

REPORT TO: Audit and Governance Committee

MEETING DATE: 17 September 2019

BY: Depute Chief Executive (Partnerships and Community Services)

SUBJECT: Safeguarding Public Money: are you getting it right?
(Accounts Commission, April 2019)

1 PURPOSE

- 1.1 To provide the Audit and Governance Committee with an overview of the Accounts Commission report, *Safeguarding public money: are you getting it right?*

2 RECOMMENDATIONS

- 2.1 The Committee is recommended to:
- Note the position of East Lothian Council in regard to the key messages and recommendations in the Accounts Commission report, *Safeguarding public money: are you getting it right?*
 - Agree that all elected members be issued with the Standards Commission's 'Advice Note on Distinguishing Between Their Strategic Role and Any Operational Work'
 - Agree that the Chair of the Committee review the Councillor Checklists included in the report and report back to Committee with any recommendations for further action.

3 BACKGROUND

- 3.1 *Safeguarding public money: are you getting it right?* is the latest report published by the Accounts Commission in its *How Councils Work* series of reports which aim to help councils improve their use of public money and support their drive for continuous improvement.

- 3.2 The report “aims to reinforce the importance of councils having effective internal controls” which “are fundamental to maintaining a council’s finances; securing its core values; safeguarding public money; and minimising the reputational impact on a council if things go wrong.” It includes several checklists of questions for councillors and officials to ‘assess their council’s situation and, where necessary, to identify and plan improvements.’ Paragraph 7 of the report outlines how the Accounts Commission expects councillors to use the report.
- 3.3 The report’s key message can be summarised as:
- An effective system of internal controls and risk management helps councils to safeguard their finances; ensures they implement their policies; and helps them to deliver high-quality services
 - There are signs from council’s internal auditors and the work of councils’ external auditors that standards of internal controls may be strained
 - Ultimately councillors are accountable for scrutinising a council’s use of public money
 - Councillors should seek assurances from officers that a rigorous system of internal controls is in place.
- 3.4 The report is structured around three parts:
- Part 1: Internal controls help councils to manage risks
 - Part 2: Weak controls can have serious consequences
 - Part 3: Officers and councillors both have important roles

Part 1: Internal controls help councils to manage risks

- 3.5 The essential point made in the report is that “A council is responsible for ensuring they have an effective system of internal controls to safeguard public funds and help secure value for money.” The components of an internal control system are outlined in Exhibit 1 (page 7) and paragraph 9. Councils should review their internal controls and the findings of the review should be considered by its Audit Committee. A council’s external auditor is required to express a separate opinion in their independent auditor’s report.
- 3.6 East Lothian Council does produce an annual internal auditors control assurance report which is considered by the Audit and Governance Committee (see Internal Audit Controls Assurance Statement; Audit and Governance Committee, 18 June 2019). This statement provides an annual assessment of the control environment and the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control. The statement concluded that subject to the areas for improvement highlighted in various internal audit reports through the year “reasonable assurance can be placed on the overall adequacy

and effectiveness of East Lothian Council's framework of governance, risk management and control for the year ended 31 March 2019."

- 3.7 In addition, the Council undertakes a Corporate Governance Self-evaluation which includes assessment of control and risk management measures. The results of which are reported to Audit and Governance Committee and in the Annual Governance Statement which forms part of the Council's Annual Accounts.
- 3.8 The council's external auditors carry out an annual assessment of the systems of internal control put in place by the council. The outcome of the 2018/19 review, reported to the Audit and Governance Committee, 18 June 2019 concluded that, "appropriate and effective internal controls were in place for those key financial systems reviewed by us."
- 3.9 The second key element of ensuring that a council safeguards public money is to have adequate risk management procedures in place. Paragraphs 12 – 20 outline best practice in risk management.
- 3.10 East Lothian Council has a Risk Management Strategy and both Corporate Risk Registers and Service Risk Registers that are reviewed regularly by officers and reported to either Cabinet or the Audit and Governance Committee.

Part 2: Weak controls can have serious consequences

- 3.11 This section of the report highlights what might go wrong if internal control measures are not in place or are not implemented effectively. It provides several case studies of problems that have been identified through auditors reports with a range of situations where:
- controls worked well
 - controls were weak, but problems were averted
 - weak controls enabled a problem to occur, but corrective action was taken.
- 3.12 The report also highlights that public money can be lost through corruption or fraud (paragraphs 28 – 32 and Exhibit 4) and therefore councils should have "sufficient capacity in place to prevent fraud; investigate suspicious matches or other problems; and correct errors. Internal Audit undertakes an annual National Fraud Initiative exercise, the results of which are published in the Annual Audit Report. East Lothian Council's Internal Audit team does investigate potentially fraudulent activity and reports the findings of any investigation to the Audit and Governance Committee.
- 3.13 This section of the report concludes that external auditors' evaluation of internal controls should identify any deficiencies that management may not be aware of. The council's external auditors' 2018/19 review of internal controls (Audit and Governance Committee, 18 June 2019) concluded that, "Our audit testing did not identify any significant control weaknesses. We did identify some less significant issues in relation to changes to

supplier bank details and quality checks for NDR and Council Tax. These were discussed with management so that appropriate actions can be taken.”

- 3.14 One of the report’s key messages, commenting on the wider picture across Scottish local government is that: “There are signs from council’s internal auditors and the work of councils’ external auditors that standards of internal controls may be strained.” However, the report from the Council’s internal and external auditors have not flagged up this concern with regards to the council’s internal controls.

Part 3: Officers and councillors both have important roles

- 3.15 This is the longest section of the report and deals with a range of issues including, the roles of councillors, the role of the audit committee, the need for councillors to scrutinise risk from partnership working, the roles of the Statutory Officers, and the role of Internal Audit.

- 3.16 Paragraphs 40 – 46 of the report outline the distinct but complimentary roles of councillors and council officers, which could be summarised as: “Councillors are elected to determine policy, and the role of officers is to implement these policies through day-to-day management of services.” Paragraphs 73 – 93 deal in some detail with the roles of the four ‘statutory officers’ – Head of Paid Service; Chief Financial officer; Monitoring officer; and, Chief Social Work officer – as well as the non-statutory post of Chief Education officer.

- 3.17 The Council’s Scheme of Delegation sets out in detail the role of Chief Officers and the Statutory Officers. The Council Standing Orders include the Standards Commission’s Councillors Code of Conduct which clearly sets out the relationship between elected members and council officers. To support the Guidance the Standards Commission for Scotland has published a very useful Advice Note for councillors on distinguishing between their strategic role and any operational work. All elected members should be made aware of the Advice Note so that they are fully appraised of the Standards Commission’s expectations with regards to the role of elected members and officer member relations.

- 3.18 The report (paragraphs 47 – 50) highlights the important role of the audit committee and suggests that its core functions should include:

- review the council’s annual governance statement
- consider the effectiveness of the council’s risk management arrangements
- consider the reports and recommendations of external audit and inspections
- review the council’s financial statements, the external auditor’s opinions and reports to councillors

- 3.19 The Council's Scheme of Administration includes the detailed remit of the Audit and Governance Committee which includes the core functions set out in the Accounts Commission report.
- 3.20 With regards to scrutinising risks from partnership working the report specifically mentions Community Planning Partnerships (CPP), Integration Joint Boards (IJB), Arms-length external organisations, and City Region Deals. Whilst the Audit and Governance Committee has received and considered reports from Arms-length external organisations – namely Enjoy Leisure and the Musselburgh Racecourse – it has not scrutinised risks associated with other partnerships such as the CPP, the IJB or the City Region Deal.
- 3.21 Paragraphs 70 – 72 of the report touch on the need for councillors to be given a good induction following their election and that they also need “sustained, ongoing continuing professional development. The council undertook an extensive induction programme following the 2017 council elections. Following a recommendation in the Best value Assessment Report (September 2018) that the council should offer councillors ongoing continuous professional development a training and development survey was carried in May/ June 2019. The results of the survey, which was completed by half of the council's 22 councillors is being used to inform future training and development. In addition councillors have been offered support in developing a continuous personal training and development plan.
- 3.22 The final section of the report (paragraphs 94 – 103) deals with the role of internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations.”
- 3.23 The report highlights that the key features of internal auditing are to:
- operate independently of the day-to-day running of the council
 - provide a service to all levels of the council
 - objectively assess operations' effectiveness, efficiency and value for money
 - form an integral part of the framework of business controls.
- 3.24 The Council's Internal Audit service which reports regularly to Audit and Governance Committee does meet this model of internal auditing
- 3.25 Exhibit 9 (page 40) provides a list of responsibilities of an effective audit committee to ensure effective internal audit oversight, which the Audit and Governance Committee complies with.

Checklists for councillors

- 3.26 'Safeguarding public money' contains eight Councillor Checklists to gauge whether the Council is complying with good practice in relation to the

issues raised in the report. The checklists which contain a total of over 80 questions cover:

- Internal controls and risk management
- Fraud and corruption
- Consequences of weak controls
- Audit Committee
- Partnership working
- Councillors' continuing personal development
- Statutory officers and chief education officer
- Internal auditing function.

