The ‘New’ Audit of Best Value in Scottish Local Government: A Scots Quair

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Abstract
This Scots Quair (tale) seeks to resonate the distinctive Scottish approach to the Best Value policy and the role of external audit in evidencing its achievement. The concept of Best Value is at the root of the reforms currently taking place in local government and scrutiny by external auditors is an essential part of the policy framework. The article examines the evolution of performance measurement and reporting within the context of Scottish local government, culminating in a distinctive articulation of the Best Value policy. The article also reviews the creation by the supreme audit institution (Audit Scotland) of an unique approach to the Audit of Best Value. Finally, the article makes a number of conclusions on the audit of Best Value within a Scottish context.

Introduction
For the last twenty-five years, governments, both Conservative and Labour have introduced a series of policy initiatives with regard to local government which were based on an essentially neo-liberal, positivist ideology which saw the abandonment of traditional approaches to public administration and their replacement with New Public Management (Hood, 1991). Features of this approach include increased use of privatisation in the provision of public services; substantial reliance on the role to be played by market forces in service pricing and delivery; focus on the public as customers (rather than service recipients) and customer sovereignty; and enhanced importance of managerial accountability evidenced by performance measurement and the achievement of targets.

This ongoing trend of using performance measurement to bring about improvements in the cost efficiency and quality of public services has been a key feature of successive central government policies since the 1980s (Pollitt and Bouckaert, 2000; Wilson, 2004).

This article will examine performance measurement and Best Value within a Scottish context and seek to articulate the distinctive characteristics of both the nature of performance measurement and Best Value and also of the Audit of Best Value. It explains the evolution of the unique approach to the Audit of Best Value which has emerged and speculates that this may be as a result of Devolution.

Performance measurement
However, the measurement of performance has long been problematical. There are difficulties which arise from the absence of a universally accepted measure of final output and performance to fulfil the role profit plays in the determination and reporting of private sector performance and the multi-dimensional nature of the public service (Stewart and Walsh, 1994). In the absence of any measure equivalent to profit and in recognition of the multi-dimensional character of public service, there was a need to develop performance measures and performance indicators as surrogates for profit and loss (Rouse, 1993; Likierman 1993; Jackson, 1995).

The Local Government Act 1992 placed a statutory duty on local authorities to derive, have audited and publish a series of performance indicators under direction from the Audit Commission (England and Wales) and the Accounts Commission (Scotland). For example, in Scotland there are currently 88 statutory key performance indicators (the number has grown slowly but steadily since introduction in 1992) covering the range of local authority services. Both the number of indicators and the adequacy of their coverage are the subject of annual review by a working party of local authority officials and civil servants.

Although its potential merits have been recognised (Likierman 1993; Jackson 1995), the system of performance reporting by local authorities based on the measurement of attainment of a number of performance indicators and the inevitable “ league table” style of national comparison which it invited and facilitated has always been received with a considerable degree of reservation and ambivalence. The practice may be not only inappropriate but also potentially harmful (Lapsley and Mitchell, 1996). Efforts by resourceful individuals to achieve the required outcomes in particular areas may lead to dysfunctions and neglect in other service areas (Broadbent, 2003; Townley 1996) and gaming - strategic behavioural responses to measurement which lead to inefficient behaviour (Pollitt *et al.*, 2004). Or, the indicators may seem too difficult to achieve and attempts to do so are abandoned (Hopwood, 1974). The general concern over the possibility of capturing all important activities in such a measurement system still remains (Broadbent *et al.*, 1996; Wilson 2004). Consequently, the resultant outputs of the measurement system can only be as good as the empirical data which underpins it (Boyne, 1997).

