

FROM: Audit and Risk Manager **SUBJECT:** Corporate Governance:
Organisational Culture

TO: Deputy Chief Executive (AJ) **DATE:** 9 January 2018

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1 Introduction

- 1.1 Each year the Audit Plan includes an allocation of time to examine an aspect or aspects of corporate governance. What is to be covered is normally agreed with senior management when the audit is being scheduled to be undertaken.
- 1.2 Previous topics have included the effectiveness of the Citizens' Panel, the Member Development Programme, the implementation of Executive decisions and the significant governance issues in the Annual Governance Statement.
- 1.3 This report outlines the approach to this year's audit and presents the findings and conclusions arising.

2 Background

- 2.1 Following a review of Internal Audit's plans, practices and procedures undertaken by CIPFA during the early part of 2016 a report was issued that included a number of recommendations. Some of the recommendations related to how compliant Internal Audit (IA) was with the Public Sector Internal Audit Standards (PSIAS). Generally speaking IA was broadly compliant with most of the requirements. One of the areas requiring attention was IA's consideration of ethics and values within the council.
- 2.2 Standard 2110, under the heading of Governance, requires that IA must make appropriate recommendations for improving the governance process in the accomplishment of a number of objectives including "Promoting appropriate ethics and values within the organisation".
- 2.3 Standard 2110.A1 requires that "The internal audit activity must evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities".
- 2.4 Accordingly it was agreed that the subject for the 2016 audit of corporate governance would be ethics with a view to making some progress against the PSIAS. When the work began it soon became evident that in order carry out research to gain a proper understanding of ethics as applicable to local government, to compile an audit programme, to draft a staff survey, to undertake testing and to report would be unattainable within the time

allocation. It was therefore agreed to undertake some work with a view to continuing with the task in the 2017 audit.

- 2.5 The emergence of ethics as a topic of great interest in public sector audit may have been one of the reasons that around the same time there was a raft of articles and papers emanating from the main accountancy and audit bodies on the importance of culture within an organisation and that it was a subject that should be examined thoroughly and consistently by IA.
- 2.6 One of the more substantial of these articles was circulated by the Audit & Risk Manager to the Corporate Management Team with an offer that the subject matter be included within a future Audit Plan. The Chief Executive wrote back in support of this and so the subject matter was included in the Audit Plan for this year.
- 2.7 As part of the research for the 2016 audit a notice was posted on the CIPFA TISOnline discussion forum enquiring if any other authorities had done any work in this area and would be willing to share their experience and possibly an audit programme. When an auditor from Conwy County Borough Council responded that she had recently undertaken some work on the council's ethical culture and that she would be willing to share the audit programme she received around 70 requests for a copy from auditors all over the country who were about to embark on the same audit and were looking for guidance.
- 2.8 The topics of culture and ethics are slightly nebulous but it is claimed that unethical behaviour puts an organisation at risk and can be placed at the heart of many organisations' failures. Some would argue that ethical and cultural failures will only impact on the private sector because of its different management structures and motivations but increasingly, as demonstrated at 2.5, the public sector is buying into the potential benefits and advantages of having a "good" culture with strong values and expected behaviours that is understood and supported by all.
- 2.9 Accordingly when the consultation on the 2017–2020 Audit Plan was being undertaken it was agreed with management that this year's work on corporate governance would, as previously agreed, continue with an assessment of the council's ethical values and objectives but within an overall assessment of the council's organisational culture.

3 Scope and Objectives of the Audit

- 3.1 Given the wide ranging nature of the subject, and that for IA it is something of a step into the unknown, the approach to the work was that it was not going to be an exhaustive detailed review of culture but more of a first step that can be built on in future years.
- 3.2 There was no attempt to arrive at a conclusion that could be viewed as fatuous, that the council has in place either a good or bad culture, but rather the assessment would consider whether or not the council had in place a framework to enable that judgement to be made.
- 3.3 In order to provide some degree of independence and some idea of the auditing profession's view of what constitutes a sound cultural framework a

report by the Institute of Internal Auditors (IIA) "Auditing Culture – A Hard Look at the Soft Stuff" was used as the basis for an audit programme. The report included a list of areas to audit and measure and all of these were included in the programme together with an additional area considered worthy of inclusion.

