

# Finance and Resources Committee

10.00am, Thursday, 23 May 2019

## Accounts Commission – Safeguarding public money: are you getting it right?

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| Executive/routine<br>Wards<br>Council Commitments | Routine |
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### 1. Recommendations

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- 1.1 Members of the Finance and Resources Committee are asked to:
  - 1.1.1 note the contents of the report; and
  - 1.1.2 refer the report to the Governance, Risk and Best Value Committee for its consideration.

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### 2. Executive Summary

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- 2.1 As part of its *How councils work* series, the Accounts Commission has published a good-practice guide highlighting the critical importance of effective risk management, robust internal controls and strong scrutiny and governance to prioritisation of councils' finite resources.

### 3. Background

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- 3.1 In assisting councils to improve their use of public money and support a process of continuous improvement, the Accounts Commission has issued a number of previous reports as part of the *How councils work* series. On 11 April, the Commission published *Safeguarding public money: are you getting it right?* with a specific focus on promoting the crucial role of robust internal controls, effective risk management and strong scrutiny and governance. Against a backdrop of growing demand for services, reducing funding and an increasingly uncertain and complex organisational landscape, these areas have never been more important in contributing to safeguarding available resources, implementing approved policies and delivering high-quality services.
- 3.2 The report is aimed, in particular, at elected members in ensuring that they:
- (i) have a good understanding of the main risks facing their council and how well these risks are being managed;
  - (ii) are assured that appropriate internal controls are in place and, where weaknesses have been identified, effective action is being taken to address them; and
  - (iii) are kept aware of the outcome of any significant risk occurring; the failure of internal controls; and what remedial actions are being taken.
- 3.3 Given the very wide coverage of the report, it is not practicable to assess current Council practice against all of the areas and detailed questions highlighted. In undertaking this assessment, however, members may nonetheless wish to refer to some or all of the documents included in the background reading section of the report.

## 4. Main report

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- 4.1 The report is presented in three distinct sections. Part 1 on pages 7 to 13 initially reminds members of the key components and measures comprising a robust internal control framework, emphasising management's responsibility to maintain and review, at least annually, the effectiveness of the controls in place. The conclusions arising from this assessment should then inform the content of the council's Annual Governance Statement.
- 4.2 The first section of the report goes on to consider the main elements of an effective risk management cycle, summarised in Exhibit 2 on page 10, before exploring the role of risk registers and the importance of the clear articulation of a council's risk appetite. In common with the remaining sections, the section concludes with a councillor checklist comprising a number of suggested questions to assess existing areas of strength and identify those for potential improvement.
- 4.3 Part 2 of the report, on pages 15 to 17, sets out the potential implications of shortcomings in councils' internal control frameworks with reference to a series of anonymised case studies. At a general level, recent external auditors' reports have indicated a tendency towards growing weaknesses in the robustness of these frameworks, often linked to staffing reductions. While acknowledging the challenges that such staffing reductions create, this does not detract from senior management's primary responsibility to ensure that the system of internal controls and risk management works effectively and that a council's internal auditing function is adequately resourced to continue to provide a valuable and objective view of the efficacy of these arrangements.
- 4.4 The report then explores management's responsibilities with regard to the prevention and detection of fraud, highlighting the work of the National Fraud Initiative on pages 18 and 19, before considering the important role of whistleblowing on page 20. Corresponding checklists in these areas are then provided, with the chapter concluding by considering the external auditor's responsibilities with regard to reporting significant deficiencies in the audited body's systems of internal control.
- 4.5 Part 3 of the report proceeds to consider the role of councillors in the safeguarding and efficient and effective use of public money, summarising these responsibilities in Paragraph 41 on page 24. Pages 25 to 26 then consider means of enhancing the role of elected member scrutiny and characteristics of an effective audit committee.
- 4.6 The report outlines the increasingly complex governance landscape including, but not limited to, community planning partnerships, integration authorities, arm's length external organisations (ALEOs) and city region and growth deals. Within this context, the importance of effective new elected member induction and continuing professional development is highlighted.
- 4.7 The penultimate section of the report explores the role and responsibilities of a number of statutory officers, namely the head of paid service, chief financial officer,

monitoring officer and chief social work officer. Finally, the roles, responsibilities and characteristics of an effective internal audit section are set out, highlighting the requirement of Public Sector Auditing Standards for the chief internal auditor to highlight to the audit committee the impact of any resource limitations as part of ensuring that the function is suitably staffed, has unfettered access to the chief executive and elected members and has sufficient impact to escalate concerns where recommendations are not being implemented wholly and promptly.

## **5. Next Steps**

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- 5.1 The Governance, Risk and Best Value Committee will continue to consider a range of reports assessing the adequacy of the Council's governance framework, including the system of internal control and risk management arrangements. These include, but are not limited to, Directorate assurance statements considered prior to their inclusion in the annual governance statement and the key findings of the external auditor's review of the Council's internal control framework, scheduled for consideration at the August meeting of the Governance, Risk and Best Value Committee.

## **6. Financial impact**

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- 6.1 While there is no direct impact of the report's contents, it nonetheless emphasises the contribution of effective internal controls and robust risk management arrangements to maximising the availability of resources to support the delivery of priority outcomes.

## **7. Stakeholder/Community Impact**

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- 7.1 While there is no direct impact of the report's contents, the benefits of co-ordinated partnership working and empowerment of communities are highlighted.

## **8. Background reading/external references**

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- 8.1 [Internal Audit Plan 2019/20](#), Governance, Risk and Best Value Committee, 19 March 2019
- 8.2 [External Audit Plan 2018/19](#), Governance, Risk and Best Value Committee, 19 March 2019
- 8.3 [Whistleblowing Annual Report](#), Governance, Risk and Best Value Committee, 19 March 2019
- 8.4 [Corporate Leadership Team Risk Update](#), Governance, Risk and Best Value Committee, 19 February 2019
- 8.5 [Internal Audit: Capacity to Deliver the 2018 Audit Plan as at 22 October 2018](#), Governance, Risk and Best Value Committee, 27 November 2018
- 8.6 [Corporate Governance Framework Self-Assessment](#), Governance, Risk and Best Value Committee, 27 November 2018
- 8.7 [Internal Audit Training Assessment and Feedback](#), 30 October 2018

- 8.8 [The City of Edinburgh Council: Annual Audit Report to the Council and the Controller of Audit 2017/18](#), Governance, Risk and Best Value Committee, 25 September 2018
- 8.9 [Internal Audit Capacity to Deliver 2018/19 Audit Plan](#), Governance, Risk and Best Value Committee, 28 August 2018
- 8.10 [External Audit Review of Internal Controls 2017/18](#), Governance, Risk and Best Value Committee, 28 August 2018

## **9. Appendices**

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[Accounts Commission – How councils work: an improvement series for councillors and officers – Safeguarding public money: are you getting it right?](#)