

# **Causeway Coast and Glens Borough Council**

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## ***Internal Audit Report Corporate Governance***

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May 2017

**MOORE STEPHENS**

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# INTERNAL AUDIT REPORT

## Corporate Governance

### Executive Summary

This internal audit was completed in accordance with the approved annual Internal Audit Plan for 2017/18. This report summarises the findings arising from a review of Corporate Governance which was allocated 8 days.

Through our audit we found the following examples of good practice:

- All meeting papers (agenda, minutes, reports etc.) are consistently issued by Democratic Services in a timely manner in advance of meetings.
- Council's website provides a high level of information to the public in relation to Council activities, planned meetings including agendas and minutes of all meetings (within 1 week of a meeting being held).
- Since October 2016, Council has been publishing all reports presented at every Committee meeting on Council's website to accompany the meeting minutes. (This excludes any reports or matters discussed in Committee).

One area (Priority 2) where controls could be enhanced was noted during our review:

- A process to support the preparation of Annual Assurance Statements should be put in place. The process should provide sufficient evidence of assurance gathered from the main levels of the Council (e.g., Heads of Service, Directors) to allow the Chief Executive to sign an Annual Assurance Statement for the Council.

The following table summarises the total number of findings/recommendations from our audit:

Risk	Number of recommendations & Priority rating		
	1	2	3
There may be an inadequate governance framework leading to poor management, a lack of transparency and accountability, and insufficient performance measurement	-	1	3
There may be an inadequate organisational structure in place, leading to unclear lines of authority, responsibility and accountability	-	-	-
There may be an inadequate flow of information throughout the Council, leading to organisational underperformance and incorrect decision-making	-	-	1
<b>Total recommendations made</b>	<b>0</b>	<b>1</b>	<b>4</b>

Based on our audit testing we are able to provide the following overall level of assurance:

**Satisfactory**

Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives.

Points for the attention of Management

We have identified a number of system enhancements during the course of the audit which do not form part of our formal findings, but may help enhance the existing controls. These are detailed at Appendix III.

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<b>Distribution:</b>	Audit Committee Chief Executive Director of Corporate Services Democratic Services Manager
	May 2017

<b>Audit progress</b>	<b>Date</b>
Audit commenced	22 May 2017
Draft Report issued to senior management for response	12 June 2017
Responses Received	26 July 2017
Responses Agreed	31 July 2017
Report Issued	31 July 2017

All matters contained in this report came to our attention while conducting normal internal audit work. Whilst we are able to provide an overall level of assurance based on our audit work, unlike a special investigation, this work will not necessarily reveal every issue that may exist in the Council’s internal control system.

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## 1 Objective

The areas for inclusion in the scope of the audit were determined through discussion with management. The scope of this audit was to review the arrangements in place within the Council in relation to corporate governance, focusing on the main risks associated with:

- Governance framework
- Governance responsibilities and accountability
- Reporting.

## 2 Background

The *International Framework - Good Governance in the Public Sector (CIPFA)* defines governance as follows:

“Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.”

Good governance is fundamental to the effective delivery of the Council’s services and its corporate priorities. Open and transparent decision-making, financial and budgetary control, effective scrutiny arrangements, strategic risk management, and effective partnership-working are several factors that impact the way in which the Council operates for the benefit of the local community.

Although one size does not fit all, it is essential that each Council develop a governance framework suitable to its needs to ensure value is delivered to the community for the rates and other charges it pays and which form the foundation for sustainability in the future.

The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 (Regulation 4(2)), require an authority to conduct a review at least once in a year of the effectiveness of its system of internal control. In Northern Ireland, this requirement is addressed via the development of an Annual Governance Statement (Regulation 4(4)), which is published as part of the annual financial statements.

## 3 Risks

The risks identified by Internal Audit relating to corporate governance and agreed with management are as follows:

1. There may be an inadequate governance framework leading to poor management, a lack of transparency and accountability, and insufficient performance measurement
2. There may be an inadequate organisational structure in place, leading to unclear lines of authority, responsibility and accountability
3. There may be an inadequate flow of information throughout the Council, leading to organisational underperformance and incorrect decision-making

## 4 Audit Approach

Our audit fieldwork comprised:

- Documenting the systems via discussions with key staff
- Consideration of the key risks within each audit area
- Examining relevant documentation
- Carrying out a preliminary evaluation of the arrangements and controls in operation generally within the Council
- Testing the key arrangements and controls
- Testing the completeness and accuracy of records.

