

An Internal Audit View

Welcome to the third edition of 'An Internal Audit View'.

In our last bulletin, we reported that we are a collaboration of seven local government Internal Audit Partnerships from across England and Wales. Taken together we partner with 11 County Councils, 9 Unitary Councils, 24 District or Borough Councils, 4 Police Authorities, 3 Fire Authorities and numerous other public sector bodies. Our ability to share benchmarking and best practice continues to grow for the benefit of our partner organisations. If we can help you in this way, please do not hesitate to contact your Head of Audit.

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Organisational Culture – An Effective Approach to Ethics

Despite evidence of growing corruption and fraud, the local government sector is still considered to be well governed by many. The checks and balances put in place, including scrutiny, audit and standards committees are seen as demonstrating the amount of oversight and control being exerted. But this masks a number of concerns and inconsistencies, not helped by the lack of a cohesive and transparent approach to expected ethical behaviour from Members and staff alike.

The situation is not helped by the inconsistent way local councils implement their audit committees. The government has consistently failed to provide a compulsory framework for audit committees which, despite the efforts of organisations like CIPFA in providing excellent guidance, councils still 'do their own thing' to a large extent. So, one of the obvious guardians of ethical behaviour, the audit committee, may not have the ability or status to carry out this function. Particularly where no specific ethics policy exists.

Things are further compounded by the almost complete non-existence of ethical policies in the public sector generally. This is in contrast to the private sector, where not only are they common-place but they are seen by stakeholders as a significant indicator of a well-run organisation – assuming there is evidence that the policy is effective and implemented.

Of course local government has some ethical strengths. Firstly, virtually every council provides induction for new



Members. This includes an overview of the Seven Principles of Public Life, which forms the bedrock guidance as to how Members should behave. There are also, usually, whistle-blowing, anti-bribery and corruption and various other staff and Member policies, as well as the constitution, that help to provide elements of an ethical framework. But these are rarely, if ever, given the benefit of an over-arching policy. The danger is that without an ethical policy, which is demonstrably supported by both the political leadership and the senior leadership team, all these well-meaning initiatives will gather dust and never seriously be followed. Couple that with a general lack of follow-up training for Members and staff then little heed is likely to be paid to these well-meaning efforts.

Putting a good ethics policy together is not hard, but what would you expect to see? It should be a short document,

no more than two pages long and attractively presented so people will actually read it.

Areas that should be covered could include:

- Overview. A general statement as to the organisations position regarding ethics.
- Who the Policy covers. Should be explicit about whether it covers all staff, Members, suppliers etc.
- Details of the Policy. What those affected must do to comply.
- Accountability. Details who and how alleged transgressions will be investigated, who reported to, sanctions etc.

It should also cover:

- A requirement that all those the policy applies to will act with honesty and integrity
- That all persons will declare any actual or potential conflicts of interest
- A commitment that all public filings are complete, truthful, accurate, timely and comprehensible
- That the council will comply with all laws, regulations, policies etc.
- How the ethics policy will be promoted, communicated, implemented and measured
- How concerns can be expressed, without fear of retribution

Of course it's great having a policy, but it's useless if it's not regularly promoted and demonstrably supported by all leaders, elected or appointed. In particular, the audit committee can be a champion of ethical behaviour by:

- Supporting a positive corporate culture
- Promoting and driving the development of ethical policies where they don't exist

- Ensuring there is awareness training for staff and Members
- Regularly reviewing, with management, the ethical corporate culture to ensure it is being adhered to
- Ensuring that Internal Audit include ethical testing in their audit programs
- Asking for evidence that everyone in the organisation takes ownership for ethical behaviour
- Ensuring codes of conduct clearly articulate the organisation's expectations of its staff and Members in respect of ethical performance and behaviour
- Requiring that all official policies and procedures accord with all appropriate laws and recognised ethical norms
- Reviewing HR policies to ensure that full and complete background checks are carried out on new employees, particularly for senior posts
- Making sure that someone in the organisation has specific responsibility for monitoring compliance with stated cultural and ethical policies. Who's championing the cause?