Best Value

The Best Value initiative represented a significant advancement in the performance measurement and reporting of local authorities. One of the manifesto commitments of the Labour Party in 1997 was to replace Compulsory Competitive Tendering (CCT) with Best Value. This was a new policy initiative to ensure a balance between cost and quality considerations in service provision across all local government services and not just those which had previously been defined as CCT activities. There was also a desire to secure value for money (VFM) and shift the emphasis away from service producers to focusing on the needs of service users in order to secure continuous improvement in the quality and cost effectiveness of service delivery. The Best Value regime included the preparation of a Performance Management and Planning Framework and Best Value Service Reviews in accordance with a five year rolling programme, together with a Framework for Public Performance Reporting. In order to evidence performance, local authorities are required to produce information that can be scrutinised by their external auditor. To some extent, this signalled a shift to greater recognition of the importance of quality and value in serviced provision and away from over-reliance on financial measures of performance (Midwinter and McGarvey, 1999)

Best Value was central to the government's wide reform agenda of *Modern Local Government* (DETRa, 1998). It replaced the previous Conservative government's reliance on the narrower lowest cost performance measure of CCT and also its coverage extended to all services provided by the local authority. It placed considerable and ambiguous demands on local authorities in terms of strategic long term planning to meet the twin demands of quality and continuous improvement coupled with the short tem need to deliver improvements in performance as measured against a large and complex suite of performance indicators (Ball *et al.*, 2002). There was a heavy reliance on key performance indicators to evidence compliance - 88 Key Performance Indicators in Scotland and 18 corporate health indicators and 104 service provision indicators in England (DETR1998b) On one hand, despite the large number of indicators, it is considered that potentially not all areas of local government performance are being covered (Boyne, 2000), whereas the number of indicators is seen as too large (Parmenter, 2003; Martin, 2002).

Scottish Dimension

There has always been a Scottish dimension to performance measurement and reporting by local authorities. The Local Government (Scotland) Act 1973 required in Scotland, "each local authority to make proper arrangements for securing economy, efficiency and effectiveness in their use of resources" and set out the statutory duty to achieve VFM and the basis of scrutiny arrangements by the Accounts Commission since 1975. More importantly, the devolution in 1999 of significant powers to the Scottish Parliament ensured that an individual and unique approach to performance measurement, Best Value and scrutiny arrangements would evolve in Scotland, separate and distinct from England, Wales and Northern Ireland. In developing Best Value in Scotland " there was a desire to … promote a new partnership approach with local councils" and " an emphasis on allowing local authorities to develop their own cultural definition of Best Value to suit their own organisational needs" (Sheffield and Bowerman, 1999). This distinctive Scottishness can be best discerned in two key areas: the process of evolution of Best Value in Scotland and the much later provision of a primary statutory basis for Best Value.

Soon after the 1997 election, in keeping with the spirit of partnership, a Best Value Task Force was established with members from the Accounts commission (later Audit Scotland), the Convention of Scottish Local authorities and the Scottish Office (later the Scottish Executive). The Task force was required to firstly outline the definition, principles and essential elements of Best Value and subsequently consider the long term arrangements necessary for Best Value. This was achieved in a series of reports, as outlined in Table 1 below:

Table 1
Best Value Task Force Reports

Best Value Task Force Report 1 (July 1997) Identified the principles and essential elements of Best Value.
Best Value Task Force Report 2 (July 1998) Developed a coherent system including Frameworks for Performance Management and Planning and Public Performance Reporting.
Best Value Long Term Arrangements- Interim Conclusions (March 1999) Provided a consultation paper to feed into the final report.
Best Value Long Term Arrangements (July 1999) Set out arrangements for the ongoing process; made 13 recommendations including a statutory basis for Best Value and the abolition of CCT.
Best Value in Local Government: Next steps (June 2000) Set out Executive’s proposals for legislation to underpin Best Value and abolish CCT. Also proposed that the Best Value framework should apply across the public sector (defined as funded from the Scottish Block).

The introduction of Best value was achieved in Scotland on a voluntary, partnership basis between the Scottish Ministers and local authorities with no primary legislative backing. The moratorium on CCT, which had been introduced to allow local authorities to deal with local government reorganisation, was extended in Scotland in 1997 although CCT could still be applied to local councils who were judged to be failing on Best Value. Each year thereafter, Scottish Ministers used secondary legislation to roll back the deadline for the re-introduction of CCT for defined activities. It was not until 2003 that the Local Government in Scotland Act introduced a duty “to make arrangements which secure Best Value”, defined in the Act as “continuous improvement in the performance of the authority’s functions”. This was four years after the corresponding English legislation.