4 POLICY IMPLICATIONS

- 4.1 The 'Safeguarding public money' report has highlighted the requirement for the council to have robust internal controls and risk management systems in place. The internal audit Controls Assurance statement and external auditors' assessment of systems of internal control provide assurance that the council does have robust systems in place and any improvements required are taken on board by the council.
- 4.2 A review of the Councillor Checklists included in the report will provide further assurance that the council is meeting good practice. If the review identifies any weaknesses then these will be reported back to Audit and Governance Committee for consideration whether any changes in procedures or policy may be required.

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 This report is not applicable to the wellbeing of equalities groups and an Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – none.
- 6.2 Personnel – none.
- 6.3 Other – none.

7 BACKGROUND PAPERS

- 7.1 'Safeguarding public money: are you getting it right?', Accounts Commission, April 2019
- 7.2 Controls Assurance Statement 2018/19; Audit and Governance Committee, 18th June 2019
- 7.3 East Lothian Council - Review of internal controls in financial systems 2018/19; Letter from Audit Scotland; Audit and Governance Committee, 18th June 2019
- 7.4 Councillors Code of Conduct; Standards Commission for Scotland, July 2018 – Council Standing orders, Appendix 4
- 7.5 Advice Note for councillors on distinguishing between their strategic role and any operational work; Standards Commission for Scotland, July 2018

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DATE	4 th September 2019

How councils work:
an improvement series for councillors and officers

Safeguarding public money: are you getting it right?

ACCOUNTS COMMISSION 

Prepared by Audit Scotland
April 2019


The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

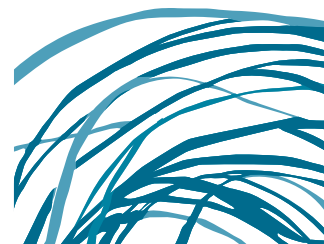
Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about-us/accounts-commission 

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Audit team

The core audit team consisted of Carol Calder and Douglas Black, with support from other colleagues, under the general direction of Antony Clark.

Links

-  PDF download
 -  Web link
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Key messages

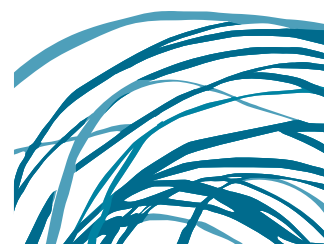


Councils provide valuable public services but face a complex, uncertain environment that places evolving demands and expectations on them. Increasingly, councils deliver services through multi-faceted partnership working across organisational, functional and geographical boundaries – such as for the provision of health and social care services.

It is challenging for councils to prioritise how they use their finite resources. Councils' decreasing budgets contrast with rising demands on many of their services, including care of vulnerable elderly people. This means that effective risk management and strong internal controls are more important now than ever before.

- 1** An effective system of internal controls and risk management helps councils to safeguard their finances; ensures they implement their policies; and helps them to deliver high-quality services. Controls include procedures for paying the right sum of money to the right person at the right time; keeping confidential data secure; and minimising a council's exposure to fraud and corruption.
 - 2** There are signs from councils' internal auditors and the work of councils' external auditors that standards of internal controls may be strained. Some recurring weaknesses are becoming apparent among councils and the consequences could be serious, including the loss of significant amounts of public money, impacts on services and reputational damage.
 - 3** Ultimately, councillors are accountable for scrutinising a council's use of public money. Senior officers have the primary responsibility for ensuring internal controls and risk management operate effectively and that a council's internal auditing function provides a valuable and objective view.
 - 4** Councillors should seek assurances from officers that a rigorous system of internal controls is in place. Scrutiny and audit committees have leading roles, but every committee and councillor has a scrutiny role too.
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About this report



1. The Accounts Commission aims to help councils improve their use of public money, alongside its role as the local government public spending watchdog. Our *How councils work* (HCW) reports support councils' drive for continuous improvement. We select topics from recurring themes in our Best Value assurance reports; performance audits; the work of councils' external auditors; and our annual overview of local government.

2. Our previous HCW reports have examined:

- [The roles, responsibilities and working relationships of councillors and council officers in achieving Best Value](#)  (2010); and [a follow-up](#)  (2016).
- [The relationships between councils and their arm's-length external organisations \(ALEOs\)](#)  (2011).
- [The value of good-quality cost information in making informed policy decisions and scrutinising performance](#)  (2012).
- [The importance of effective performance management systems](#)  (2012).
- [Good practice in managing councils' major capital investments](#)  (2013).
- [Charging for council services](#)  (2013).
- [Options appraisal](#)  (2014).

3. Scotland's councils face complex, challenging financial pressures. Rising demand for many of the diverse services councils provide must be met despite tightening budgets for numerous services, and significant uncertainty stemming from external factors including the UK's planned withdrawal from the EU.

4. In 2017/18, councils' net revenue expenditure totalled £12.4 billion.¹ If councils could save one per cent by improving their financial management, risk management and internal controls, they could potentially free-up an extra £124 million for providing public services.

5. Scotland's 1,227 councillors have multi-faceted responsibilities and constantly make difficult decisions when prioritising and allocating their council's finite resources.² With so much at stake, it is more important than ever that the impact of their decisions on communities and individuals is transparent and clearly understood. This requires an organisational culture that is open to candid discussions about risks and recognises the importance of scrutinising decisions.³

6. This report aims to reinforce the importance of councils having effective internal controls. Although these may have a low profile, they are fundamental to maintaining a council's finances; securing its core values; safeguarding public money; and minimising the reputational impact on a council if things go wrong. In places, anonymised, real-life case studies illustrate the importance of internal controls and the consequences if they fail. Checklists are featured to help councillors and officers assess their council's situation and, where necessary, to identify and plan improvements.

7. The Accounts 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 any significant risk occurring; the failure of internal controls; and what remedial actions are being taken.

Part 1

Internal controls help councils to manage risk



Councils can use internal controls to manage risks

A control is an action taken by management ... to manage risk and increase the likelihood that established objectives and goals will be achieved.⁴

8. A council is responsible for having an effective system of internal controls to safeguard public funds and help secure value for money. A system of internal controls has five main components ([Exhibit 1](#)).

Exhibit 1

Internal control components

The five main components are interdependent.



Control environment

The overall attitude, awareness and actions of councillors and senior officers to control activities and their importance in the council. This includes the high-level structures, culture and values across the council to provide a basis for carrying out internal controls.



Risk assessment process

Risk assessments should be carried out regularly. By identifying and evaluating risks, the council can assess the need for control activities.



Information systems

Councils use these systems (manual and computerised) to record financial transactions and non-financial data; and maintain accountability for related assets, liabilities and equity.



Control activities

Policies and procedures that senior management apply to ensure that their decisions and instructions are implemented; and risks are mitigated (treated) to achieve their objectives.



Monitoring of activities

Ongoing assessment by management of the control system's performance. Communication helps to monitor progress against the council's objectives.

9. Control activities help to ensure council policy is applied, and they can generate feedback on whether intended actions were implemented and achieved their desired objectives. They comprise policies that establish what should be done, and procedures to implement these policies. In addition to the component arrangements for handling risk, five control categories are identified in the International Standards on Auditing, regarding the sorts of areas where risks occur:

- **Authorisation**
 - Officers handle only those processes and transactions that fall within the scope of their role.
- **Physical**
 - The physical security of assets, including adequate safeguards such as secured access to premises and records.
 - The authorisation for access to computer programs and data files.
 - The periodic counting and comparison with amounts shown on control records (for example, comparing the results of cash, security and inventory counts with accounting records).
- **Information processing**
 - Allow data to be processed in a specific way.
 - Application controls, which apply to the processing of individual tasks. Examples include checking the arithmetical accuracy of records, and manual follow-up of computer-generated exception reports.
 - General ICT controls, which are policies and procedures relating to many applications, such as controls that restrict access to computer systems which could change financial information without leaving an audit trail.
- **Performance reviews**
 - Monitoring performance versus budgets, forecasts, and prior period performance; and reviews comparing different data sets.
- **Segregation of duties**
 - Assigning different people the responsibilities of authorising transactions, recording transactions, and maintaining custody of assets. This is intended to reduce opportunities for someone to both perpetrate and conceal errors or fraud.⁵

10. It is the responsibility of officers to develop, implement and maintain reliable controls. Accounting regulations require a council to review, at least annually, the effectiveness of its system of internal controls. The findings from such a review must be considered by the audit committee (or equivalent) before it approves the council's annual governance statement, which is included in its published annual accounts.⁶ The governance statement is where a council reports publicly on the extent to which it complies with its own code of governance, which in turn should be consistent with good governance principles. It should include:

- an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the council's code of governance

- reference to, and assessment of, the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment
- an opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework
- an agreed action plan showing actions taken, or proposed, to deal with significant governance issues
- reference to how issues raised in the previous year's annual governance statement have been resolved
- a conclusion – a commitment to monitoring implementation as part of the next annual review.

11. A council's external auditor is required to express a separate opinion in their independent auditor's report on whether:

- the information given in the council's annual governance statement is consistent with its financial statements
- the annual governance statement has been prepared in accordance with the *Delivering good governance in local government: framework 2016*.⁷

Risk management helps to safeguard public money

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.⁸

12. A council needs to understand its risks before it can manage them, and each council will have its own set of local circumstances, risks and challenges. Councils have some risks in common but their level and how they manifest themselves vary from place to place and over time. Risks can arise or change owing to factors such as: changes in the regulatory or operating environment; recruiting new staff and staff turnover; implementing revamped or new information systems; adopting new technologies; and organisational restructuring. Understanding and proactively acting on risks reduces the likelihood of a council being impacted by adverse events; suffering a policy or service failure; or omitting to benefit from opportunities.