Finally a good ethical policy, properly implemented, can contribute to the success of an organisation and demonstrates, to the tax-paying public, that the council is doing the right thing. Combining a good policy with affirmative action and a positive 'tone at the top' will provide a bed-rock for success and openness.

If you need help or advice in developing an ethical framework for your organisation, speak to your head of internal audit.

Audit Together - Commercial Opportunities

Introduction

It is well documented that local authorities face significant funding challenges over the next four years and beyond. Additional budget requirements will need to be funded through efficiency savings and income generation. It is in this context that we have set out some interesting examples of what other local authorities across the country are doing to maximise revenue generation, encourage innovation, improve commercial acumen and become more enterprising.

Payday Loans

Sheffield City Council has created Sheffield Money to provide payday loans to local residents at lower rates (49.9% to 89.9% APR) than commercial providers. Interest on these loans generates an income stream for the Council. None of the Council's money is at risk as Sheffield Money acts as a brokerage for local credit unions and other not-for-profit lenders.

Recruitment Company

City of Wolverhampton Council has set up Yoo Recruit Ltd, a recruitment agency wholly owned by the Council which, in 2015/16, had a turnover of £7.4 million and a net surplus after tax of £230k. It provides temps to the Council and does not charge a fee when such workers successfully apply for permanent positions. This saved the Council approximately £225k in 2015/16. While the majority of Yoo Recruit's business is with the Council, it also offers temporary workers to the private sector.

Energy Efficiency

This summer Forest Heath BC announced that it had bought the largest council-owned solar farm in the country. The farm benefits from government funding for renewable energy, will provide an income from the sale of the energy it produces for years to come, and in time might be used to provide electricity more cheaply to local residents.

Charging for Green Waste

Three Rivers District Council has recently started charging residents for the collection of green waste, with the Council's own forecasts indicating net income of £276k in the first year, followed by £484k in future years. This assumes that 50% of households which had brown bins prior to the introduction of charging would opt into the service.

Advertising

The Council Advertising Network was launched in May 2014 by co-founders Birmingham City Council and Derby City Council. The Council Advertising Network secures advertising space on Council websites, with adverts required to meet a clear set of ethical criteria. The fees for the Council Advertising Network are taken out of additional revenue generated by the Council. www.counciladvertising.net

Conferencing facilities and renting of office space

Review the office space occupied by the Council to establish whether or not there is any space that may be suitable for offer as meeting/conferencing facilities. This exercise may also identify space which could be rented out as office accommodation on a short or medium term basis. At least two Hertfordshire authorities are renting accommodation and training facilities to the Hertfordshire Constabulary, as well as other public sector organisations such as the NHS and local colleges.

Decentralised energy networks

Several councils are at the early stages of creating a decentralised energy network to generate income from selling carbon-neutral energy to residents. For example, the London Borough of Sutton plans to invest £4.5 million in the Sutton Decentralised Energy Network (SDEN). The Council plans to generate a cumulative cash return of £1.5 million from this investment over the next 25 years by taking waste hot water from a local Energy Recovery Facility (EDF) and transporting it via insulated pipes into the radiators and floors of a new residential and commercial development nearby.

<https://www.sutton.gov.uk/info/200579/sden>

Property development company and development of existing sites

Hertsmere Borough Council has set up a property development company. As the main shareholder, the Council would receive any profit generated as result of its trading operations.

[http://www5.hertsmere.gov.uk/democracy/documents/s34916/Report %20of%20Officers.pdf](http://www5.hertsmere.gov.uk/democracy/documents/s34916/Report%20of%20Officers.pdf)

The Council is also developing one of its car park sites to include a hotel and supermarket, whilst retaining the existing car parking capacity. Additional income is expected in the form of rental from the hotel and supermarket and business rates from the businesses which occupy the new development. The possibility of further car parking capacity would also provide new income.

[http://www5.hertsmere.gov.uk/democracy/documents/s35371/Report %20of%20Officers.pdf](http://www5.hertsmere.gov.uk/democracy/documents/s35371/Report%20of%20Officers.pdf)

Transformational Change

What is Transformational Change?