The changing nature of Audit in Scotland

Auditing, a very practical discipline, has been the focus of much research and debate, both in the UK and overseas. In particular, in recent times, the profile of public sector audit has arisen due in part to the work of the Nolan Committee (Cm 2850-1), the resultant investigation into public audit (The Cabinet Office and Treasury, 1996), and the Westminster scandal (Meikle, 1996). While the period in the late 1990s has seen a resurgence of academic interest in terms of public sector auditing, Bowerman (1995, 1996) and Evans and Thornton (1996, 1997), there still exists a paucity of academic scrutiny in this field in general and to a greater degree, with regard to the Scottish perspective. Public sector audit in Scotland therefore, is a fertile area for investigation, particularly as a result of the new audit arrangements in Scotland and under the new Scottish Parliament, as introduced by the Public Finance and Accountability (Scotland) Act 1999.

The Scottish parliament offered a blank canvas to the incoming Auditor General, Bob Black, who fully appreciated that “in the Scottish parliament, with its modern procedures, there is a unique opportunity to exploit the potential contribution of audit” (Black, 2000). Taking full cognisance of “the democratizing potential of audit” (Power, 1997), Black further asserts that “audit can, and must, play a central part in the working of a modern democracy which claims to be open, transparent and accountable.” This new and distinctive approach is amplified in his first statement of strategy (Auditor General, 2001) whose Mission Statement expresses a commitment to:
- Support effective democratic scrutiny;
- Provide effective assurance on governance, financial stewardship and performance;
- Support continuous improvement.

It also articulates the desire for partnership and inclusive working which has become a hallmark of public audit in Scotland:

> *“I expect auditors to work **with managers** in developing an approach to scrutiny which promotes and supports improvements in performance rather than concentrating on past failures.”*

Parallel with the demand for greater financial accountability, which has fuelled the growth in the traditional style of audit, the requirement for other types of accountability has led to a growth in other tasks for the auditors to perform. It has also meant a growth in new forms of audit and reporting. In the public sector, auditors have for many years reported not only on the accuracy and proper presentation of financial statements but also on whether or not public bodies have spent the money they have been given on the purposes for which it was intended. This so-called ‘regularity opinion’ is a key part of the external auditors’ function.

Audit Scotland has found itself in recent times having to direct its audit emphasis to cope with the varying changes emerging from the escalating policy initiatives of New Labour and the new Scottish Parliament. Amid this climate, the introduction of the Best Value concept has brought new challenges for auditors as they are brought in to scrutinise the new regime. Audit Scotland, whilst seeing itself as a for a catalyst for change, has not been afraid to change and redefine its own working practices, which can only be applauded in an environment in which they are judging others on their responses to change.

The audit of Best Value in Scotland (1998 – 2003)

During the latter part of 1998, the first real appraisal of the progress by Scottish Council’s on Best Value was undertaken. Earlier in 1998, the Secretary of State had made an initial assessment of the plans that local authorities had submitted to the Scottish Office detailing how they would implement the principles and elements of Best Value, and while he was satisfied on their commitment, this assessment was in no way an inspection or an audit. The appraisal that followed between September and December 1998 was undertaken by external auditors and Scottish Office Departments and Inspectorates. Auditors at this point assessed progress against Best Value implementation plans and management arrangements action plans.

The term Performance Management and Planning (PMP) audit was chosen to represent the audit approach that would be followed in assessing the arrangements that councils’ had in place to manage their performance under Best Value. It examined the extent to which councils and their various services had in place the basic building blocks for Best Value, in particular the key management processes required.

The first PMP Audit was carried out in 1999/00 and covered three service areas in each council. Each of those services agreed a set of improvement actions that they would undertake to improve their PMP framework.

The PMP Audit has three main objectives:
- To provide independent, external assurance that the council is making progress on implementing a performance management and planning (PMP) framework;
- To help identify good practice and areas of concern;
- To ensure that the council and its services are planning for improvement.