13. The impact of risks can be categorised in various ways and here is one approach for illustration:

- **Compliance** – with laws, regulations and good practice.
- **Finance** – risks to the funding available for providing quality services; and to the council's ongoing financial sustainability.
- **People** – risks to employees' health, safety, wellbeing and morale; and to the organisational culture within services and the council overall.
- **Reputation** – risks to a council overall, its values, councillors and officers.

- **Change** – including risks with major construction projects and a council’s organisational transformation plans.
- **Impact** – including the consequences of bad weather for services, and a council’s responsibility to champion and demonstrate good practice concerning its social responsibilities.

14. A council is responsible for having an effective and appropriate risk-management function.⁹ A good practice approach consistently integrates planning and risk management at corporate and service levels, and helps a council to:

- set and achieve its strategic objectives
- comply with its legal and policy obligations
- ensure the rigour of its decision-making
- prioritise the allocation and use of its finite resources
- deliver high-quality services.

15. A risk management cycle typically has seven steps ([Exhibit 2](#)). An underlying principle is to identify risks and their root causes at the earliest opportunity; assess risks’ potential impact; introduce controls to mitigate (treat) those risks; and continually review the council’s position.

Exhibit 2

Risk management aspects

There are seven key steps.

-  **1 Identify** the risks to the council
 -  **2 Assess** the impact of the results
 -  **3 Assess** the likelihood of the risks occurring
 -  **4 Prioritise** all risks, assessing the principal risks
 -  **5 Identify** how controls can be put in place to help mitigate risks
 -  **6 Monitor** risks and the effectiveness of controls
 -  **7 Report** regularly to senior officers and to councillors
-

A council needs to use one or more risk registers

A risk register is a key document which, together with service performance data and financial information, equips senior officers and councillors with an assessment of a set of issues.¹⁰

16. A risk register supports the identification, assessment and monitoring of risk. It can inform the understanding of trends; drive action planning; and help in sharing good practice across the council. A large, complex organisation like a council is likely to need a strategic, corporate-level risk register; and a more operationally focused risk register for each service and major programme of change or development – such as improvements to the school estate or a major new ICT programme. A risk register can capture where key risks sit and:

- the ownership and responsibility for how each risk will be managed
- the regularity of reports to officers and councillors on the handling of risk
- the basis for periodically updating the council's approach to risk.

17. Once a risk is identified, its significance is assessed in terms of the likelihood of it occurring and, if it occurred, what the consequences would be. Typically, likelihood is categorised on a numerical scale such as one to five, with one being rare and five almost certain. Impact will also be assessed on a similar scale, with one being insignificant and five being severe. Likelihood and impact are multiplied to obtain a single overall risk score between one and 25.

18. Few risks can be avoided altogether but an effective, self-aware risk culture enables councillors and officers consciously to take the right risks in an informed, responsible way. A council that is consistently risk-averse may not be well-placed to benefit from new opportunities. How acceptable a risk is deemed to be will depend on the type of risk involved; may vary among council services; and be influenced by factors such as the sums of money involved, or the potential consequences should the risk materialise.

19. It is for each council to have a clear approach to managing risk and articulating its risk appetite in ways that balance risk and opportunity and reflect the specific and varied nature of risks across different service and policy areas. For example, a council's risk appetite could range between being risk-averse (where the avoidance of risk and uncertainty is a key organisational objective) and risk-hungry (where the council is eager to be innovative and to choose options offering potentially higher rewards, despite greater inherent risk).

20. A council must monitor and control risks. It is important to evaluate each risk's score before and after mitigating action to curb it. Based on a risk's score, there are four options. In picking one, factors to consider include costs, feasibility, probability, and potential impact.

- **Terminate** – avoid the risk altogether by deciding not to proceed with an activity. For example, if a project is very high-risk, it may be prudent to cancel the project altogether or handle it differently.
- **Transfer** – to another person or organisation that bears all or part of the risk. This could mean moving some work to a different type of organisation; working in partnership to share the risk; or taking out insurance.

- **Mitigate** – identify measures to reduce the risk. Risks should be monitored regularly to ensure mitigation measures remain effective.
- **Tolerate** – it is sometimes appropriate to accept and live with a risk, for instance if the cost of mitigating it exceeds the potential benefits.

Internal controls and risk management are increasingly important

21. The outlook is that reductions in funding for councils may increase financial pressures on them, especially in services that are unprotected by funding dedicated to their sole use – such as road maintenance, waste disposal and ‘back-office’ functions such as finance, personnel and ICT services.

22. Further savings will become progressively more important to councils’ financial sustainability but could be increasingly difficult to achieve.¹¹ Sound internal controls are therefore essential for ensuring councils can extract the maximum possible value from their budgets within a tolerable level of risk. Risk is often unavoidable, but it always needs managed actively. The rewards in a well-managed situation can outweigh the risks for individuals, councils and for residents.

Councillor checklist 1



Internal controls and risk management

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?

Internal controls

- 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?

Risk management

- 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 on controls and risk for you and relevant officers?
-

Part 2

Weak controls can have serious consequences



There are signs that standards of internal controls may be strained

23. An effective system of internal controls works to prevent foreseeable problems from happening in the first place. When things do go wrong, symptoms of significant weaknesses in controls can include:

- Major financial transactions are not appropriately scrutinised by councillors.
- Fraud is not prevented by the council's internal controls.
- A risk assessment process is absent, where it would ordinarily be expected.
- The council's risk management process does not identify where risk assessment is ineffective, such as a failure to identify a risk of material misstatement in the annual accounts.
- There is an ineffective response to identified significant risks (for example, an absence of controls over such a risk).
- Previously issued financial statements have had to be reissued to correct a material misstatement due to error or fraud.¹²

24. However, developing and implementing an internal control is not cost-free and implementing increasing numbers of controls may not be helpful or sustainable. Consequently, there are balanced judgements to be struck. The challenge is to consolidate only the most suitable controls into systems and operations.

External auditors report their concerns about controls

25. Through their audit reports and plans, councils' external auditors flag concerns about councils' internal controls as a result, for example, of the trend in reduction of finance staff. Recurring weaknesses are becoming apparent with certain types of controls, particularly those relating to:

- information processing controls, such as for key financial systems
- performance reviews, such as making effective use of computer-generated reports that usefully highlight patterns and exceptions
- segregation of duties, including ensuring that a council officer cannot perform both Human Resources (HR) and payroll functions, and so create fictitious employees; and ensuring an officer cannot both make a purchase from a supplier and arrange the payment for it.

26. Case studies in [Exhibit 3 \(page 16\)](#) illustrate a range of situations where:

- controls worked well
- controls were weak, but problems were averted
- weak controls enabled a problem to occur, but corrective action was taken.

The failure of internal controls can cause numerous problems

Public money can be lost

27. Even where a council's controls are theoretically robust, risks can arise if they are implemented weakly ([Case study 1](#)). Controls need to be applied:

- **consistently** – by all relevant parts of the council and its various services
- **responsively** – in good time, such as when one part of the council relies on being supplied with information by another council function or service
- **sustainably** – without intermittent interruptions in their use.

Case study 1



Overpayments to current and former employees cost a council £21,000

Between April 2015 and February 2018, the council made over 800 salary overpayments totalling approximately £812,000 to a combination of actual and former employees. An eighth of former employees were still paid after leaving the council, usually due to a delay in a department notifying Payroll Services staff that someone had left. Six overpayments exceeded £10,000 and the highest was £15,500. At the time of the external audit, there were no documented procedures for preventing or recovering payroll overpayments. In March 2018, the council issued a Payroll Overpayment Process Guide, which outlined the steps to recover an overpayment of salaries/wages. In April 2018, in conjunction with HR, Payroll Services also issued procedural guidance to managers on avoiding salary overpayments. By March 2018, the council had:

- Recovered around £351,400 of overpayments, taking an average of 101 days, and written off £21,000.
- Recovered 58 per cent of overpayments from actual employees and 27 per cent from former employees.

Source: Audit Scotland

Exhibit 3

Control activity case studies

There are five categories of control activities.