Transformational Change is not doing the same with less – although this is / will be happening as well; it is not about making a few changes behind the scenes, changing the roles of a few people, but expecting it to be “business as usual” and we trust it will not be the new “buzz phrase” that will require you to employ a lot of consultants at a very high day rates.



It should be about looking at what you will be doing in (say) 5 years' time; predicting who your clients will be, their numbers, where they will be, what they will want and what they can afford, and designing your service to meet their needs in an effective manner that is within your resource envelope.

What are the key changes?

Each organisation will have its own “long list” but an example may be how a council can provide adult social care to an increasing elderly population – do you do the same, costing the same per head but more overall, or do you look at different ways of doing things? – a number of organisations are looking at how they can use social networks and better IT to support our elderly population.

Why?

The current financial agenda is a big driver, but it should also be about improving your services. Our population is changing – your customers want different things – they live differently – what we did last century may no longer be acceptable.

“Your life does not get better by chance, it gets better by change.” **Jim Rohn**

When and how?

If not now, then you soon will be. But it takes time to transform and you need to have the skills to make these changes and still do the “day job”? Are you going to recruit someone or a team to do this? Don't forget that pretty much every organisation in the country is looking at doing this – are there enough specialists out there to assist you – or will you just pay a lot of money for little return?

You need to make savings – what will the financial return be? What is the pay back period? Are you using reserves to pump prime? When will they be replenished? Slippage – it will happen – has the knock on effect been considered?

Assurance

Transformational changes are the “big ticket” items – the ongoing success of your organisation may depend on how well you deliver transformation. You will have sound project management and project governance, setting out how the key milestones are being achieved, how cost is being controlled, what is slipping, and what can be done to assist.



In addition Audit Committee members should be getting independent assurance that transformational change is on track and that the change is delivering on its promises.

The Audit Committee may wish to ask:-

- What are the key projects?
- Are they on track?
- Will they deliver our saving targets?
- Will they improve our services?
- Are we getting the benefits we expected?

If Transformational Change does not feature in your internal audit plan, you may wish to question why not. If you want assistance with auditing your “big ticket” projects, please talk to your Head of Internal Audit.

Local Government & Third Sector Collaboration - Assurance

As local government departments seek to redesign service delivery models to best achieve public value in the face of ongoing budget reductions and increased demand, more and more are exploring the option of collaboration with the 'Third Sector' building on their many shared characteristics and objectives.

Whilst such collaborative initiatives are essential to meet public demand during a period of ongoing austerity, it is common, due largely to such shared values and the informality of relationships, that complacency can manifest in the build, design and durability of governance and assurance arrangements.



It is fully acknowledged that there is a requirement with such collaborative initiatives to develop a culture which places emphasis on building trust and strong relationships focused on achieving shared outcomes and targets and in taking informed risks on the understanding that it is essential to innovate and transform the way that services are delivered.

However, it is important to remain mindful that risk cannot be outsourced and under such collaborative arrangements accountability will remain with the local authority, albeit without the responsibility for, and direct control of service delivery.

It is therefore essential that any such arrangements both existing and considered be underpinned by clear and robust mechanisms providing assurance that key risks are being identified, effectively managed and shared outcomes delivered.

Experience has demonstrated that in the constitution of such collaborations governance arrangements remain low on the radar, resulting in resource intensive efforts to resolve as and when issues arise.

Time invested in establishing a clear assurance process at the initiation of collaborative agreements provides clear focus, direction and accountability for all stakeholders including recipients of the service.

Your internal audit team are professionals in the field of risk, governance and control and should be called upon to review process and provide advice as appropriate.

Assurance checklist:

- ✓ Clear documented governance and reporting arrangements
- ✓ Defined roles and responsibilities
- ✓ Clear understanding of your risks (risk appetite, ownership etc.)
- ✓ Assurance mapping and considerations of audit work to be performed
- ✓ Clear and adequate rights of access for audit and assurance purposes

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The group meets quarterly and we circulate periodic bulletins to our Partner organisations with the aim of sharing information and best practice.

We hope that you find the bulletins useful. If you have any comments or feedback on this bulletin or have suggestions for future articles then please contact one of the individuals above.