(Accounts Commission for Scotland, 1998)

For PMP2 (covering 2000/01), a further three service areas were audited in each council. A corporate PMP Audit element was also added, which meant that for 2000/01 there were three components to the PMP Audit in each council:
- A service level PMP2 Audit carried out in three services in each council;
- A corporate level PMP2 Audit;
- The follow-up audit of implementation of the improvement actions identified by the three (PMP1) services audited in the previous year.

The PMP2 Audit framework covers the attributes identified by the Best Value Task Force in its final report. It does this through 10 criteria that cover key elements such as leadership, consultation, Best Value reviews, asset management, financial control, continuous improvement, performance monitoring, and public performance reporting.

The ‘new’ Audit of Best Value

The Local Government in Scotland Act 2003 gave Scottish local authorities a new power to promote or improve the well-being of their area and the people living in it.
The new duties include authorities;
- Making arrangements to secure Best Value, defined as ‘continuous improvement in the performance of the authority’ function having regard to economy, efficiency and effectiveness and equal opportunities requirements;
- Discharging their duties in a way which contributes to sustainable development;
- Taking the lead in the community planning process;
- Making arrangements for reporting to the public on their performance;
- Meeting new rules relating to significant trading operations.

As a consequence of the above, the Act also introduced new responsibilities for Audit Scotland in relation to auditing best value. This replaced the auditor’s previous statutory responsibility to be satisfied that a body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, with a duty to be satisfied that proper arrangements have been made by a body to secure Best value and to comply with its duties relating to community planning. The term “audit of best value” is intended to address all of the new arrangements under the Local Government in Scotland Act 2003.

In response to the legislation, Audit Scotland issued a consultation paper in July 2003 setting out their new approach to the audit of Best Value, and following feedback from interested parties, revised guidance on the new approach was issued in November 2003. In 2004, seven Scottish local authorities (out of a total of 32) will be the subject of the first round of best value audits under the new arrangements. (Angus, Dundee, Inverclyde, North Ayrshire, Shetland, Stirling, West Lothian). The seven authorities were chosen by the Audit Scotland not because they represented a spectrum of extremes but rather because they were a comprehensive mix of rural and urban, large and small. Over a three year period, all local authorities in Scotland will be the subject of a best value audit.

The Performance Audit section of Audit Scotland, under the management of the Deputy Auditor General/Controller of Audit, comprises 3 Directorates: Local Government, Health & Community Care, and Central Government. The Local Government Directorate will be the specialist team responsible for the audit of Best Value in Scottish Local Government and will include a blend at all levels of ‘traditional’ auditors and individuals with specialist knowledge at either service or corporate level.

The main focus of the new approach will be on each council’s own performance rather than comparisons between councils. The audit will focus on the council as a whole, as the body which is legally responsible for standards and performance of all its services. Each audit will result in a report to the Accounts Commission (the body charged with the statutory duty of securing the audit of local authorities in Scotland) and one of the most important parts of the report will be an agreed improvement plan for action by the council

Evaluating the new audit approach

Best value is a complex policy which requires cultural change over a number of fronts: the enhancement of local democracy through consultation; local authorities as enablers rather than the sole potential service provider; service users as customers and the inculcation of a customer focus in service delivery; a more accountable and representative role for local councillors.; the need for external comparison and competition to evidence value for money. To some extent this represents the embedding of the New Public Management concepts of privatisation, market forces, customer sovereignty and managerial accountability.

The first step for organisations is to understand the new conceptual framework. Organisations have to define accountability, transparency, continuous improvement and ownership in their own terms and this will depend on such things as managerial competence, leadership, robust internal communication and a corporate core that could integrate performance information from a number of perspectives. Sheffield (2001) has indicated that this has caused friction between local authorities and the centre, i.e. the Scottish Executive. Local authorities wanted guidance on definitions however the initial guidance was designed specifically to let local authorities decide the terms in respect of their own cultures. PMP Audit was good in this respect because it gave prescription, but with it came the tendency by auditors to ask the same questions in the same councils at the same time for the same fee.

