



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 19 JUNE 2019

SUBJECT: ACCOUNTS COMMISSION PAPER – SAFEGUARDING PUBLIC MONEY: ARE YOU GETTING IT RIGHT?

BY: CORPORATE DIRECTOR (CORPORATE SERVICES)

1. REASON FOR REPORT

- 1.1 To provide Committee with details of a recent Accounts Commission publication relating to the roles of councillors and officers in safeguarding public money.
- 1.2 This report is submitted to Committee in terms of Section III (I) (3) of the Council's Scheme of Administration relating to consideration of reports prepared by Audit Scotland.

2. RECOMMENDATIONS

2.1 Committee is asked to:

- i) consider the latest in the Accounts Commission series of reports on 'How councils work' entitled 'Safeguarding public money: are you getting it right?';
- ii) note there are checklists on eight separate subject areas that are within the scope of the report and agree that these will be considered in detail across this and the next three meetings of this Committee;
- iii) note the council has taken a proportionate approach to achieving good governance by seeking to secure appropriate arrangements at optimal cost; and
- iv) review and consider council responses to the questions in the two checklists covering Internal Control and Risk Management, and Audit Committees, and comment on any matters arising.

3. **BACKGROUND**

- 3.1 In April 2019, the Accounts Commission published its latest report in its series of How Councils Work entitled: Safeguarding public money: are you getting it right?
- 3.2 The paper will be of interest to all officers and councillors but particularly so to those involved with the Audit and Scrutiny Committee given its focus on areas falling within the remit of the committee. These relate to good governance, the management of risk and the importance of maintaining sound systems of internal control. A copy of the full report is available at: https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_190411_hcw_safeguarding.pdf
- 3.3 The report notes the challenging and changing circumstances that councils are currently facing and the importance, more than ever, of having effective risk management and strong internal controls.
- 3.4 Key messages from the report are:
- An effective system of internal controls and risk management help councils to safeguard their finances, ensures they implement their policies and helps them to deliver high quality services;
 - There are signs from councils' internal auditors and the work of councils' external auditors that standards of internal controls may be strained. Consequences could be serious, the report suggests, including the loss of significant amounts of public money, impacts on services and reputational damage;
 - Ultimately councillors are accountable for scrutinising a council's use of public money. Senior officers have the primary responsibility of ensuring internal controls and risk management operate effectively and that a council's internal auditing function provides a valuable and objective view; and
 - Councillors should seek assurances from officers that a rigorous system of internal control is in place. Scrutiny and audit committees have leading roles but every committee and councillor has a scrutiny role too.
- 3.5 The report explores these general issues under eight themes and for each theme a checklist has been prepared for councillors' consideration as follows:
- **Internal controls and risk management**
 - Fraud and corruption
 - Consequences of weak controls
 - **Audit committee**
 - Partnership working
 - Councillors' continuous professional development
 - Statutory officers and of the Chief Education Officer
 - Internal audit function

The checklists are provided in summary form as **Appendix 1**, those in bold are considered in more detail below.

- 3.6 Much of what is contained in the report will be familiar to councillors and particularly to those who are members of the Policy and Resources Committee which oversees risk management and the Audit and Scrutiny Committee which covers audit and control issues. It is proposed that the questions raised in the checklists be considered over this and the next three meetings of the Audit and Scrutiny Committee.
- 3.7 This report considers the checklists for **Internal Controls and Risk Management** and **Audit Committee**.

Internal Controls

- 3.7.1 Internal controls are key elements of council systems. The all-pervading nature of controls can be usefully remembered using the mnemonic ACRES, with internal controls being designed to ensure:
- **A**ccomplishment of goals
 - **C**ompliance with laws, regulations and policies
 - **R**eliability and integrity of information
 - **E**conomic, efficient and effective use of resources
 - **S**afeguarding of assets.
- 3.7.2 The nature of established controls varies depending on the circumstances applying. SOAPMAPS is a useful if dated mnemonic here with examples of typical internal controls being:
- **S**upervision
 - **O**rganisational e.g. Standing Orders/ Committee Structures
 - **A**rithmetic and Accounting
 - **P**ersonnel
 - **M**anagerial
 - **A**uthorisation and approval
 - **P**hysical; and
 - **S**egregation of duties
- 3.7.3 The issue the council has to be alert to in relation to the effective application of all or any of these controls is the impact of change. For example supervision may be reduced if workloads are spread across fewer officers, authorisation controls may be bypassed due to new or inexperienced staff not being aware of policy, physical controls may be ineffective e.g. if CCTV or access barriers are not maintained and taken out of service. Use of digital and technology also requires consideration of how controls are applied, for example, around data access and security.
- 3.7.4 As reported to committee at the time when the annual internal audit plan is presented, the responsibility for design and application of controls is with management supported where applicable by internal checking mechanisms within services including performance monitoring and budget monitoring. Internal audit independently assesses the effectiveness of control systems in areas covered by the agreed audit plan and reports accordingly to the Audit

and Scrutiny Committee. This management, internal review, and independent audit process is sometimes referred to as the 'three lines of defence' in a control framework.

