EAST RENFREWSHIRE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

15 August 2019

Report by Clerk

NATIONAL EXTERNAL AUDIT REPORT - HOW COUNCILS WORK - SAFEGUARDING PUBLIC MONEY: ARE YOU GETTING IT RIGHT?

PURPOSE OF REPORT

1.   To provide information on the Audit Scotland report *How Councils Work - Safeguarding Public Money: Are You Getting it Right?*

RECOMMENDATION

2.   It is recommended that the Committee considers the report.

BACKGROUND

3.   A copy of the Audit Scotland report *How Councils Work - Safeguarding Public Money - Are You Getting it Right?* ,published in April 2019, has already been circulated to all Audit and Scrutiny Committee Members. Under the Committee's specialisation arrangements, the Members leading the review of this particular report are Councillor Miller and Councillor Grant. The Head of Accountancy (Chief Financial Officer) has provided comments on it and a copy of these are attached (see Appendix A).

RECOMMENDATION

4.   It is recommended that the Committee considers the report.

Local Government Access to Information Act 1985

Report Author: Linda Hutchison, Clerk to the Committee (Tel.No.0141 577 8388)
e-mail: linda.hutchison@eastrenfrewshire.gov.uk

Background Papers:-

1.   Audit Scotland Report – *How Councils Work - Safeguarding Public Money: Are You Getting it Right?*

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SAFEGUARDING PUBLIC MONEY: ARE YOU GETTING IT RIGHT?

INTRODUCTION

1.   In April 2019 Audit Scotland prepared an overview report on internal controls and scrutiny within local government in Scotland. This report advises members on the Council's position in relation to the findings from the report.

INTERNAL CONTROLS AND RISK

2.   Part 1 of the report considers how Councils use internal controls to manage risks. It sets out the five main components of internal controls:-
- Control environment
- Risk assessment
- Information systems
- Control activities
- Monitoring

3.   The report also highlights the main areas where risks occur:-
- Authorisations
- Physical security of assets
- Information processing
- Performance review
- Segregation of duties

4.   The Council has a system of internal controls in place which reflects all five key components and covers all of the main risk areas.

5.   In addition, we adhere to accounting regulations in carrying out an annual review of internal controls. The outcomes of this review are reported to the Audit & Scrutiny Committee before consideration of the Council's annual governance statement (which is contained within the Annual Accounts). These issues were last considered by Audit & Scrutiny Committee in June 2019.

6.   The report also highlights the need to consider both financial and non financial (e.g. health & safety, reputational) elements of risk and notes Councils' responsibility to have an effective and appropriate risk management function. In this Council, risk management is overseen corporately by the Chief Executive's Business Manager within the Chief Executive's Office, who collates the strategic risk register and reports this to Audit & Scrutiny Committee. Individual departments demonstrate good practice in maintaining service risk registers and even individual project risk registers for MAP initiatives and other major schemes. Where schemes involve partnership working, joint risk registers are also maintained.

7.   The strategic risk register is considered at every meeting of the Corporate Management Team and all of the Council's risk registers score each risk based on likelihood and impact of occurrence, before and after mitigating actions.

CONTROL WEAKNESSES

8.   The second part of the report focusses on control weaknesses that may occur within a Council's operations. It recognises increasing pressures at a time when staff numbers may be reducing and sets out a number of case studies. These illustrate the importance of having clear instructions/procedures in place, supported by management checks, system controls and segregation of duties. This is particularly important when Councils are experiencing staffing and system changes.

9.   The Council is currently working to implement a new finance, HR and payroll system over the coming months, with a view to increasing efficiency and improving controls and information flows in future. The key risk of this project relates to changing such a core system whilst continuing to run the day to day business of the Council. Tight programme management, realistic resourcing, external support and firm governance have all been put in place to assure the success of this change and progress is closely monitored by a board of key stakeholders and the Corporate Management Team as well as the Council's auditors.

10.   One more general control issue recently highlighted to the Audit & Scrutiny Committee was the need to restate previous years' balance sheet figures in the annual accounts due to a misunderstanding of how Council house valuations were to be calculated. Controls have now been strengthened. In addition to the annual audit, Property staff will now provide working papers to Accountancy for checking.