The table below shows the staff consulted with and we would like to thank them for their assistance and co-operation.

Job title
Director of Corporate Services
Manager of Democratic Services
Committee and Member Services Officer
Committee Clerks
Head of Organisation Development and Human Resources
Human Resource Business Partner

## 5 Findings and Recommendations

This section of the report sets out our findings in relation to control issues identified and recommendations. A summary of all the key controls that we considered is included in Appendix II to this report.

### 5.1 Risk 1 –Governance Framework

#### ISSUE 1 – Annual Assurance Statements

##### a) Observation-

A formal annual assurance statement process is planned, but has not yet been introduced. We were advised that Annual Assurance was discussed at Senior Management Team (SMT) level but there is no evidence of the discussions in the SMT Meeting Action Points. (SMT Action Points do not consistently capture all issues discussed, items approved and agreed at SMT. See also Issue 5).

<p><b>b) Implication-</b> If a process to prepare Assurance Statements at each significant level of Council (e.g. Head of Service, SMT) is not in place there is a risk that the responsibility to ensure sound risk management and internal control is not fully understood at all main levels of Council. In addition, there is a risk that governance issues may not be highlighted and resolved if they have not been identified through other assurance mechanisms in place such as internal audit, risk management etc. There is also a risk that the Chief Executive has insufficient evidence to support the completion and signing of the Annual Governance Statement.</p>
<p><b>c) Priority Rating-</b> 2</p>
<p><b>d) Recommendation-</b> A process should be put in place to support preparation of Annual Assurance Statements at the appropriate levels of Council, to provide the Chief Executive with evidence of overall organisation Annual Assurance levels.</p>
<p><b>e) Management Response-</b> Accepted; Process to be implemented.</p>
<p><b>f) Responsible Officer &amp; Implementation Date-</b>  Director of Corporate Services December 2017</p>

## ISSUE 2 – Audit Committee Self-Assessment

<p><b>a) Observation-</b> Good practice is that the Audit Committee should complete an annual self-assessment of its effectiveness; to date, the Audit Committee has not completed such an assessment.</p>
<p><b>b) Implication-</b> If the Audit Committee does not perform periodic reviews of their effectiveness, there is a risk that the committee does not perform as effectively as it might and that training needs for committee members are not identified.</p>
<p><b>c) Priority Rating-</b> 3</p>
<p><b>d) Recommendation-</b> A process should be put in place to support periodic reviews of the effectiveness of the Audit Committee and action taken to address any areas for development identified.</p>
<p><b>e) Management Response-</b> Accepted; Self-assessment checklist in line with best practice to be developed and implemented.</p>
<p><b>f) Responsible Officer &amp; Implementation Date</b>  Director of Corporate Services December 2017</p>

**ISSUE 3 – Implementation of Audit Recommendations****a) Observation-**

All internal audit prior year recommendations are followed up by Internal Audit and a report of progress is presented to the Audit Committee annually. At the time of our audit, there was no process for management to report on the progress of implementing (external or internal) audit recommendations to the quarterly Audit Committee meetings. Subsequent to the audit, a summary of progress of implementing the external audit recommendations (2015/16) was presented to the June Audit Committee. We were advised that there are also plans to consolidate all internal audit recommendations and to prepare a report of progress of implementation which will be provided to the Audit Committee in the future.

**b) Implication-**

If there is no reporting by management of the implementation of audit recommendations, the audit committee cannot be assured that recommendations are being actioned in a timely manner.

**c) Priority Rating-**

3

**d) Recommendation-**

Progress on the implementation of internal and external audit recommendations should be reported regularly at audit committee meetings.

