

<b>Agenda Item</b>	<b>9</b>
<b>Report No</b>	<b>AS/23/19</b>

## **HIGHLAND COUNCIL**

**Committee:** Audit & Scrutiny Committee

**Date:** 28 November 2019

**Report Title:** **Accounts Commission, How Councils work, Safeguarding public money: are you getting it right?**

**Report By:** Corporate Audit & Performance Manager

### **1. Purpose/Executive Summary**

- 1.1 The Accounts Commission regularly produce publications in their 'How councils work' series these reports provide learning and improvement opportunities for councillors and officers. This report in the series focuses on analysis of the current operating environment of local government and providing scrutiny checklists to support councillors and officers consider how well public money is being safeguarded. The report also links to the Governance Review where training and development needs for Members have been discussed and improvement actions identified. In this context the Account Commission report provides useful information and learning to support Members' scrutiny role in relation to the use of the Council's internal controls and risk management in safeguarding public money.

### **2. Recommendations**

- 2.1 Members are asked to:
- I. Consider the key messages of the report;
  - II. Note the helpful Councillor check-lists throughout the publication which support Members' scrutiny role.

### **3. Implications**

#### **3.1 Resource implications**

There are no direct resource implications, however the report provides a valuable learning opportunity for Members on their scrutiny role and safeguarding public money.

#### **3.2 Legal, climate change/carbon clever implications**

There are no legal implications arising from this report.

### 3.3 Risk implications

There are no direct risk implications, however the report provides a valuable learning opportunity for Members on their scrutiny role around safeguarding public money and associated risk management processes.

### 3.4 Community Implications

There are no community implications.

### 3.5 Gaelic Implications

There are no implications arising from this report.

## 4. **Background**

4.1 The Accounts Commission regularly produce publications in their 'How councils work' series. These reports are learning and improvement opportunities for councillors and officers. This report in the series focuses on analysis and scrutiny checklists to support councillors and officers consider how well public money is being safeguarded. The report recognises that 'councillors have multi-faceted responsibilities and constantly make difficult decisions when prioritising and allocating their council's finite resources' (Accounts Commission report page 5, hyperlink below)

4.2 The Council has been undergoing a Governance Review and Members training and development is an important feature of the review. This Accounts Commission publication provides useful learning opportunities and insight into the important role for both Members and officers in safeguarding public money. Along with background information on internal controls, risk management and the roles of councillors and officers there are valuable check lists to support Members' scrutiny role. A summary of the checklists is provided as Appendix 1 of this report with the full Accounts Commission report available at: <https://www.audit-scotland.gov.uk/report/how-councils-work-safeguarding-public-money-are-you-getting-it-right>

## 5. **Key Messages**

5.1 The key message section of the report recognises the valuable services provided by councils but also the complex and uncertain environment they operate in with pressures coming from evolving demands and expectations. The key messages from the 'How Councils work' report are:

- Recognising the importance of an effective system of internal controls and risk management and how this helps to safeguard public finances, supports policy implementation and ensures money and data is secure;
- Recognising that there are signs in the current environment of councils' internal controls becoming strained and this is evidenced by both internal and external audit work;
- Recognising that councillors are accountable for scrutinising use of public money while officers are primarily responsible for effective internal controls and risk management. The internal audit function provides a valuable and objective view;
- Councillors should seek assurances from officers that a rigorous system of internal controls is in place. Scrutiny and audit committees have a leading role, but every committee and councillor has a scrutiny role too.

5.2 The Account Commission expects councillors to use this report to ensure that they:

- Have a good understanding of the main risks facing their council and how

- well these risks are being managed;
- Are assured that appropriate internal controls are in place and, where weaknesses have been identified, effective action is being taken to address them;
- Are kept aware of the outcome of significant risk occurring; the failure of internal controls; and what remedial actions are being taken.

## **6. Summary of the Accounts Commission Report**

### 6.1 Internal Controls help councils manage risk:

- The importance of the control environment, the awareness and actions of councillors and officers to control activities and their importance to the council. Importantly, the culture and values of the organisation are as important as structure as these are the foundation of effective internal controls;
- The other main components of internal control are risk assessment processes, monitoring activities, information systems and their use, control activities including the policies and procedures used to support decision making and their implementation along with mitigating associated risks;
- Risk management helps to safeguard public money and a council needs to understand its risks in order to manage them and these will have an element of uniqueness to each council's set of local circumstances. This will necessitate the need for more than one risk register across the organisation at strategic, operational and project levels;
- As financial pressures increase on councils identifying further saving will increase in importance making sound internal controls within a tolerable level of risk essential to extract the maximum possible value from budgets.