Control activity	Controls worked well
<p>Authorisation controls</p> <p>Officers handle only those processes and transactions that fall within the scope of their role. For example:</p> <ul style="list-style-type: none"> • The purchasing manager evidences authorisation of a purchase requisition through their signature. • The head of HR reviews and signs off the payroll before payments are made to employees. 	<p>Authorisation controls</p> <p>Journal entries are raised and approved by different officers, as appropriate. Each journal entry is supported with back-up detail that enables the authoriser to know the journal entry is correct.</p>
<p>Physical controls</p> <p>Controls over access to files ensure that data is restricted to authorised users; and only changed if permitted. For example:</p> <ul style="list-style-type: none"> • Buildings are secured by keycard locks. • Safes are locked routinely. • Fire and burglar alarms are maintained. • Access to computer servers is restricted. 	<p>Physical controls</p> <p>An officer's access rights to the council's IT network are automatically removed at midnight on the day s/he leaves the council. The system is linked to leaving dates held in the HR and payroll systems. The same process automatically removes access to third parties who have been granted temporary access to the council network. Additionally, inactive computer accounts are automatically disabled after 30 days.</p>
<p>Information processing controls</p> <p>Allow specific data to be processed in a specific way. For example:</p> <ul style="list-style-type: none"> • Application Controls typically apply to the processing of specific types of transactions, such as invoicing customers or paying suppliers. • IT General Controls help ensure the secure, continuing operation of information systems. 	<p>Information processing controls</p> <p>The council purposely tolerates low reported levels of Blue (disabled parking) Badge misuse because pursuing the return of a badge when its holder dies could be insensitive. Instead, the council's Blue Badge team receives updates on deceased customers through the UK-wide 'Tell Us Once' scheme. A person's badge is cancelled through the national Blue Badge system and the local Parking Unit is informed.</p>
<p>Performance reviews</p> <p>Allow management to review information to highlight any exceptions. For example:</p> <ul style="list-style-type: none"> • Senior officers regularly use computer-generated reports that show exceptions to normal patterns. • There are regular reviews of debtors. • Actual spend is compared to the original budget. 	<p>Performance reviews</p> <p>A comprehensive compliance system produces weekly reports on processing activity and accuracy. Reports detail trends in processing errors detected through the quality procedures in place and they report on bank amendment reviews. Reports are also reviewed monthly by the director and the head of accountancy. This approach allows senior management to identify issues with individuals; spot trends, and target staff training.</p>
<p>Segregation of duties</p> <p>Mitigates a risk that people could commit a fraud or error and conceal it. For example:</p> <ul style="list-style-type: none"> • Access to payments and supplier accounts is controlled. • HR staff cannot also access the payroll function. 	<p>Segregation of duties</p> <p>The council introduced a new computer system that integrated the management of HR, payroll, and financial management functions. The risk of fraud was minimised by consulting internal audit at the design stage, and ensuring that officers could not access multiple parts of the computer system, and so arrange to create and pay a fictitious employee.</p>

continued...

Exhibit 3 (continued)

Controls were weak, but problems were averted



Authorisation controls

Documents setting out the council's financial management and governance arrangements referred to superseded structures and roles. Differences between obsolete written procedures and the processes actually being followed meant that controls were weakened, or not fully complied with. The council brought its Scheme of Delegation into line with its revised structure and strengthened its related controls.

Physical controls

There was no formal communication process to ensure access to IT systems was removed promptly when an employee left the council. This generated a risk of fraud or manipulation of systems by former employees. Arrangements are now in place that automatically remove access rights to the council IT network at midnight on the day someone leaves the council. This is linked to leaving dates held by HR and the payroll system.

Information processing controls

Information from a third party suggested an adviser of a consortium delivering a project had falsified claim evidence. This consisted of emails about client activities, which the adviser could edit. Evidence of eligibility of benefits and identification was tampered with. The investigation by the internal audit section prevented payment on the ineligible claims. The adviser resigned. Controls and evidence standards have been tightened, and consortium supervisors have been trained about tampered evidence.

Performance reviews

An exercise to check payroll data with service managers was two years old. Dated and incomplete checks risked undetected payroll errors. Personnel conducted a full verification exercise, but services responded on only 79 per cent of staff. The council further improved its verification of payroll data. Overall, overpayments are now a small percentage of the paybill and are pursued to ensure repayment.

Segregation of duties

Five council officers had access to both the HR and payroll areas of the council's computer system, potentially enabling them to create – and pay – a fictitious new employee. The council is undertaking a comprehensive review and implementing a new 'people manager module' to change some HR staff's access permissions to computer systems.

Weak controls enabled a problem to occur



Authorisation controls

The council approved a new Scheme of Governance including refreshed Financial Regulations. These required purchase orders to contain a contract reference number. Orders for £50,000 or over should be approved by an officer at Head of Service level or above. In one year, 117 orders for £50,000 or over were raised through the council's procurement system. Of these, 73 per cent had neither head of service nor committee approval because of weak application of the control.

Physical controls

Mobile telephones worth £5,400 were stolen from a council store. The door entry system's code was widely known among employees; fire exits were left open; and the phones were not recorded on the council's asset tagging system on delivery. An internal audit review introduced improved controls, including periodic changes to door entry codes, closing fire doors, regular physical checks of stock, and applying the council's asset tagging system.

Information processing controls

Confidential tax forms containing personal data on around 900 actual or former employees were sent to the wrong people. The council apologised to affected people, and reported the breach to the Information Commissioner's Office. The internal audit section found procedures had been in place, but human error had occurred. Remedial actions comprised revised procedures with additional quality assurance.

Performance reviews

An officer diverted £6,000 of school fund income, triggering an internal audit investigation. The fraud was possible because reconciliations and spot checks on accounts and cash balances were not made. The employee denied theft but admitted failing to bank school fund income. A report was made to the Procurator Fiscal. Regular checks and bank reconciliations, signed off by the headteacher, have been introduced by the council to deter a recurrence.

Segregation of duties

A £1.1 million fraud spanning over five years was detected when year-end procedures found that an invoice for £7,000 lacked supporting evidence. A payment had been made to an officer who could insert fake invoices and suppliers' details. Internal audit and Police Scotland found fundamental control weaknesses. The officer was jailed for over five years. All but £19,000 is being recovered, and controls have been improved to help avoid further anomalous payments.

Public money can be lost through corruption or fraud

28. Fraud and corruption can be perpetrated in various ways that can include, for example, fraud or corruption by a council officer or a councillor; a resident attempting to exploit a service; or a fraudster acting alone or in a wider plot. Councils' internal auditing functions routinely share intelligence on actual or potential frauds, enabling them quickly to review the suitability of their own controls. Some councils have teams of officers dedicated to counter-fraud work, and others rely primarily on officers within the internal audit section alone.

29. The National Fraud Initiative (NFI) is a UK-wide, counter-fraud exercise that is conducted every second year and is coordinated in Scotland by Audit Scotland. It uses computerised tools to compare information on people held by different public bodies and on different financial systems. The NFI identifies potential inconsistencies, called 'matches', that suggest potential fraud or error. Examples include matching council tax records to the electoral register, to spot unreported changes affecting a resident's eligibility for a council tax discount.

30. The most recent NFI exercise, on 2016/17, identified £18.6 million of 'outcomes' in Scotland including around £11.9 million among councils ([Exhibit 4, page 19](#)).¹³ An NFI outcome describes the overall amounts for fraud, overpayments and error that are detected by the NFI exercise and an estimate of future losses that it prevents. Examples include housing benefits being stopped or reduced; council tax discounts being reduced or removed; and 'Blue Badges' for parking being stopped or flagged for future checks. High levels of outcomes could be due to increased fraud and error in the system, better detection of fraud and error or poor internal controls. Once an overpayment has been identified, a council can consider how to recover the money involved. The NFI also has an important deterrent effect that cannot be measured.

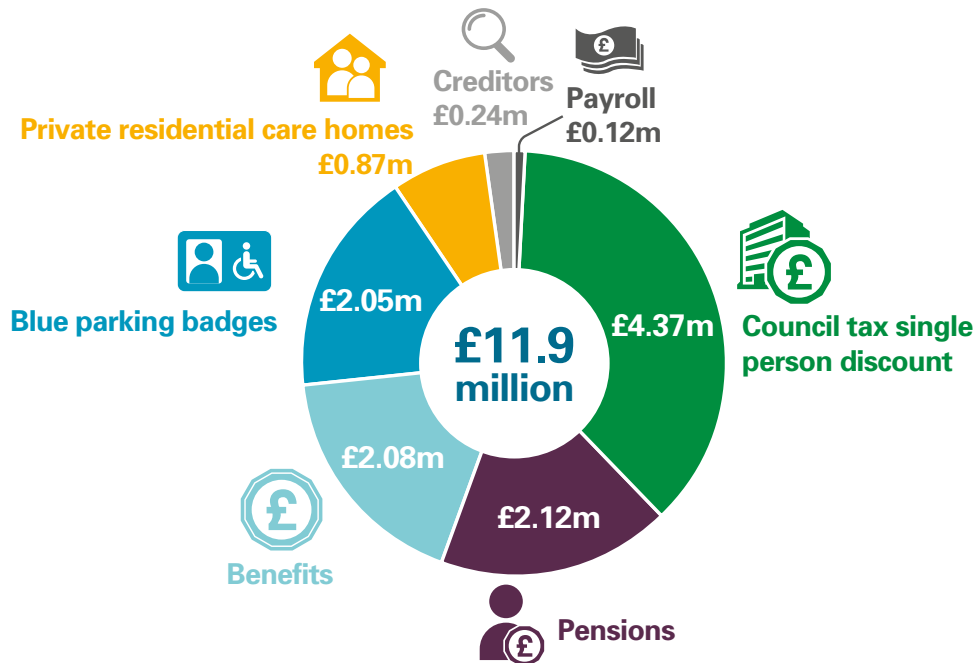
31. Most public bodies take advantage of opportunities provided by the NFI, and Audit Scotland disseminates information on instances of fraud in its quarterly technical bulletins. The frauds they cover have all been facilitated by people exploiting weaknesses in internal controls. Councils could use the NFI and these bulletins to consider promptly whether the same weaknesses apply in their own systems and what the necessary remedial actions may be for them.