**e) Management Response-** Noted; Progress reports issued quarterly to Audit Committee.**f) Responsible Officer & Implementation Date-**

Director of Corporate Services

**ISSUE 4 – Gifts and Hospitality****a) Observation-**

Employees are guided by the Employees Code of Conduct in relation to gifts and hospitality. The Code of Conduct for Councillors provides guidance on Gifts and Hospitality for elected members. A gifts and hospitality register is maintained for all gifts offered to Council Officers and Councillors.

The Codes provide generic guidance and advice but do not specify any values relating to the acceptance of gifts/hospitality and Council does not have a policy which defines such value limits.

**b) Implication-**

If a Gifts and Hospitality Policy, defining a monetary limit for accepting gifts, is not in place; there is a risk that employees and elected members may not be aware of how to act in the rare situation where a gift/hospitality is offered and may not understand the circumstances under which acceptance of a gift may be seen to compromise their personal judgement or integrity. There is also a risk that

accepting significant gifts and hospitality creates a perception of biased decision-making.
<b>c) Priority Rating-</b> 3
<b>d) Recommendation-</b> A Gifts and Hospitality Policy should be put in place or a monetary limit for accepting gifts or hospitality should be defined and communicated to all staff and elected members.
<b>e) Management Response-</b> Accepted; draft policy to be progressed.
<b>f) Responsible Officer &amp; Implementation Date</b>  Director of Corporate Services March 2018

## 5.2 Risk 2 –Organisational structure

We did not identify any findings or recommendations in this area.

## 5.3 Risk 3 – Flow of information

ISSUE 5 – Publishing Councillor Attendance
<b>a) Observation-</b> Standing Order (SO) (9) of Causeway Coast and Glens Borough Council requires that “a record of annual attendance should be published within 5 months of the financial year end”. However, at the time of audit records of attendance had not been published. Preparations were underway to publish all attendance records (for the previous 3 years) on the Council website.
<b>b) Implication-</b> If attendance records are not published in line with Council’s SO, there is a risk of a public perception of lack of transparency, responsibility and accountability.
<b>c) Priority Rating-</b> 3
<b>d) Recommendation-</b> Councillors attendance records should be published in line with the Council’s Standing Orders.
<b>e) Management Response-</b> All attendance records for previous 3 years have been published on Council’s website and timescales noted.
<b>f) Responsible Officer &amp; Implementation Date-</b>  Democratic Services Manager. Ongoing; Completed to date 9/6/17.

## Appendix I: Definition of Assurance Ratings and Hierarchy of Findings

### **Satisfactory Assurance**

*Evaluation opinion:* Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives.

### **Limited Assurance**

*Evaluation opinion:* There are significant weaknesses within the governance, risk management and control framework which, if not addressed, could lead to the system objectives not being achieved.

### **Unacceptable Assurance**

*Evaluation opinion:* The system of governance, risk management and control has failed or there is a real and substantial risk that the system will fail to meet its objectives.

### **Hierarchy of Findings**

This audit report records only the main findings. As a guide to management and to reflect current thinking on risk management we have categorised our recommendations according to the perceived level of risk. The categories are as follows:

**Priority 1:** Failure to implement the recommendation is likely to result in a major failure of a key organisational objective, significant damage to the reputation of the organisation or the misuse of public funds.

**Priority 2:** Failure to implement the recommendation could result in the failure of an important organisational objective or could have some impact on a key organisational objective.