11.   The other detailed examples listed in the report are relevant to most Councils, including East Renfrewshire, for example:-

1. **Overpayments to former employees** – Departments do not always notify payroll of leavers in time to meet the payroll cut-off dates. To address this risk HR require all managers to complete a leaver's checklist for departing employees. HR also issue monthly reminders of cut-off dates to all departments, with a view to minimising overpayments. At present there are no automatic checks that the leavers' checklist is completed and the need for managers to comply more rigidly has been highlighted by internal audit. Where an overpayment is made, the department will work with our debtors team to recover any sums due.

2. **Authorisation Controls** – Different staff have different levels of permission to carry out various transactions. The Council requires reconciliations and certain transactions to be checked by a second staff member and for these checks to be evidenced. Work pressures in some areas mean that checks are not always evidenced, however this is an important control and so reminders are issued to all teams as required to ensure compliance. As we move to new systems, it is hoped that there will be an increase in the number of transactions automatically directed to supervisors for authorisation, thus improving controls. More widely, the Council's Financial Regulations are updated annually and the Scheme of Delegation is also amended to reflect structural changes.

3. **Inappropriate Access to Systems or Assets** – The Council uses physical security controls (e.g. swipe cards, locked areas) as well as various controls which restrict employee access to only the relevant areas of our IT systems, however physical security in some cases is dependent on staff keeping areas locked. An annual review of authorised IT users is carried out to ensure that system permissions are kept up to date. In addition, the leaver's checklist requires all equipment, swipe cards etc., to be handed back and notification to be passed to IT so that staff can have their access terminated, however as noted above this relies on managers and has not always been carried out carried out promptly in the past. Some systems also delete users automatically if they have not used the system for a set period. As the

Council moves to its new core systems implementation, Internal Audit will be being involved to ensure that all appropriate controls are built in and that processes are clearly documented.

4. **Performance Reviews** – The example of controls working well reflects our own Creditors' team where management have implemented a new suite of controls after experiencing problems in previous years. Both Creditors and Revenues are implementing a new compliance approach. This is focused on providing rigour, support and guidance in the management and assurance of controls, procedures and compliance with financial regulations in the context of a drive for continuous improvement.

5. **Segregation of Duties** – This is a greater problem for small Councils, however the example of an IT worker in another Council being able to manipulate payment runs would not have been possible in this Council due to the system reconciliations we carry out for these runs. It is important, however, that reconciliations are carried out for all feeder runs. This is an issue that will be factored in to the design of the new core financial system and processes.

12.   As these issues could potentially impact on any Council, the report sets out ways in which Councils can share experiences and learn from problems elsewhere. East Renfrewshire Council participates in the National Fraud Initiative data matching (e.g. for Council Tax and benefits) and also participates in Chief Internal Auditors and Directors of Finance networks where experiences are shared on actual or attempted frauds.

13.   Another example of sharing experiences is the publication in July 2019 of Audit Scotland's Fraud and Irregularity Update for 2018/19. This sets out various frauds committed across the Scottish public sector so that organisations can learn from the control weaknesses exploited and improve their own arrangements. Many key issues raised (e.g. duplicate payments, fraudulent changes to bank details, need for segregation of duties, inadequate security of assets and requirement for timely financial monitoring/reconciliations) have already been addressed in previous reports to the Audit & Scrutiny Committee.

14.   The Council has an Anti-Fraud, Theft and Bribery Strategy and a Whistleblowing Policy, both of which were reviewed in June 2019. An Anti-Money Laundering Policy was approved in 2018 and this will be followed up by training for key staff in the coming months.

15.   Cyber security is also a current focus, especially after the cyberattacks on some NHS Trusts last year. The Council continues to meet the obligations set out under the Scottish Government's Cyber Security Public Sector Action Plan and has recently run an awareness campaign and a series of tests to provide assurance that staff are sufficiently alert to this risk.