32. Councils should ensure they have sufficient capacity in place to prevent frauds; investigate suspicious matches or other problems; and correct errors. It is more cost-effective to invest staff time in deterring or preventing fraud using good internal controls than to take remedial action afterwards. Investigating a fraud can cost a great deal of staff time and prosecuting a fraudster can incur substantial legal costs with no guarantee that the money lost will be recovered. It is for each council to decide how to organise, resource and pursue its fraud work.

Exhibit 4

The results of the 2016/17 National Fraud Initiative in Scottish councils

The NFI identified £11.9 million of 'outcomes' among councils.



These four aspects jointly accounted for 90 per cent of the NFI savings identified in councils



Council tax

People living on their own, or with no countable adults in the household, are eligible for a 25 per cent Single Person Discount.



Pensions

The NFI provides councils that administer pensions with an efficient and effective way of checking that they are paying the right pension to the right people; are not paying pensions to retirees who have died; and take account of people who retired but later returned to work.



Benefits

The NFI helps councils and the UK's Department for Work and Pensions to identify benefit frauds and errors – often caused by undeclared occupational pensions and undeclared public sector employment.



Blue parking badges

People with mobility problems can park for free in certain circumstances. Sometimes, a badge is used or renewed after the badge holder has died. Councils do not always try to recover a deceased person's badge to avoid distressing their family. But councils can ensure a badge is not renewed incorrectly.

These three aspects jointly accounted for ten per cent of the NFI savings identified in councils



Housing

This includes continuing to make payments to a care home for a resident after the person has died.



Creditors

The NFI helps to identify duplicate payments and ensure payments are made only to appropriate creditors.



Payroll

For example, legitimate employees may be in breach of their conditions of service or European Union working time limits; some employees could be working illegally in the UK; a council could inadvertently continue paying a former employee, or overpay a current employee.

Note: Some figures include late outcomes from the 2014/15 NFI work.

Source: Audit Scotland

Weak controls can have many other consequences

33. These can include an impact on:

- confidence in the council's integrity and reliability, including among residents, other public bodies and the council's business partners
- compliance with legislation and regulation, with the potential for costly and time-consuming legal action, such as on public liability matters
- the security of confidential financial, commercial and personal data
- the funding available for providing public services
- specific individuals – for example, if their confidential information is inadvertently published, or their personal safety is jeopardised
- additional external audit work.

Councils have duties to whistleblowers

Whistleblowing is about ensuring that if someone sees something wrong in their workplace, they are able to raise this within their organisation, to a regulator, or wider.

34. The Public Interest Disclosure Act protects employees and other workers who raise concerns about wrongdoing they believe is occurring. An employee must have a genuine and reasonable belief that the wrongdoing is taking place, and also that the disclosure is a matter in the public interest.¹⁴ Where the statutory conditions are met, the employee should be protected from detrimental treatment. Every council should have a whistleblowing policy which complies with the legislation and the Whistleblowing Code of Practice.¹⁵ A council that does not provide a safe whistleblowing route for its officers could discourage employees from raising legitimate concerns, and miss an opportunity to address a problem before it becomes a crisis.

Controls regarding cyber-security are increasingly important

35. Digital technology is becoming central to the way public services are delivered, with scope to improve and transform services and how users interact with public bodies. Citizens' expectations of public bodies' digital services are also rising. However, there is the potential for inadvertent data breaches, and also for malicious cyber-attacks to access and abuse sensitive information on a huge scale. Councils are required to meet high standards of information security and few serious issues have arisen among councils.^{16, 17} Nonetheless, effective internal controls on access to information and its uses remain vital. If a council suffered a serious cyber-attack, the impact could be damaging, sustained, and include:

- interruptions to the provision of public services
- exposure of citizens' money and confidential data to theft and abuse
- financial damage to the council and its commercial partners
- costly remedial work to restore and re-secure computer systems.

Councillor checklist 2



Fraud and corruption

The following questions may help you to think about fraud and corruption in your council.

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

- 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?

Councillor checklist 3



Consequences of weak controls

The following questions may help you to think about how your council deals with weak controls.

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

- 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?
-

Controls have practical limitations

36. Since a council constantly evolves, its officers need a programmed approach that updates existing controls and creates new ones as and when required. Internal controls operate within practical constraints, such as when the cost of introducing and enforcing a control would probably outweigh the impact of something going wrong ([Exhibit 5](#)).

37. The more senior an officer is, the more authority and opportunity s/he is likely to have for inappropriately overriding well-intentioned controls without being detected. However, the annual audit reports on the 2016/17 external audits of councils found no evidence of inappropriate management override of controls.

Exhibit 5

Internal controls

Numerous factors can limit the system of internal controls.



Relevance/obsolescence

Control-related activities or processes can become irrelevant over time as technologies and business needs change. Changes in key personnel could also cause a control to become obsolete.



Cost

Beyond a certain point, the cost of installing or improving a control could outweigh the benefits likely to be gained from applying it.



Collusion

Two or more officers work together to circumvent existing controls for their own purposes. If officers collude to perpetrate a fraud, typically by overriding management controls, it can be difficult for management to detect it.



Human error

There is always a risk of people making genuine mistakes, including in the operation of control activities themselves. The risk can be exacerbated by factors such as a lack of adequate motivation or training, time pressure, an adverse working environment, or excessive workloads.



Unusual or infrequent transactions

Control activities may be less suited to unusual and/or infrequent types of transactions.



Management override

Many processes have a facility to permit a management override function, so there is a risk that this facility could be abused; for example, by inflating reported figures to boost an officer's reputation.

Councils' external auditors evaluate their internal controls annually

In determining whether the auditor has identified one or more deficiencies in internal control, the auditor may discuss the relevant facts and circumstances of their findings with the appropriate level of council management. This discussion provides an opportunity to alert management on a timely basis to deficiencies they may not have been aware of.¹⁸

38. International auditing standards require a council's external auditors to report significant deficiencies in internal controls to its audit committee, regardless of whether the deficiencies have been resolved by council management. This is part of the external auditor's responsibility for assessing the suitability and effectiveness of a council's corporate governance and it includes reporting on whether a council:

- has arrangements to ensure systems of internal control work effectively
- can demonstrate the effectiveness of budgetary controls in communicating accurate and timely financial performance information
- has established appropriate and effective arrangements for preventing and detecting fraud and corruption.¹⁹

39. Councils have sound, reliable systems of internal control that work well most of the time but can have weaknesses that could be damaging. It is in a council's interest to invest in internal controls that help reduce the risk of problems materialising and safeguard the resources it can devote to public services.

Part 3

Officers and councillors both have important roles



Councillors are ultimately accountable for councils' use of public money

Councillors and council officers have distinct but complementary roles

40. The full council (comprising all elected councillors) is the governing body of the council and determines the council's policy direction. It is ultimately responsible for ensuring that suitable services are delivered by officers. Councillors are elected to determine policy, and the role of officers is to implement these through day-to-day management of services. Officers advise and serve the whole council, and councillors have a right to expect officers to provide them with advice which is expert, impartial and candid.

41. In practice, councillors' responsibilities include:

- oversight of risk and the system of internal controls
- ensuring public money is spent on the council's intended purposes
- protecting public money from misuse, including fraud and corruption
- ensuring public spending is clearly accounted for, and publicly reported on
- scrutinising the council's operation and performance.

Culture and behaviours are important

42. A national code of conduct applies to all councillors. The Ethical Standards in Public Life etc (Scotland) Act 2000 introduced a framework which required Scottish ministers to issue a code of conduct for councillors. The latest version was introduced in July 2018 by the Standards Commission for Scotland. It sets out a range of principles that councillors must follow, including leadership, honesty, objectivity, stewardship and accountability.²⁰

43. It is important that:

- full council, cabinet, committee and board meetings are held regularly
- there is trust between councillors and senior officers
- councillors and officers recognise and respect their distinct roles
- a culture of openness to challenge helps councillors and officers to recognise the importance of scrutiny; be open to candid discussions about risks and related controls; and promote this culture across the council and the partnerships it is involved in.

Scrutiny works best when officers provide councillors with timely, good-quality information

44. A council should be transparent about its decisions and the quality of the services it provides, so that the public and the council's partners can be confident it is making informed decisions; and safeguarding public money. This involves the council's leadership being open to scrutiny and accountable for their plans and performance. Every councillor – not just those who sit on the council's audit committee, scrutiny committee, or equivalent committees – has a valuable scrutiny role to play at corporate, local area and electoral ward levels.

45. Officers are responsible for providing committees with timely, good-quality reports that inform transparent decision-making by councillors. If a significant issue arises in a long gap between committee meetings, it may be helpful for officers to provide councillors with additional, intervening briefings on material developments. Similarly, councillors may need to be proactive in seeking out further information from officers to assure themselves that they have sufficient knowledge to hand before making a difficult decision.

46. Good councillor-officer working relationships are vitally important. It is mutually beneficial for councillors and officers, especially those in the corporate management team, to nurture constructive working relationships. Coalition and minority administrations are now more common and bring a different dimension to communication within councils. They may require a more nuanced approach that balances different political interests and involves compromises across party lines.²¹

The audit committee has an important role

47. This committee (or the equivalent committee that performs this role) provides the council with independent assurance on the adequacy of the council's governance arrangements; risk management framework; internal control system; and the integrity of financial and non-financial performance reporting.