Legislation gave the window of opportunity needed to develop a new audit approach to Best Value and also allowed a contribution to the public audit process. The ‘old’ model of PMP Audit had run its course and legislation arrived just at the right time. Interestingly, the individuals/team who had master-minded the PMP approach to Best Value audit i.e. the Management Services Unit, had since left Audit Scotland. Individuals are hugely influential in the shape of the audit arrangements as was demonstrated by the PMP approach. The Management Services Unit comprised non-accounting and audit staff, rather individuals with policy backgrounds. They brought new concepts to local government auditing and suggested in their guidance to council, management tools such as the Balanced Scorecard and the EFQM model. Advanced as this was for its time, these were techniques that many councils did not fully understand, and local authorities used them because they were suggested to them in the guidance, not because they derived any real benefit to the authority. Once such techniques are decided in guidance documents, auditors use these as their benchmark to judge. Boyne *et al.*, (2002) reminds us that it is service delivery in local authorities that should be judged 'not on their adoption of the latest management fads promulgated by central policy makers'.

Auditors too often struggled with these techniques. Auditors were given the same guidance that local authorities were given; they were no more knowledgeable or advanced about the topic than their clients. There is also a limited amount of time for auditors to meet together to discuss Best Value therefore it is difficult for them to learn together (Accounts Commission, 2003).

Auditor Skills
Best value requires a number of significant changes:
- Strategic planning;
- A performance management culture with a robust performance management system;
- The move to a three year budgetary cycle;
- A shift towards activity based costing;
- Improved communication;
- Demonstration of a commitment to continuous improvement.

Best value is also part of a larger government framework to change local government. The environmental influences need to be taken into account along with the other policy drivers of community planning, e-government, social inclusion, joined-up government, the modernising government agenda and a move towards problem solving partnerships. These policy drivers place a burden on internal resources, as they require a response, and Best Value has often slipped down the corporate agenda because some of these other things have become more important.

Similarly, auditors have to be aware that best value is developing in different ways in different local authorities. Those authorities with senior management teams who have legal backgrounds want policy frameworks to drive them whereas other councils are more interested in capturing data and making decisions from this. The type of management is also influential on the way in which information flows to elected members and as a result they may not have seen best value as a driving issue. The gap between best value development in individual local authorities appears to be widening as time progresses. Local authorities who managed the cultural change appear to be progressing at a faster pace than others. Management capacity, cohesion of the corporate core, size, and political leadership are all cited as important factors in the rate of development of the policy (Sheffield, 2001).

In formulating its new approach, Audit Scotland has recognised that traditional auditors may not have the necessary technical or professional skills to carry out some of the new types of activities required. Auditors are traditionally drawn from financial professionals but when the issues involved in an audit or inspection assignment move away from the purely financial is the traditional audit service still the best agency to carry out such work?

This area has been addressed by the use of both a specialist team, newly recruited by Audit Scotland for the *new audit regime* and the statutory external auditor who may be either an employee of Audit Scotland or come from one of the large private accountancy firms. The auditors recruited to the new team are a mix of qualified accountants and those who have skills and competencies developed in the wider areas of performance audit and Best Value reviews.

Appropriateness of auditors' involvement

An important consideration is whether statutory auditors should be involved at all in the *new audit of best value.* The introduction of the Best Value regime sparked a debate about whether the role of the Audit Scotland in reviewing Best Value Performance Plans meant that they were straying into areas of policy determination, something which auditors have traditionally avoided. This is turn raises questions about whether some of the developments in financial and managerial accountability associated with the new inspection and reporting arrangements are infringing on areas of political accountability between electors and politicians. This is a particular concern in the less tangible areas, such as corporate leadership, taking the initiative in community planning and promoting the well being of their local residents and community. The perception of auditors as being independent and unbiased might suffer if they become embroiled in a political debate.

A change in audit approach

In questioning the difference that legislation in Scotland has made to Best Value audit and delivery, there are two issues to consider. Firstly, Best Value, up until legislative reform, has been largely cosmetic and pigeon-holed into certain areas of the council. The past twelve months has seen a flurry of activity with reference to Best Value formalisation, particularly in the pilot authorities and the seven first tranche councils, which can in part be due to the legislation.

Secondly, constitutional reform has impacted upon the way in which public finances are audited and also the bodies which regulate them. It was necessary for Audit Scotland to evolve an approach to the audit of Best Value which would capture the culture of the emerging relationship between the parliament and local authorities and the distinctive nature of the fledgling Scottish democracy.