### 6.2 Weak controls can have serious consequences:

- The Accounts Commission believe that in general across Scotland there are signs that standards of internal controls may be strained and symptoms include major financial transactions not being properly scrutinised; fraud; weak risk assessment processes including responses to identified risk and correction of financial reports due to error or fraud;
- External Audit has an important role in identifying and reporting control weaknesses especially where there is a recurring pattern of weakness;
- Failure of internal controls can cause problems and result in the loss of public money. The Accounts Commission has provided cases studies around examples of control activity that works well and where there are weaknesses, these are provided in Exhibit 3 of their report (p.16-17).
- The loss of public money through corruption and fraud is highlighted along with the importance of National Fraud Initiative (NFI) (note that Highland Council is an active participant in NFI). The importance of both the Internal Audit Function and Fraud Investigation are identified for prevention and detection of fraud;
- Wider consequences of weak controls can include impact on confidence in council's integrity and reliability, exposure to litigation, breaches in data security, access to funding and additional scrutiny.
- Ensuring effective arrangements and support for whistle-blowers, controls in relation to cyber-security and continuously updating existing controls and creating new ones were also identified as increasingly important.

### 6.3 Officers and councillors both have important roles:

- The Accounts Commission is clear that councillors are ultimately

accountable for use of public money, but councillors and officers have distinct but complementary roles. The full council is the governing body of the council and determines policy direction and is responsible for ensuring suitable services are delivered by officers. The role of the officer is to implement policy through the day to day management of services;

- Culture and behaviour are important, and this extends beyond codes of conduct to the need for trust between councillors and officers along with a recognition and respect for each's distinct role. A culture of openness to challenge helps councillors and officers to recognise the importance of scrutiny and to discuss risk and related controls, and this is a culture which should extend across the council and to partnerships. Scrutiny is seen as working best when officers provide councillors with timely, good quality information;
- The importance of the audit committee is recognised as providing the independent assurance required on the adequacy of governance arrangement, risk and internal controls along with the integrity of financial and non-financial performance reporting;
- Councils should scrutinise risks from partnership working and this extends across all sectors and to community planning partnerships, health and social care integration, city region deals and arms-length organisations. While models of service delivery are changing and may result in decision making moving away from councils, councillors need to remain sighted on their duties to their council and to their local communities;
- One of the Accounts Commission's strategic audit priorities is that councillors and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future. Councils therefore need to invest in councillors' personal development including a good post-election induction which is tailored to need, which is then supported by sustained ongoing continuing professional development (CPD). Councillors should be involved in the development of their CPD programme;
- Councillor should have a clear understanding of officers' responsibilities for delivering council policy and managing services and this should be set out in a scheme of delegation. The 4 statutory officers (Head of Paid Service, Chief Financial Officer, Monitoring Officer and Chief Social Worker) have an important role in promoting and enforcing good governance, compliance, overseeing controls, managing risk and ensuring service delivery;
- Internal auditing helps to evaluate and improve how things work and provides an independent, objective assurance and consulting activity focused on adding value and improving council operations. The key features on internal audit are set out in the Accounts Commission report (p.38-41).

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Appendices: Accounts Commission, How Councils Work: Safeguarding Public Money,  
Appendix, Summary of checklists for councillors

# Accounts Commission - How councils work: an improvement series for councillors and officers

## Safeguarding public money: are you getting it right?

### Report Appendix

#### Summary of checklists for councillors

The following questions may help you to think about internal controls and risk management in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

#### Checklist 1. Internal controls and risk management

- Do internal controls link with key corporate and service-level risks?
- Do internal controls apply to both financial and non-financial risks?
- Has the council identified the weakest internal controls?
- Are officers improving weak internal controls and minimising the risks they pose?
- Does internal auditing evaluate controls' effectiveness, and report to the audit committee?
- Does the audit committee take appropriate action?
- Does the council publicly review its system of internal controls annually?
- Is risk management actively led, supported and promoted by councillors and senior officers?
- Does the council have an up-to-date, corporate-level, risk management strategy?
- Does the corporate risk management strategy address the council's risk appetite?
- Does the council have up-to-date corporate-level and service-related risk registers?
- Is risk management embedded in business practices at both corporate and service levels?
- Does systematic evaluation and prioritisation of risks and opportunities lead to timely action?
- Are key risks and action to mitigate them monitored and reported on throughout the year?
- Do officers' reports to committees cover both financial and non-financial risks?
- Is there sufficient, timely training and ongoing support for you and relevant officers?