48. An audit committee must have clear terms of reference that set out its members' independent role in scrutinising the council's decisions, performance and risks.²² The Accounts Commission believes that effective, transparent scrutiny is best achieved when the chair of the committee is not a member of the administration. The chair should provide leadership and critical thinking, and work well with other committee members in scrutinising and challenging the council's work and performance. Committee members need the necessary skills and training to do their job, with ongoing support by officers and access to independent advice.

49. The core functions of an audit 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 its control environment.
- Considering the reports and recommendations of external audit and inspection agencies, along with their implications for governance, risk management or control.

- Reviewing the council's financial statements, the external auditor's opinions and reports to councillors.²³

50. The audit committee's role in relation to internal audit is to:

- oversee its independence, objectivity, performance and professionalism
- support the effectiveness of its auditing processes
- promote its effective use within the council's assurance framework.²⁴

Councillor checklist 4



Audit committee

The following questions may help you to think about the audit committee in your council.

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

- 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 audit?
 - 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?
-

Councillors should scrutinise risks from partnership working

51. Councils have extensive experience of working closely with diverse organisations. This includes delivering some services through the third and private sectors; and through arm's-length external organisations (ALEOs). It involves partnership working with other public sector bodies such as the NHS and community councils, which have a statutory basis in a council's partnership working too.

52. Changing models of service delivery are bringing more numerous and more complicated partnerships, collaborative ways of working and generating an increasingly complex governance and accountability landscape. On some issues, the centre of gravity in discussion and decision-making is moving away from councils themselves, yet councillors must remain sighted on their duties to their council and their council remains accountable to the local communities it serves.

53. It is therefore increasingly important that councillors and officers have an appropriate level of understanding of their roles and the necessary skills, and are alert to the potential for conflicts of interest. Councillors should expect officers to report to them on the activities, finances and performance of each partnership in achieving its intended outcomes.

Community Planning Partnership

54. Community planning is the process by which councils and other public bodies work with local communities, businesses and voluntary groups to plan and deliver better services and improve the lives of residents. The process is led by 32 Community Planning Partnerships (CPPs), each covering a council's geographical area. Governance and accountability arrangements in CPPs are complex given the range of partners involved, all of whom are accountable to different bodies and are not formally accountable to the CPP board.²⁵ The Local Government in Scotland Act 2003 provided the initial statutory basis for community planning.²⁶ It aimed to:

- enable public bodies to work together to deal with complex, long-term challenges that a single organisation cannot deal with, for example inequalities in health, employability and levels of crime
- involve local communities more in decisions that affect people's lives.²⁷

55. The Community Empowerment (Scotland) Act 2015 introduced new statutory duties for community planning alongside other changes intended to give local people more say in how public services are planned and run.²⁸ The Scottish Government's statutory guidance on community planning places local communities at the heart of public service delivery and clarifies expectations of CPPs.

56. The act compelled councils to work with their statutory community planning partners to produce a jointly owned Local Outcome Improvement Plan (LOIP). A CPP's board is required to ensure its LOIP focuses on achieving priority outcomes for residents. The act also required each CPP to produce individual Locality Plans for specific communities within the CPP's wider geographical area. These are to reflect the views of local communities; focus on addressing local needs; reduce inequalities; and improve outcomes for a locality's residents. An important function of the CPP's board is to share ownership of the LOIP and Locality Plan(s) and manage their implementation.



Community Planning Partnership (CPP)

A statutory forum for the council, NHS and other public and third sector bodies, such as charities and voluntary groups, to work with local communities to plan and deliver better services.

57. In making tough choices about spending their budgets, councils and their CPP partners should liaise with communities about the sustained impact of decreasing council spending on public services and any opportunities for improving services.²⁹ Slow progress or insufficient scrutiny of progress by councillors could risk CPP partners, including the council, falling short of their strategic ambitions and adversely affect the public.

58. Having sound controls within the council for community planning matters will reinforce transparent decision-making and support scrutiny of councils by the public. For its part, the council needs suitable internal controls for managing the risks that it may be exposed to. There are particular risk and control issues associated with community asset transfers, in which communities choose to take responsibility for specific land and buildings from the council. Well-intended residents may lack the council's expertise in financial management, property management and service delivery. The council therefore has a responsibility to conduct due diligence work on the community organisation that would assume responsibility for any transferred asset.

Health and social care integration

59. The Public Bodies (Joint Working) (Scotland) Act 2014 aims to ensure that health and social care services are well integrated, so that people receive the care they need at the right time and in the right setting. The reforms affect everyone who receives, delivers and plans health and care services in Scotland. The Act was intended to help shift resources away from the acute hospital system towards preventative and community-based services. However, there is still a lack of agreement about whether this is achievable in practice.

60. The act requires councils and NHS boards to collaborate in new partnerships, known as Integration Authorities (IAs). The size of IAs varies depending on council boundaries. NHS boards have between one and six IAs within their boundary.³⁰ Of the 31 IAs in Scotland, 30 are Integration Joint Boards (IJBs) and in Highland the NHS board and council each lead integrated services. Clackmannanshire and Stirling councils have created a single IA with NHS Forth Valley. A report produced by Audit Scotland in November 2018 found that:

- numerous IAs have had leadership changes in the past few years
- there is significant variation in the role and remuneration of IAs' chief officers (COs) and chief financial officers (CFOs)
- there is evidence of a lack of support services for IAs, in relation to HR, finance, legal advice, improvement, and strategic commissioning. This will limit the progress that they are able to make
- cultural differences between partner organisations are proving to be a barrier to achieving collaborative working.³¹

61. An IJB is a separate legal entity that is responsible for strategic planning and commissioning of health and social care services across a partnership's area. Membership of the IJB comprises a mix of voting and non-voting members. It includes elected members from the council; non-executive directors from the NHS; and representatives from service users, carers and the voluntary sector. The IJB must appoint a chief officer and finance officer (who may also be chief officer).




Integration authority (IA)

A partnership between a council and the NHS to ensure health and social care services are well integrated, so that people receive the care they need at the right time and in the right setting.

Integration Joint Board (IJB)

A separate legal entity, responsible for strategic planning and commissioning of the wide range of health and social care services across the partnership's geographical area.

A short guide to the integration of health and social care services in Scotland  April 2018

Health and social care integration – update on progress  November 2018

62. A council and NHS board delegate budgets to the IJB, which decides how to use this funding to achieve its objectives. The IJB directs the NHS board and council to deliver public services. In 2017/18, IAs directed £8.9 billion of health and social care resources. IJBs directed £8.3 billion of this, money previously managed separately by councils and NHS boards. In total, 29 per cent (£2.4 billion) of IJB funding was allocated from councils and £5.9 billion (71 per cent) from the NHS.³²

63. The scale and complexity of ongoing organisational change; significant financial and demographic pressures; and the level of resources involved make it imperative that councils, NHS boards and IAs have rigorous systems of risk management and internal control. It is important that risk management and assurance arrangements apply across IAs and their health and social care partners so that risks from delegated services are regularly monitored.

64. With partnership working increasing in scope and complexity, the corresponding nature of evolving controls may itself pose a risk to effective oversight and scrutiny by councillors and a council's senior officers. A councillor who sits on an IJB needs to be clear about the expectations of their role and alert to scope for conflicts of interest between their council and its partners.

Arm's-length external organisations

65. These organisations (ALEOs) have been established by many councils to deliver services traditionally provided by a council itself, such as leisure centres and parks. Councillors have a leadership role in the options appraisal process that makes the case for establishing an ALEO at the outset. For example:

- Have officers provided councillors with all the information they need to make informed decisions about risks and benefits?
- Is the risk of failure so high that risks are better managed in-house?
- Are the likely benefits of options other than ALEOs outweighed by their implementation costs?
- Are there opportunities to share risks and benefits with partner bodies?³³

66. ALEOs can bring financial and operational benefits, with more potential for innovation but also considerable risks. Once an ALEO is operating, councillors need to oversee its financial and service performance; financial sustainability; associated risks; and seek assurance from council officers that suitable controls are in place for managing these risks. Risks include a potential conflict of interest where a councillor sits on an ALEO's board, especially should it encounter financial difficulties.

67. Oversight, accountability and good management are essential. In managing their links with ALEOs, councils should continue to apply the statutory code of practice on Following the Public Pound and annually review the governance arrangements for its links with major ALEOs.³⁴ It is also councillors' responsibility to decide whether an ALEO remains the optimum way of providing a service or whether there are other valid options, such as bringing a service back in-house.



Arm's-length external organisation (ALEO)

A separate organisation that is established by a council to provide services on its behalf.

Councils' use of arm's-length organisations 
May 2018

City region and growth deals

68. These are agreements between the UK Government, Scottish Government, and councils' other regional partners. They are intended to help deliver long-term strategies that improve regional economies. Each deal is specific to its region and can include measures relating to issues such as housing, transport, infrastructure and culture. They provide regions with the opportunity to set their own priorities and decide where to target investment, through programmes agreed among a deal's partners. In return, the UK Government and Scottish Government contribute funding for Scotland's six City Region deals ([Exhibit 6](#)). Deals differ in their stage of development and funding arrangements.