**Priority 3:** Failure to implement the recommendation could lead to an increased risk exposure.

## Appendix II: Summary of Key Controls Reviewed

### Budgetary Control

Risk	Key Controls
<p>There may be an inadequate governance framework leading to poor management, a lack of transparency and accountability, and insufficient performance measurement</p>	<ul style="list-style-type: none"> <li>• Council review its governance arrangements each year and prepares an Annual Governance Statement</li> <li>• Annual Governance Statement meets the statutory requirement of the Accounts and Audit Regulations for the Council</li> <li>• Annual Governance Statement is audited by the Local Government Auditor</li> <li>• There is an assurance statement process to support the Chief Executive in developing the Annual Governance Statement in which:               <ul style="list-style-type: none"> <li>○ Heads of Service provide annual assurance statements to enable Directors to complete their assurance statements</li> <li>○ Directors provide annual assurance statements to enable the Chief Executive (Accounting Officer) to sign the Annual Governance Statement – subject to recommendation</li> </ul> </li> <li>• Council has an Audit Committee that meets regularly</li> <li>• Audit Committee meetings are documented</li> <li>• The Audit Committee assesses its performance and understanding annually-subject to recommendation</li> <li>• Appropriate policies are in place for the Committees and staff regarding:               <ul style="list-style-type: none"> <li>○ Declaration/conflict of interest- subject to recommendation</li> <li>○ Code of conduct</li> <li>○ Gifts and hospitality – subject to audit recommendation</li> <li>○ Bribery Act</li> </ul> </li> <li>• Council has an adequate process in place to ensure that internal audit is operating effectively and regular updates are received – subject to audit recommendation</li> </ul>
<p>There may be an inadequate organisational structure in place, leading to unclear lines of authority, responsibility and accountability</p>	<ul style="list-style-type: none"> <li>• There is a clear organisation structure in place</li> <li>• Councillors receive training and understand their roles</li> <li>• Council and Council Committees holds regular meetings</li> <li>• There are regular Senior Management Team (SMT) meetings</li> <li>• There are mechanisms to ensure sharing of information amongst Heads of Service</li> <li>• Directorates / Services report to Council regularly</li> <li>• Council Committees and other working groups have clear terms of reference</li> </ul>

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Risk	Key Controls
There may be an inadequate flow of information throughout the Council, leading to organisational underperformance and incorrect decision-making	<ul style="list-style-type: none"><li>• Papers are issued to Council and Committee members within the required deadlines ahead of meetings</li><li>• Minutes of meetings are published in a timely manner</li><li>• Mechanisms are in place for reporting by Managers to SMT</li><li>• SMT receives and reviews management information such as progress against performance/KPIs, finance etc on a regular basis</li><li>• Regular Council and committee meetings take place</li><li>• Council and Committee meetings are well attended by members - subject to recommendation</li><li>• Mechanisms are in place to deal with declaration of interests</li><li>• Mechanisms are in place to communicate with the public on strategy, services and performance</li></ul>

## Appendix III: Points for the Attention of Management

### Annual Governance Statement

The Annual Governance Statement (AGS) dated 31.03.2016 was prepared based on a template previously provided by the Department of Environment (used by all Council's in Northern Ireland) and includes information in line with CIPFA's core principles of Corporate Governance. However, the AGS should make clear within the statement itself the Governance framework which Council endeavours to adhere to i.e. CIPFA/SOLACE which includes 21 elements; and confirm that Council has considered these elements when compiling the Annual Governance Statement. The AGS could also include greater detail on citizen satisfaction activities which take place in Council (e.g. customer comment cards). The AGS should also outline the annual assurance process once implemented.

**Management response: Agreed**

### Declarations of Interest

A system of Declarations of Interest is in place for all Councillors and the Senior Management Team. We found from our testing that 1 (Councillor declaration) had not been signed and 2 Councillor declarations and 1 senior management team declaration were returned more than 2 months after the initial request to sign and return. Democratic Services staff are currently carrying out an exercise to obtain updated Declarations from Councillors. The first request for updated declarations was issued on March 28<sup>th</sup> 2017. At the time of audit fieldwork, 18 (out of 42) Declarations had been returned. All declarations of interest (for Councillors and SMT) should be signed and returned in a timely manner.

**Management response: Agreed**

### Senior Management Team Meetings

The SMT meets weekly on a Monday morning to share information of all ongoing Council activities and to agree actions moving forward. In lieu of minutes at these meetings, Action Points are recorded against the following headings:

- Chief Executive
- Finance
- Performance
- Environmental Services
- Leisure and Development
- Planning
- Any other Business

We were advised that the Annual Assurance Statement (2015/16) was discussed and agreed at an SMT meeting, but that this was not recorded in the Action Points. By recording Action Points, only, the record of SMT meetings does not always capture items agreed or approved. The format of record keeping at the SMT meeting should be reviewed to include information regarding decisions reached and notes of items to be followed up later

**Management response: Agreed**