief Internal Auditor
Portsmouth City Council

**Mohammed Khan**
Head of Internal Audit
London Borough of Lambeth

**Richard King**
Head of Internal Audit
Kent County Council (and representative of CIPFA's Audit Panel)

**Paul Lundy**
District Auditor

**Gareth Moss**
Chief Internal Auditor
Newport County Borough Council

**Jeff Nash**
Assistant Treasurer
Nottinghamshire County Council
(and Chair of the County Chief Auditors' Network)

**Julie Norgrove**
Assistant Director of Internal Audit,
Metropolitan Police

**Peter Tickner**
Director of Internal Audit,
Metropolitan Police

In addition, the Commission would like to thank the following people who have contributed to, or commented on this paper:

**Dr Rob Barr**
Director, Teambase

**Nick Carroll**
Advisor, CAS (Competition Advisory Service)

**Mark Fisher**
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Appendix 2: Fieldwork visits

The Audit Commission based this paper on research visits to a sample of best value authorities’ internal audit sections. The aim of the visits was to identify types of approaches to best value and to receive comments on the proposals developed for the guidance.

The Commission is grateful to the authorities that participated. The Commission would particularly like to thank the authorities marked with an asterisk for providing the detailed approaches described in case studies 8 to 10.

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Norfolk County Council
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Portsmouth City Council
Lyn Graham, Chief Internal Auditor

West Sussex County Council
Tim Hart, Chief Internal Auditor
Appendix 3: The role of internal audit

The legal basis for the internal audit function in local government is the Accounts and Audit Regulations (1996) (Ref. 4). They state that each authority ‘shall maintain an adequate and effective system of internal audit of their accounting records and control systems’.

Internal audit’s role and standards in local government are defined in CIPFA’s guidance on the application of the operational guideline from the Auditing Practices Board (APB), Guidance for Internal Auditors in Local Government (April 1993) (Ref. 5), which is currently being revised.

Internal auditors may also follow the Institute of Internal Auditors Standards and Guidelines for the Professional Practice of Internal Auditing (Ref. 6). The standards cover internal audit’s role, objectivity, scope, planning, review, standards of evidence, organisation, and its relationships with the authority and other agencies.

The APB guideline defines internal audit as:

‘An independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources’.

The Institute of Internal Auditors has developed this definition, reflecting developments in corporate governance and, therefore, the need to give assurances on the overall risks and control environment:

‘Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

...each authority ‘shall maintain an adequate and effective system of internal audit of their accounting records and control systems’.
Appendix 4: The role of external audit in best value

The Commission has recently revised the Code of Audit Practice, to reflect auditors’ additional responsibilities under the best value legislation. The revised code (Ref: 3) requires external auditors to consider and report on whether the audited body has complied with the statutory requirements in respect of the preparation and publication of its BVPP [EXHIBIT 3]. They are required to meet this responsibility by reviewing and, where appropriate, examining evidence relevant to:

- the extent to which the audited body’s BVPP has been prepared and published in compliance with the legislation and statutory guidance;
- the adequacy of the systems the audited body has put in place to collect and record specified performance information; and
- the extent to which the procedures followed by the audited body in relation to its best value performance plan comply with the performance management framework prescribed in the legislation and statutory guidance.

The revised code requires that, in carrying out the audit of the BVPP, auditors should draw on other work carried out under the code and should seek to co-operate with, and have regard to the work of, best value inspectors wherever appropriate.

Clearly the external audit of the BVPP cannot be carried out in isolation from the other inspection and judgement processes that will be an integral part of the best value framework. Auditors will need to take account of a range of other sources of evidence about the performance of the authority and judgements that have been made on its services, systems and processes, in reporting on the BVPP.

External auditors will be required to perform their own testing work to meet their responsibilities under the revised code, but the amount of such work can be affected by the nature and extent of internal audit work. Before making use of the work of internal audit, external audit will need to assess the adequacy of internal audit’s work in relation to best value. External auditors will consider the work of internal audit in planning their own work and evidence requirements.

External auditors’ statutory reports on local government bodies’ BVPPs will comprise [EXHIBIT 3]:

- a certificate that the audit of the BVPP has been completed in accordance with the legislation and relevant regulations;
- an opinion on whether, in all significant respects, the BVPP complies with the requirements of the legislation and statutory guidance, together with any recommendations as to any necessary amendments that may be required;
- recommendations, on matters of substance or significant issues arising from the auditor’s review of the performance information systems and of the procedures to be followed in relation to the plan; and
- recommendations on whether or not the Audit Commission should carry out a best value inspection of the body, or the Secretary of State/National Assembly for Wales should issue a direction.
External auditors will consider the work of internal audit in planning their own work and evidence requirements.

In addition to the statutory report, external auditors will prepare a report or properly evidenced presentation to the audited body setting out the basis for the audit recommendations that are included in the statutory audit report on the BVPP and, where appropriate, drawing any further matters to its attention. The revised code requires these reports or presentations to be finalised and delivered promptly on completion of the work on the BVPP. They may be referred to in the annual audit letter.

EXHIBIT 3
Auditing best value performance plans

The audit methodology comprises three main elements.

Source: Audit Commission paper ‘Best Assured’ (Ref. 7)
References


The Audit Commission has produced a number of reports covering related issues. The following may be of interest to readers of this report:

**Better By Far**
Preparation for Best Value

**A Learning Experience**
Service Delivery Planning in Local Government
Occasional Paper, 1997, 28 pages, £10
Welsh version also available

**Kiwi Experience**
VFM Messages from New Zealand
Occasional Paper, 1997, 36 pages, £8

**Planning to Succeed**
Service and Financial Planning in Local Government
Management Paper, 1999, 106 pages, £15

**Getting the Groundwork Right**
Financial Health for Local Authority Trading Units
Management Paper, 2000, 55 pages, £15

**Best Assured**
The Role of the Audit Commission in Best Value
Free Publication, 1999

**Retiring Nature**
Early Retirement in Local Government
National Report, 1997, 64 pages, £20

**The Melody Lingers On**
A Review of the Audits of People, Pay and Performance
Update, 1997, 40 pages, £10

**Paying the Piper... Calling the Tune**
People, Pay and Performance in Local Government

**Seeing is Believing**
How the Audit Commission will carry out Best Value Inspections in England
Free Publication, 2000

**Promising Beginnings**
A Compendium of Initiatives to Improve Joint Working in Local Government
Compendium, 1998, 76 pages, £25

**Counting Down to Competition**
A Management Handbook on Financial Support Services

**Making Markets**
A Review of the Audits of the Client Role for Contracted Services
Update, 1995, 20 pages, £6

**Realising the Benefits of Competition**
The Client Role for Contracted Services
National Report, 1993, 54 pages, £8.50

**Behind Closed Doors**
The Revolution in Central Support Services
National Report, 1994, 60 pages, £9

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To order Audit Commission publications, please telephone 0800 502030, or write to Bookpoint Ltd, 39 Milton Park, Abingdon, Oxon OX14 4TD.
Best value authorities face the challenge of demonstrating that they can deliver continuous service improvement to meet the needs of service users and those people affected by their services.

External auditors and best value inspectors will assess whether best value is working properly. There should be no surprises when the external auditors and inspectors report – best value authorities should already have their own internal assurances that the framework put in place to manage and deliver services is effective.

Internal audit may be a source of best value assurance, and at minimum, must consider the impact that best value will have on their outgoing work on the internal control environment.

This paper helps authorities to consider how to seek assurance on best value, and, if internal audit is used to contribute to this, provides practical guidance and advice to internal auditors.