#### Checklist 2. Fraud and corruption

- Does the council have a fraud and corruption strategy for all its business, including its partnerships?
- Have cases of fraud and corruption been identified in each recent year?
- Have there been successful prosecutions for fraud or other criminal behaviour?
- Of the money lost to fraud/corruption, what percentage has been successfully recovered?
- Is the whistleblowing policy monitored for take-up; and are concerns acted upon?
- Are staff and other resources for fraud investigation proportionate to risks that the council faces?
- Are all allegations of fraud or corruption risk-assessed, and investigated accordingly?
- Are fraud alerts and good practice shared among council services in a timely way?
- Are there cost-effective measures for recovering money lost to fraud and corruption?

- Does the council actively take part in the National Fraud Initiative and act on its findings?
- Is comprehensive information on fraud and corruption reported to a relevant committee?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

### **Checklist 3. Consequences of weak controls**

- Which services have been most affected by weak controls, and why?
- Has internal auditing tracked, assessed and reported to a committee on weak controls' impacts?
- Have consequences of weak controls for ongoing service delivery been assessed?
- Could the council do more to anticipate longer-term risk trends, such as cyber-crime?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

### **Checklist 4. Audit committee**

- Do audit committee councillors have a clear remit that addresses the latest guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA)?
- Does the chair of the committee manage committee meetings effectively?
- Does the chair routinely liaise with the head of internal audit before committee meetings?
- Do the committee's councillors attend routinely, prepare well and challenge officers appropriately?
- Does the committee approve internal audit's annual workplan and reports?
- Can internal audit report to senior officers and the audit committee without fear or favour?
- Do officers provide committee members with timely, well-written and useful reports?
- Do internal audit reports set out comprehensively and clearly what needs to improve, and how?
- Does the committee endorse and track improvements proposed by internal auditing?
- Has the committee identified the top five risks to the council?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

### **Checklist 5. Partnership working**

- Do the council's governance and internal controls mitigate partnerships' risks to the council?
- Does the council have risk registers concerning its various partnerships?
- What resources (such as staff, buildings and money) does the council contribute to partnerships?
- Does each partnership have a clear purpose and explicit, outcome-based objectives?
- Are governance arrangements for each partnership clear, documented and fit for purpose?
- Does the council apply the code of practice on 'Following the Public Pound' to each arm's-length external organisation?
- Does the council have sound reasons for having a representative on a partnership's board?
- If you sit on a partnership's board, do you appreciate what is required of you and the linked risks?
- Is there good-quality, transparent and publicly accessible performance information?
- Are concerns about risks posed by partnerships escalated suitably within the council?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

### **Checklist 6. Councillors' continuing personal development**

- After the last election, was the general induction programme for councillors successful?

- Do officers give you good support on knowledge topics (such as internal controls)?
- Do officers give you good support on personal skills (such as chairing meetings)?
- Do you fully understand your roles and duties at council, cabinet, committee and ward levels?
- Have you made good use of the Improvement Service's support and publications?
- Do you have a personalised CPD programme?
- Do you actively participate in, and benefit from, the support made available to you?
- Do officers monitor and understand councillors' take-up of training and development?
- Where you do not engage fully in training and development, how could officers help more?
- Does CPD for councillors help you to be effective in your governance and scrutiny roles?

## **Checklist 7. Statutory officers and chief education officer**

- Are the roles of these officers clearly set out in the council's governance documents?
- Do these officers sit on the corporate management team, or have ready access to it?
- Are these officers sufficiently resourced to discharge their roles and responsibilities?
- Do these officers have the influence needed for ensuring the council operates effectively?
- Do councillors and committees understand how and when to consult these officers?
- Do these officers give helpful, timely, impartial support to councillors and other officers?
- Do these officers have a constructive relationship with the senior management team?
- Do you have confidence in your council's key officers?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

## **Checklist 8. Internal auditing function**

- Does internal auditing (IA) follow Public Sector Internal Audit Standards and other reputable guidance?
- Is IA objective; free from undue influence; and independent in its thinking, work and reports?
- Is IA suitably located in the council's structure?
- Is IA sufficiently resourced to recruit, retain and develop the staff it requires?
- Is IA free of operational responsibilities that could risk compromising its independence?
- Is IA's work aligned with the council's strategies, objectives and risks?
- Does IA give senior officers and councillors clear, timely, objective, risk-based assurance?
- Does the head of IA have unrestricted access to the chief executive?
- Does the head of IA give committees the information they need to make informed decisions?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?