- 3.4 The measures that were of a judgemental nature, such as leading by example or staff or customer perception of the cultural environment, which would have required a series of interviews and compiling and issuing a survey, were not undertaken this time and will be considered for any future reviews.
- 3.5 The areas detailed in the IIA report as "What to audit and measure" were listed under five headings as follows:
- Satisfaction / opinion considerations
 - Training
 - Compliance
 - HR practices, incentives and enforcement
 - Evidence of soft controls.

To these was added "organisational values" as it was considered a fundamental factor in forming an organisation's objectives, ethics and standards.

4 **Findings**

- 4.1 For most audits the overall finding will be based on the strength of controls in a system and compliance or otherwise with those controls. For this audit the findings will be a combination of whether or not particular measures are present and what can be gleaned from them in the sense that they could be indicators of particular elements of culture.
- 4.2 As already stated there will be no findings in respect of the more judgemental areas and areas where evidence was not available and would have had to be gathered.
- 4.3 In overall terms the audit concluded, somewhat predictably, that while ethics and culture are important features of the way that the council is directed, governed and managed, they are enshrined, almost by default, in the overall management arrangements and not identified as a single entity and managed accordingly. In short members and officers have never needed to consider the council's ethical and cultural performance or how important it might be to all stakeholders as it has never been questioned and nor, probably, has it for the majority of local authorities. It will be taken as read that the council operates in a manner that is ethically beyond question.
- 4.4 As local authorities have a very different purpose to private sector companies, are heavily confined and directed by legislation and are answerable to an electorate who are far more aware and demanding than they ever used to be it is almost inevitable that they are managed in a way that is virtually standard and certainly very open. As a result they have to operate in a way that is honest because almost every policy, procedure, decision and transaction is published and therefore open to question.

- 4.5 The findings from the audit are as listed below. They relate to the measures in the IIA report referred to at 3.5.
- 4.6 **Organisational values**
- 4.6.1 The questions being asked here concerned the establishment of corporate values and how they are communicated, understood and reviewed.
- 4.6.2 Naturally the council does have a plethora of high level strategic documents and statements setting out its core values and ambitions for the future ranging from the Sustainable Community Strategy through to Fit For the Future and the Community Statement – Our Vision. The July 2016 Peer Review stated that there are good levels of awareness and buy in for the priority themes and the overall vision of making Warwick District a great place to live, work and visit is well known and as relevant now as when it was first coined.
- 4.6.3 The Peer Review also stated that members, officers and partners are all familiar with the priority themes and ambitions and want to work with the council to deliver against them. It did, however, say that although the council's themes and ambitions were very laudable and supported by all concerned there was little rationale behind them and there was a lack of clarity on the outcomes being sought. More of that later.
- 4.7 **Satisfaction / opinion considerations.**
- 4.7.1 This section relates mainly to employee observations of misconduct and reporting it, the cultural environment, employee and customer surveys and customer complaints.
- 4.7.2 If an employee believes that they have witnessed examples of misconduct by a member or a colleague they have a number of options for reporting it. These include their line manager, Head of Service, Employee Support Officers, HR, Trade Unions and any number of external agencies. They can also invoke the council's Whistleblowing Policy or contact the confidential reporting hotline In Touch. Employees are made aware of their options for reporting concerns during Corporate Induction and a general reminder on whistleblowing is posted on the Intranet at least annually.
- 4.7.3 Employees' perceptions of the tone from the top and the importance of compliance and ethics within the council are unknown and would only have been established by interviews or a survey and could be considered as options for future years.
- 4.7.4 Customer surveys are undertaken on occasion but these are likely to be of a service delivery nature and not assessments of the council's overall performance or its ethical and cultural behaviour. The Citizens' Panel which was used to gather council taxpayers' views of council performance in a number of categories was disbanded several years ago.
- 4.7.5 Surveys of employees' views are undertaken both on a targeted basis e.g. users of particular services and on an across-the-board basis e.g. Peer Review and Investors in People (IIP). Some questions have been asked previously in

respect of 'values and behaviours'. The next IIP survey will be taking place around March 2018.

4.7.6 The council does have in place a complaints policy, approved in November 2009, which is accessible from the website and includes an online complaint form. The policy is due for review and this may take place next year.

4.7.7 The number of complaints received and resolved is reported as part of the quarterly management information. Around 80% of complaints are resolved at stage one with very few making it as far as the Ombudsman.

4.8 **Training**

4.8.1 The measures here are the existence of a comprehensive training programme, frequency of training and documentation of attendance and assessing the effectiveness of training.