Risk management

- 3.8 The report notes that risk management is about identifying risks, assessing the impact they will have if they come to pass, the likelihood of that happening and making plans to mitigate or 'treat' those risks.
The council does this at a strategic level using a corporate risk register which is considered by Policy and Resources Committee every six months.
- 3.8.1 The report notes that a council is responsible for having an effective and appropriate risk management function. In this council, there are no dedicated risk management staffing resources, a decision having been taken after establishing a risk management policy, strategy and risk guidance that corporate and service managers should take ownership of risks impacting on their respective services areas, and that internal audit should provide some oversight of the process.
- 3.8.2 This decision, for cost and operational reasons, has worked reasonably well albeit there is limited capacity for service support and development. The council's insurers, however, offer consultancy on risk management as part of the services provided through the insurance tender and are scheduled to undertake a review of current practice and provide advice relative to the risks associated with the commercialisation of services. This will include consideration of the concept of risk appetite which is important when assessing options for change in the delivery of services.

Audit Committee

- 3.9 The report affirms that the audit committee has an important role in providing the council with independent assurance on the adequacy of the council's governance arrangements, risk management framework internal control systems and the integrity of financial and non financial reporting. It suggests the core functions of the committee should include:
- Being satisfied that the council's annual governance statement properly reflects the risk environment and any actions required to improve it, and demonstrates how governance helps achieve the council's objectives;
 - Considering the effectiveness of the council's risk management arrangements and the control environment;
 - Considering the reports and recommendations of external audit and inspection agencies along with the implications for governance risk management or control;
 - Reviewing the council's financial statements, the external auditor's opinions and reports to councillors;

- Oversight of the work of internal audit, including its independence and objectivity, supporting the effectiveness of auditing processes and promoting internal audit in its role as part of the council's assurance framework.

3.9.1 In practice and aligned to the council's current approved scheme of administration, reviewing the council's financial statements has been reserved by the council. The financial statements include the annual governance statement and there is a requirement for the external auditor's report on the annual accounts to be considered by council. All other external audit reporting is to the Audit and Scrutiny Committee.

3.9.2 Also, the corporate risk register as a document which identifies key risks to the achievement of policy objectives has been delegated to Policy and Resources Committee.

3.9.3 There is currently some thought being given to what the council's scrutiny function should look like going forward. This may take into consideration issues such as the council's constitutional arrangements (committees as opposed to cabinet/scrutiny), the relatively small number of councillors, and their scrutiny roles on service committees. Elected member and officer capacity, and the need to avoid duplication will also need to be taken into consideration, as will the rationale for current reporting arrangements as outlined in paragraphs 3.9.1 and 3.9.2 above.

3.9.4 These issues will be subject to further consideration ahead of the next review of the council's constitutional documents.

Checklists

3.10 The two checklists referred to above have been completed with reference to the council's current policy and practice and are attached for consideration as **Appendix 2**.

4. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

Use of public money to optimum effect supports the ability of the council and its partners to deliver agreed outcomes contained within strategic plans.

(b) Policy and Legal

No direct implications.

(c) Financial implications

The report recognises the financial challenges that the public sector continues to face and asks the council to consider the governance arrangements it has in place to safeguard public funds.

(d) Risk Implications

A focus of the report is on the contribution risk management makes to the arrangements for securing the effective use of public funds.

(e) Staffing Implications

No direct implications.

(f) Property

No implications directly arising from this report.

(g) Equalities/Socio Economic Impact

An Equality Impact Assessment is not needed because the report involves consideration of a report provided by the Accounts Commission.

(h) Consultations

The Chief Executive, Corporate Director (Corporate Services), the Head of Financial Services and the Monitoring Officer have been consulted, any comments received have been considered in writing the report.

5. CONCLUSIONS

- 5.1 The responsibility for good governance, risk management and the maintenance of effective internal controls is with management, with the involvement of other officers in support roles; internal audit in the provision of independent assurances on these topics, and oversight and reporting by the council's appointed External Auditor.**
- 5.2 The Accounts Commission report provides useful information on governance, risk and internal control for all elected members and in particular for those who are members of the Audit and Scrutiny Committee.**

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Background Papers: Accounts Commission paper
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