Reporting Best Value

One important challenge to be faced by Audit Scotland is the final report that will be produced for a local authority once the Best Value audit is complete. Pilot exercises on the two councils in Scotland already have seen final reports run to 100+ pages. It will be impossible to conclude overall on a local authority's performance because they are not about providing overall services. The problem will lie in the wording and the terminology. Audit traditionally gives an output measure or opinion and that is what will be expected. The absence of scores or rankings or 'goods' and 'excellents', will be a disappointment to the likes of the media and politicians who sometimes use such measures as weapons to attack local government. At the local council level however, the electorate, councillors and service managers will initially be disappointed in the apparent lack of clarity and certainty in the reports as validation of their performance. It will take some time for them to fully take on board their primary responsibility in Public Performance Reporting and abandon their reliance on the more precise external validation they have come to expect.

Public audit can make a major contribution to the performance agenda for public services. It can report on how good performance is, but it can also help to ensure improvements that are made by providing objective evidence of systems that work best. The new Best Value audit is designed to produce statutory reports for the Accounts Commission (under the Local Government in Scotland Act 2003) giving a rounded picture of how each council is meeting its statutory responsibilities. These systematic reports to the Accounts Commission on broader performance, rather than only reporting when a local authority is in trouble, will arm the Commission with standards *vis a vis* the quality of service provision across Scotland, and will provide richer performance information than that currently provided by the statutory performance indicators.

In reporting after Best Value audit, auditors, along with other individuals, need to be cautious of a blame culture. If an organisation has serious problems in governance or financial stewardship, they must be reported in public. On the performance side, however, managers and professionals should be given the chance to introduce improvements before their organisations are named in national reports. This should encourage people to improve their performance and avoid a defensive and obstructive culture emerging.

Conclusions

The whole process of the evolution of the new audit of best value is evidence of the greater degree of partnership and collaboration which has existed in Scotland from the very beginnings of Best Value. The issue of a consultation document, the series of meetings and focus groups in local areas, the piloting of the draft scheme in volunteer councils, the issue of guidance which is “descriptive and not prescriptive”, the desire for an agreed report as the final outcome; these all indicate the desire to work together and avoid the disagreements and disputes which have, to some extent, reduced the impact in the rest of the UK.

From the beginning, Audit Scotland has recognised the importance of a rolling programme based on risk. Of its very nature, a rolling three year programme frustrates any attempt to carry out comparisons between local authorities and creates a climate where the final report can be focused on the individual local authority and firmly grounded within its local environment.

Similarly, the deliberate absence of a corporate scorecard will remove a potential source of tension, anger and mistrust. All of these would detract from the possibility of the intended partnership nature of the process.

The use of a dedicated team will ensure consistency of approach, while at the same time allowing expertise to be quickly built up and specialist skills to become highly developed and focused on the particular activity. This should make for a better quality of output and one which is more readily accepted.

The proposed use of the statutory external auditor may give rise to a conflict of interest between his (her) duty of regulatory audit and his (her) role in the audit of best value which may lead to operational difficulties and client mistrust. Also, the auditor may feel and marginalised from this new dedicated and cohesive team and find himself (herself) isolated in the middle between the local authority and the best value auditors, unsure of his (her) exact role or allegiance.

There is also a danger that the attempt to achieve a spirit of partnership and inclusion and produce agreed final reports which do not overtly categorise local authorities will end up in a situation where the outputs are too general and sanitised to say anything to stakeholders and offer little insight into performance.

Audit Scotland is already in discussion with the Scottish Executive with regard to how Best Value will be rolled out across the rest of the public sector and it will be interesting to monitor the audit approach that will be taken. By the time it is applicable to the rest of the sector, will the audit methodology described in this article also change either because it is time for a change or because of operational practicalities?

Overall, it would appear that the comparative success and consensual introduction of Best Value in Scotland and the distinctive partnership approach which has been evolved to the audit of Best Value represent significant benefits of devolution and have avoided much of the angst associated with this policy initiative elsewhere in the UK.

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