4.8.2 The council recognises the importance of training and equipping employees with the tools and skills to do the job. This is evidenced by the continuing award of IIP status, the delivery of a full and varied corporate training programme, the provision of ad hoc training in the use of basic council systems and the level of resources devoted to training.

4.8.3 A corporate training programme is produced each year that is based in part on recurring topics where it is known that training will be required, topics that have been requested by service areas or are common themes in personal development plans and emerging topics where employees have little or no knowledge. The frequency of training will be based on experience in some cases and on demand in others and if necessary the programme can be adjusted accordingly. Corporate training is reviewed at Workforce Steering Group to ensure that it is meeting organisational objectives.

4.8.4 For new staff certain aspects of the application/recruitment process and then the induction process will involve imparting on them the council's values and aspirations.

4.8.5 Budgets for training are inevitably somewhat lower than, say, ten years ago when there was less pressure but they remain fairly consistent. For the last three years the budgets for training (oldest first) have been £150K, £142K and £151K.

4.8.6 Attendance at all corporate training is recorded by means of an attendance sheet which is logged. Details of the courses attended by each employee are forwarded periodically to an employee's Head of Service for use in '1 to 1s' and appraisals. HR is taking a firm stance on employees booking onto corporate training and then simply not turning up on the day. It was assumed and not evidenced that attendance at college courses will be recorded in a register style and forwarded to an employee's service area for information or action if appropriate.

4.8.7 The effectiveness of corporate training in respect of its value, meeting expectations and improving knowledge is assessed by way of a pre and post course questionnaire that is normally completed with the line manager before

and after the training. These are analysed by HR, acted on if necessary and used in the compilation of future training calendars. On an individual basis the benefit of training undertaken and requests for future training will be discussed during '1 to 1s' and as part of the appraisal process. Some managers also encourage sharing of the training in the teams.

4.9 **Compliance**

- 4.9.1 The issues covered here are the protection of whistleblower status, the frequency of legal problems faced by the council, the number of risk and control problems identified by Internal Audit and other assurance groups and the timeliness and effectiveness of corrective actions.
- 4.9.2 A Whistleblowing Policy and Procedure was adopted by the council many years ago in response to the Public Interest Disclosure Act 1998 and best practice. It is promoted regularly on the Intranet and yet no referrals have been made. It could be assumed that in all that time employees have witnessed no wrongdoing that they wished to raise but it could also be assumed that despite the assurances that the policy offers employees are unwilling to come forward for fear of reprisals. Alternatively it could be assumed that employees have access to other sources for support as identified earlier e.g. HR, Trade Unions, Employees Support Officers and line managers and are able to resolve any concerns without formally invoking the Policy. Regular promotion of whistleblowing and other options for raising concerns will continue.
- 4.9.3 The number of legal problems faced by the council, their causes and their resolution was not covered on this occasion.
- 4.9.4 Risk and control problems are being identified regularly through the planned programme of internal audits, ad hoc investigations undertaken and through the risk management system. Planned audits will usually identify some control issues but they rarely fall into the high risk category. The very nature of an ad hoc investigation means that there are serious concerns that are likely to identify high risk issues. Either way the risks will result in recommendations that require management responses relating to corrective action and the implementation of these is formally monitored and reported. The progress or status of the proposed corrective action is checked again at the beginning of the next audit on the subject.
- 4.9.5 Risks identified through the risk management system do not relate to control issues that have already occurred but to situations or circumstances that might occur in the future and result in disruption to services and management. These risks and their mitigation or control are allocated to individual officers and then monitored as part of the risk register review process.
- #### 4.10 **HR practices, incentives and enforcement.**
- 4.10.1 Included under this heading are the frequency of negative media coverage, penalties for violating policies, dealing with honest mistakes, employee turnover, exit interviews and appraisals.