69. Some councils participating in city region or growth deals may risk gaps between their income and spending in future years, which could threaten their financial sustainability if risks are not managed carefully. So it is important for councillors to:

- ensure their council has clear, effective governance arrangements that underpin partnership working with other organisations in the deal – whether they are in the public, private or third sectors
- ensure council officers are managing suitable internal controls that help to identify and manage risk
- scrutinise the impact of borrowing on their council's revenue expenditure commitments, such as the costs and durations of loan repayments.



City region deal

An agreement between the UK Government, Scottish Government and one or more councils to invest in cities and their regions.

Exhibit 6

City region deals and growth deals

There are deals across Scotland.

Geography	Deal type	Participating Scottish councils
Aberdeen City	City region deal	Aberdeen City, Aberdeenshire
Argyll and Bute	Growth deal	Argyll and Bute
Ayrshire	Growth deal	East Ayrshire, North Ayrshire, South Ayrshire
Borderlands	Growth deal	Dumfries and Galloway, Scottish Borders
Edinburgh and South-East Scotland	City region deal	East Lothian, City of Edinburgh, Fife, Midlothian, Scottish Borders, West Lothian
Falkirk	Growth deal	Falkirk
Glasgow City	City region deal	East Dunbartonshire, East Renfrewshire, Glasgow City, Inverclyde, North Lanarkshire, Renfrewshire, South Lanarkshire, West Dunbartonshire
Inverness and Highland	City region deal	Highland
Islands	Growth deal	Eilean Siar (Western Isles), Orkney, Shetland
Moray	Growth deal	Moray
Stirling and Clackmannanshire	City region deal	Clackmannanshire, Stirling
Tay Cities	City region deal	Angus, Dundee City, Fife, Perth and Kinross

Note: Fife Council and Scottish Borders Council are each involved in two deals. Three English councils are also involved in the Borderlands growth deal: Carlisle City Council, Cumbria County Council and Northumberland County Council.

Source: Scottish Government, City region deals, Growth deals

Councillor checklist 5



Partnership working

The following questions may help you to think about partnership working in your council.

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

- 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?

Councils need to invest in councillors' personal development

70. 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.³⁵ The Scottish public has high expectations of councillors and officers and how well they should conduct themselves in undertaking their council duties. They should meet those expectations by ensuring that their conduct is consistently above reproach.³⁶ The Accounts Commission has published a number of reports that could be useful to councillors, including:

- [*Roles and working relationships: are you getting it right?*](#) , 2010; and [*Follow-up messages for councils*](#)  in 2016.
- [*Arm's-length external organisations \(ALEOs\): are you getting it right?*](#) , 2011.
- [*Social work in Scotland*](#) , September 2016.

71. Following a local government election, a good induction process is valuable for all councillors. Some councillors may need additional, tailored support on a specific topic or skill, such as their role on an audit committee or planning committee; their position as a board member of an IJB or ALEO; the type of finance involved; or the potential impact of a decision on a group of service clients.

72. Councillors need sustained, ongoing continuing professional development (CPD) that builds on their knowledge and experience; is tailored to their roles; and relates to the expertise they need for making transparent, defensible decisions about safeguarding public money. Long-serving councillors can also benefit from investing time and effort in their ongoing CPD, not least because technology, the council's operating environment, its financial situation and the risks it faces all evolve constantly. Councillors should be involved in developing their council's CPD programme so that it best meets their future needs.

Councillor checklist 6



Councillors' continuing personal development

The following questions may help you to think about the personal development opportunities in your council.

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

- 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?
-

Officers are responsible for delivering council policy and managing services

73. Each council must have these four 'statutory officers', who all have specific duties and discharge their role as part of their wider responsibilities in the council:

- Head of paid service³⁷
- Chief financial officer³⁸
- Monitoring officer³⁹
- Chief social work officer.⁴⁰

74. These officers have an important, independent role in promoting and enforcing good governance; ensuring councils comply with legislation; overseeing the council's key controls; managing risk, and ensuring the delivery of council services. Statutory officers must have sufficient influence and experience to undertake their roles. Cohesive, effective corporate management depends on postholders in these roles having the necessary status and capacity within their council.

75. To ensure that councillors are clear on the purpose of these roles, a council's scheme(s) of delegation should set out what they involve and why they are important. The role of statutory officers should feature in induction schemes for all newly elected councillors. Councillors and committees should know when to seek assurance from these officers so that their council operates legally and responsibly.⁴¹

Head of paid service

76. This officer, usually called the chief executive, is responsible to councillors for the staffing and smooth running of the council and for ensuring the work of its various services is coordinated. S/he must ensure the other statutory officers have sufficient influence and scope to conduct their roles. For example, this could mean them being in, or attending, the corporate management team.

77. Councillors and the chief executive may need to balance the benefits of including all statutory officers as full members of the corporate management team against the potential merits of a slimmer, potentially cheaper, management structure – but one that may risk appearing to devalue the role of certain officers or complicate lines of communication among officers and councillors.

78. The chief executive has a complex, multi-faceted role that blends relatively clear accountability to councillors for the operational management of the workforce and service delivery with an important involvement in diverse partnership working over which s/he will have influence but perhaps limited direct authority. This situation provides some context to the council's need for a dynamic, evolving approach to risk management and the linked controls which are necessary.

Chief financial officer

79. The chief financial officer (CFO) has a key role to play in balancing control and compliance with value creation and performance. Better value for money releases resources that can be recycled into higher priorities without increasing taxation. Helping to secure positive social outcomes within affordable funding therefore lies at the heart of the CFO's role.⁴²

80. The CFO (often called the Section 95 or s95 officer) underpins sound corporate management and ideally sits on the corporate management team. To deliver on their responsibilities, the CFO must manage a finance function that is sufficiently resourced and professionally qualified ([Exhibit 7](#)).

Exhibit 7

The role of the chief financial officer

The postholder is responsible for the proper administration of the council's finances.



In a public service organisation the chief financial officer:

is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.

must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and alignment with the authority's financial strategy.

must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded always and used appropriately, economically, efficiently and effectively.



To deliver these responsibilities the chief financial officer:

must lead and direct a finance function that is resourced to be fit for purpose.

must be professionally qualified and suitably experienced.

Source: Chartered Institute of Public Finance and Accountancy

81. The Local Authority Accounts (Scotland) Regulations 2014 impose responsibilities on the CFO about accounting records and supporting information; control systems; and annual accounts – which, in Scotland, include the financial statements and annual governance statement.⁴³ Also, the CFO needs to assure themselves and councillors that decisions made by the council will be affordable. In practice, many of the CFO's day-to-day responsibilities are delegated or outsourced but the CFO should retain oversight and overall control, and have sufficient access to the corporate management team.

82. The CFO helps to safeguard public money by:

- Applying strong controls in all areas of financial management, risk management and asset control.
- Implementing effective systems of internal control that include standing financial instructions, operating manuals, and compliance with codes of practice to secure probity.
- Ensuring that the council has effective arrangements for internal auditing of the control environment and systems of internal control, as required by professional standards in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.⁴⁴
- Promoting arrangements to identify and manage key business risks, including safeguarding assets, risk mitigation and insurance.
- Applying discipline in financial management, including appropriate segregation of duties.
- Implementing suitable measures to prevent and detect fraud and corruption.
- Ensuring that any partnership arrangements are underpinned by clear and well-documented internal controls.⁴⁵

Monitoring officer

83. In essence, the monitoring officer (MO) ensures that the council operates properly. Their work includes reporting on the legality of matters; on potential maladministration; and the conduct of councillors and officers. The MO should contribute to the promotion and maintenance of high standards of conduct by providing advice and support to councillors on the interpretation and application of the Councillors' Code of Conduct.⁴⁶ Councillors and senior officers should send clear signals to the workforce about how people should behave and interact.

84. The Accounts Commission has found through its Best Value work that in some cases the MO role can be undermined because of a lack of trust and respect between councillors and officers.⁴⁷ It may be difficult for the MO to challenge the behaviours of senior officers or councillors. The MO might need to judge carefully both how to act and when, since intercepting potential problems quickly can help prevent, deter or resolve unhelpful behaviour before they become more serious.⁴⁸

Chief social work officer

85. This officer (CSWO) must be a qualified social worker; registered with the Scottish Social Services Council; and of sufficient seniority and experience in both the strategic and operational management of social work services.⁴⁹ Often, a CSWO is also responsible for the delivery of services such as adult social care, children's services or criminal justice social work. The CSWO provides officers and councillors with professional advice on social work and social care services, and discharges specific duties on the council's behalf.^{50, 51, 52}

86. The CSWO's role has diversified significantly in recent years, and is becoming more difficult to fulfil within integrated partnership arrangements. A council's partnership with the NHS is typically through an Integration Joint Board which oversees the delivery of integrated health and social care services, and carries risks that include financial matters and risks to the health and wellbeing of service clients. In health and social care, an important control can be oversight of permission to access information on vulnerable people, and in which circumstances. Such risks require corresponding internal controls within the council. Councillors need to ensure that the CSWO has the status, capacity and access (to other statutory officers and councillors) to enable them to fulfil their statutory responsibilities to the council effectively.