16.   As previously mentioned, the adequacy of the Council's internal controls is reviewed annually by internal audit and in the annual governance statement. On 20 June 2019 the Chief Internal Audit advised the Audit & Scrutiny Committee that reasonable assurance could be placed on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control for the year ended 31 March 2019. Further, all directors must complete an assurance statement for their own department annually and external audit also assess the Council's controls as part of their annual audit of the Council's accounts.

OFFICER AND COUNCILLOR ROLES

17.   Part 3 of the report describes the respective roles of officers and Councillors, confirming that Councillors are responsible for ensuring that suitable services are delivered by officers. Reference is also made to the national code of conduct for Councillors and the importance of regular meetings, trust, respect, transparency, challenge and scrutiny is stressed.

18.   The role of an audit committee in independently scrutinising Council decisions, performance and risk is seen as important and its core functions of reviewing the governance statement, risk management, audit reports and financial statements are in line with arrangements within East Renfrewshire.

19.   The report highlights the need for audit committee members to receive appropriate training and to have access to ongoing support from officers and independent advice. The Council has arranged various tailored training sessions for Audit & Scrutiny Committee members in recent years and has also increased support more recently through the Chief Financial Officer now attending meetings as an adviser. Further, a temporary Scrutiny and Evaluation Officer post has been created for 2019/20, providing additional resource to support the Committee's work and new guidance on scrutiny has been produced for members.

20.   The increased risks from partnership working are recognised and this again underlines the importance of shared risk registers. Particular mention is made of health and social care integration, arm's length organisations (ALEOs) such as leisure trusts, and City Deal type arrangements. Taking each of these in turn:-

1. **Health & Social Care** – East Renfrewshire IJB has not experienced the range of difficulties set out in the report. This is likely to reflect the success of the early adoption of a joint Council/NHS management approach from 2006. Senior staffing has been relatively stable and the organisation has embedded finance support staff in addition to access to all other Council support services. Four ERC elected members are on the IJB itself and control is further strengthened by a member of the Council's Audit & Scrutiny Committee sitting on the IJB Performance & Audit Committee.

2. **Leisure Trust** – East Renfrewshire Culture & Leisure Trust was established in 2015 and four Councillors sit on its board. The Council's Director of Education and Chief Financial Officer also act as observers in board meetings. Most Trust support services are provided by the Council and there is close liaison between Trust and Council staff (including involvement in developing the Council's new finance/HR/payroll systems). A joint action plan was agreed by both organisations to address early concerns on the Trust's performance and has been reviewed by the Council's Audit & Scrutiny committee and the Trust's business plan is approved by Council each year in advance of budget setting.

3. **City Deal** – The Council participates in the Glasgow City Region City Deal, with a number of officers and Councillors on various steering and working groups as well as being represented on the organisation's Cabinet. Strategic reports on activities are reported to Councillors and quarterly progress reports on City Deal capital projects are submitted to Cabinet.

21.   The Council is active in driving our local Community Planning Partnership, involving various key partner stakeholders, and a Local Outcome Improvement Plan - Fairer East Ren – has been produced. Progress against this is monitored by Cabinet.

22.   East Renfrewshire Councillors are provided with wide ranging induction training and are also offered ongoing personal development opportunities. Various training courses and briefing sessions are provided throughout the year, surveys are conducted to identify further needs and records are kept of individual Councillors' CPD.

23.   The Council has in place a Scheme of Delegation which sets out the respective roles of elected members, statutory officers and other senior officers as described in the report, providing assurance that the Council is operating legally and responsibly. The Corporate Management Team is suitably experienced and meets weekly to ensure that key issues are considered corporately.

24.   The report advises that a Council's internal audit function should be independent, objective and have a direct line to the Chief Executive. East Renfrewshire Council's internal audit function satisfies these requirements, complies with Public Service Internal Audit Standards (PSIAS) and provides a full range of reports to services and the Audit & Scrutiny Committee throughout the year.

CONCLUSION

25.   The report outlines a range of issues impacting on internal controls within Scottish Councils. Overall East Renfrewshire is well placed in terms of addressing most of these but will continue to face substantial challenges in future and must keep controls under review, especially at a time of large scale change.

RECOMMENDATION

26.   The Committee is asked to consider and note the contents of this report.

Margaret McCrossan, Head of Accountancy, 1 July 2019

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