Chief education officer

87. There is currently no legal requirement for councils to have a post named the chief education officer because the relevant legislation has not been implemented.⁵³ Nonetheless, many councils have an officer who is their lead officer for their education service, called the director of education or similar, either as part of the corporate management team or perhaps at a lower level where large departments span multiple services.

88. With education typically accounting for a large share of a council's expenditure, it is important for the head of the education service to not only have a strong professional knowledge of education but also a solid understanding of financial management; to liaise closely with the corporate finance function; and have oversight of the large share of the service's budget that is delegated to individual schools.

89. In addition, some Scottish Government funding streams are outwith the core local government finance settlement and are allocated to councils for specific purposes. For example, the Scottish Government's budget for 2019/20 includes £62.0 million of Attainment Scotland Fund to provide councils and schools with additional means to provide targeted literacy, numeracy, and health and wellbeing support for children and young people in greatest need.⁵⁴

90. The chief education officer has responsibility for the education service having rigorous internal controls. These could include processes for ensuring that changes in staffing are passed quickly and accurately to the corporate payroll function, and that schools operate within the education service's scheme of devolved school management. Should controls at school or service-level go awry and result in money being defrauded or misspent, there is the potential for substantial consequences for numerous schoolchildren; shortfalls in compliance with national requirements; and reduced funds available for spending by other council services.

Officers who manage a service need to understand its inherent risks

91. Officers require a thorough understanding of how a service is provided; what its costs are; who the service users and other stakeholders are; and exercise ownership of the internal controls that regulate business management of the service and its associated risks.

92. Depending on their role and position in the council, officers may need a suitable level of understanding of finance, risks and controls. Council services need a joined-up approach both vertically – so that an individual service and overall corporate management share the same perspective on risk – and horizontally – so that different services across the council follow the same overall approach to risk.

93. However, there are indications from the independent external audit of councils that incremental budget cuts over successive years, combined with recruitment challenges, may have eroded the capacity of councils' back-office functions – including aspects such as financial management and risk management. This could make financial management riskier and underline the importance of sound controls being in place to contain and manage these risks.

Councillor checklist 7



Statutory officers and chief education officer



The following questions may help you think about the statutory officers and chief education officer.

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

- 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?
-

Internal auditing helps evaluate and improve how well things work

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps a council to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.⁵⁵

94. Audit and scrutiny are both important, but their distinction can be unclear. Generally, scrutiny asks whether the council is doing the right thing, and it questions policy proposals and the performance and quality of services. Audit examines the regularity of governance and financial management, including how well the council has applied its resources to achieve its objectives.

95. Accounting regulations compel councils to operate a professional and objective internal auditing service.⁵⁶ The service brings a valuable, independent scrutiny activity. Its remit can extend beyond the council to scrutiny of the council's involvement in partnerships and alternative service delivery models, such as ALEOs. The CFO must secure and support internal auditing arrangements and ensure that the council's audit committee (or the committee with this role) receives the advice and information necessary for both functions to operate effectively.⁵⁷ There are four main types of internal auditing work ([Exhibit 8, page 39](#)).

96. Key features are that internal auditing:

- operates independently of the day-to-day running of the council
- provides a service to all levels of the council
- objectively assesses operations' effectiveness, efficiency and value for money
- forms an integral part of the framework of business controls.

97. It is important for the officer who leads the internal auditing function to have unrestricted, 'open door' access to the chief executive. This enables internal auditing staff to bring problems directly to the attention of the council's most senior officer, if necessary. In addition, the arrangement equips the chief executive with objective, independent information on the operation of the council and an early warning system regarding potentially serious issues. However, it is not necessary for the chief executive to be the line manager of the head of internal auditing.

98. Internal and external audit have different but complementary roles. A council's external auditor is appointed by the Accounts Commission and is wholly independent of the council. By contrast, a council appoints its own internal auditing function, which may be provided by:





- An in-house function serving one council – which is still the norm.
- An in-house function serving two or more councils – Aberdeen City and Aberdeenshire; Clackmannanshire and Falkirk; Midlothian and Scottish Borders.
- Co-sourcing – where an in-house team is supplemented by a private firm.

- A private firm appointed by the council – no Scottish councils at present.
- In addition to these arrangements, Glasgow City Council provides services to several organisations.

Exhibit 8

Types of internal auditing work

The work helps to safeguard public money, as illustrated by this sample of scenarios.

Type	Explanation	Scenario
Systems 	<p>This is the review and evaluation of the manual and computer systems by which an organisation regulates and controls its activities. The internal audit section would evaluate the design of controls to conclude on their effectiveness and efficiency; and test their application to ensure users have been following procedures as intended.</p>	<p>Internal audit reported to the audit committee before, during and after a major new computer system was introduced to integrate previously disjointed systems. This approach gave assurance on the new computer system's controls from an early stage.</p>
Contracts 	<p>This can involve a review of any area of activity regarding a high-value and potentially high-risk contract, such as for care-at-home services or the construction of a new building.</p>	<p>Internal audit reported to the audit committee on the council's compliance with legislation; national guidance; council policy and internal controls regarding the procurement of a new nursery school.</p>
Investigations 	<p>Internal audit can be called on to investigate internal or external fraud, operational losses, breaches of security, or where customers have raised serious concerns with senior management. Other investigation work includes due diligence assessments.</p>	<p>Internal audit supplemented its annual summary report on fraud to the audit committee with a report that focused on a serious case of corruption. Internal audit recommended the upgrading of preventative controls in future.</p>
Regularity or compliance 	<p>Inspection is the continuous, periodic examination of procedures and transactions to ensure they comply with an established set of instructions. This type of internal auditing does not necessarily consider the appropriateness of procedures, simply that they are followed.</p>	<p>Internal audit reported to the audit committee on the system for paying grants to local community bodies, including the extent to which claimants and officers followed proper procedures and claimants submitted valid or falsified evidence. Internal audit identified scope for strengthening controls in future.</p>

Source: Audit Scotland, Financial Reporting Council

99. Internal auditing is an important link in a council's system of internal control. The purpose, authority and responsibility of internal auditing may be defined in its Audit Charter.⁵⁸ It must provide an annual opinion on the state of the council's arrangements in relation to governance, risk management and internal control. It may also carry out advisory and consulting work, where the aim is to support management in improving systems and controls.

100. Internal auditors in the public sector follow the Public Sector Internal Audit Standards (PSIAS), which have been mandatory since 2013. The scope and volume of internal auditing activity in a council is a matter for its management and those responsible for its governance.⁵⁹ However, the PSIAS require that the head of internal auditing communicates its plans and resource requirements, including significant interim changes, to senior management for review and approval. A council must assess the efficiency and effectiveness of its internal auditing service, and the findings should be considered by the audit committee as part of its annual review of internal controls.

101. The head of internal auditing must communicate the impact of resource limitations. Where s/he believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of 'the board' – which, in a council, is normally the audit committee or its equivalent ([Exhibit 9](#)).

Exhibit 9

Recommended audit committee practice for effective internal audit oversight.

The audit committee has a range of responsibilities

- ✔ Take responsibility for the provision of internal audit, including how it is provided.
- ✔ Assess and approve the internal audit charter (terms of reference) and review it regularly.
- ✔ Ensure a close working relationship with the head of internal audit.
- ✔ Assess the resourcing of the internal audit function.
- ✔ Monitor the quality of internal audit work, whether in-house or externally sourced.
- ✔ Evaluate, approve and regularly review the risk-based annual internal audit plan.
- ✔ Oversee the relationship between internal audit and centralised, corporate risk monitoring.
- ✔ Ensure the collective assurance roles of internal audit, other internal assurance providers and external audit, are coordinated and optimised.
- ✔ Assess internal audit findings and the breadth and depth of internal audit reports.
- ✔ Monitor management's implementation of internal audit's recommendations.

102. The internal auditing function can find itself operating in a challenging organisational environment. It is vital for it to be independent of activities it examines, so that it can give impartial, unbiased judgements to councillors. However, there are benefits from internal auditing advising on building in suitable systems and controls at a project's outset. There are risks that internal auditing:

- lacks the staffing capacity it needs – in the context of councils becoming more complex and especially in small or remote councils, where staff recruitment and retention may be more challenging
- lacks a credible voice in the council – perhaps through the head of internal auditing not being able to express concerns directly to the chief executive or audit committee, or in an organisational culture reluctant to hear bad news
- lacks impact when it escalates its concerns – such as when high priority recommendations are not being implemented wholly and promptly.

103. External and internal auditors liaise on their respective audit roles. The external auditor considers the extent to which s/he can rely on the work of internal audit. This cooperation aims to promote good working relationships, and to minimise unnecessary duplication of effort.

Councillor checklist 8



Internal auditing function















The following questions may help you to think about internal auditing in your council.

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

- 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?
-

Endnotes



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- 36 [Code of conduct for councillors](#) , Scottish Government, July 2018.
- 37 [Local Government and Housing Act 1989](#) , November 1989.
- 38 [Local Government \(Scotland\) Act 1973](#) , October 1973.
- 39 [The Local Government Housing Act 1989](#) , November 1989.
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- 44 [Code of practice on local authority accounting in the UK 2018/19](#) , CIPFA, April 2018.
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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?

Safeguarding public money: are you getting it right?

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