- 4.10.2 Negative media coverage wasn't examined in an evidential way but, generally speaking, as with all councils because of their prominent role in the community, the local council is a good source of coverage for the local media and, just like with national news items, it is a truism that negative articles will generally be more prominent than articles allotting praise. It is also likely that a lot of council decisions, no matter how much benefit they create, will not find favour with some sections of the community and therefore result in negativity.
- 4.10.3 Another suitable measure of culture in this area is the appropriateness and consistency of penalties that are applied when policies are infringed. Most policies will include a section on non-compliance and the actions to be taken. They will vary depending on the nature of the policy especially if there are legal implications e.g. data protection and misuse of data and if the disregard is wilful and persistent.
- 4.10.4 For some policies there is recognition that compliance will sometimes be difficult as a result of individual circumstance. There are a range of responses to such issues with one of the main ones being counselling and support measures built in to help employees.
- 4.10.5 Honest mistakes will happen from time to time and will be dealt with appropriately. Should they be repeated the approach will again be one of support such as the provision of further training. Additional approaches will be considered and applied where relevant.
- 4.10.6 Employee turnover can be interpreted in a number of ways and its calculation can be distorted by a whole range of factors e.g. a lot of employees retiring in the same year, outsourcing of a service, the economic climate or personal or family circumstances. Employee turnover is calculated and reported to Employment Committee on a regular basis. For the last four financial years (oldest first) the turnover has been 9.7%, 17.23%, 10.71% and 13.8%. The WDC turnover rate is generally below the national Local Government and Public Services rate.
- 4.10.7 Exit interviews are offered to all departing employees but maybe not surprisingly very few take up the offer. For those that do it not always the case that people wish to air aspects of their employment that they have been unhappy with but rather placing on record how much they have enjoyed their time with the council.
- 4.10.8 The council has in place a well-established appraisal process and all service areas should ensure that employees receive an annual and mid-term appraisal. The response figures for the annual appraisal are monitored and reported by HR who work with Service Areas and managers to ensure that all annual appraisals are carried out.
- 4.10.9 The appraisal process follows a corporate approach in terms of format but it allows line managers discretion as to how they conduct the interview so there will be some general discussion about the job and employees are able to comment on any aspect of working for the council. If any significant concerns about the overall cultural environment are raised it would be hoped that they would be pursued.

4.11 **Evidence of soft controls**

- 4.11.1 This heading covers competence, teamwork, strong leadership, high expectations, high ethical standards, openness and transparency.
- 4.11.2 Competence is broken down into being adaptable and willing to learn. Without quoting examples it is clear that the council has always being adaptable and has responded to all of the demands made in recent years with the most notable recent example being the Fit For the Future programme that responded to increasing expectations, increasing and changing demand and decreasing finances. The Peer Review stated that the council was on a sound financial footing as a result of Fit For the Future and was in a position to meet future challenges.
- 4.11.3 Willingness to learn can be demonstrated by the taking on board and responding to any recommendations made as a result of independent assessments such as the Peer Review and IIP.
- 4.11.4 Teamwork incorporates trust and openness and helping and relying on one another to solve problems. Again without quoting too many examples there are several, almost standing, staff groups and groups assembled to address specific projects comprising staff drawn from a number of different service areas e.g. Risk Management Steering Group and Transforming Our Workplace Team.
- 4.11.5 Perceptions of strong leadership from both the member and employee viewpoint were not established but it can in part be implied by the very positive view in the Peer Review that there is an abundance of goodwill, passion and commitment from a range of stakeholders and that working relationships between officers and councillors appear to be mutually supportive.
- 4.11.6 The council's expectations are bound to be high. No local authority would set anything else. The council was aspiring at one time to be world class but now is aiming to make Warwick District a great place to live, work and visit. That was in part ratified recently when Royal Leamington Spa was declared the happiest place to live in Britain.
- 4.11.7 High ethical standards are expected from all public servants be they members or employees. Accordingly for both members and employees there are Codes of Conduct, various protocols and numerous policies. For any deviation from the rules there is, for members, a Standards Committee and for employees a Disciplinary Policy and a number of other options including the Grievance Procedure and the Capability Policy.
- 4.11.8 As for openness and transparency the council has stated publicly that the culture and tone of the authority is one of openness, honesty and equality. As far as decision-making goes the process is extremely open with public attendance and, on occasion, speaking at meetings, the publication of agendas and with very few exceptions, allowed by legislation, the publication of most minutes.

4.11.9 Where information is concerned there is a vast array of published financial information, separate from that included in agendas, which is in some cases quite detailed e.g. statement of accounts, creditor payments, contracts in place. There is a whole range of other detailed information that is publicly available including information that reveals officer decisions and conditions such as planning applications and the granting of licences. Information that is likely to be of interest to certain members of the public and which previously they might have struggled to obtain.

5 **Conclusion**

5.1 The council's ethics and values and ethical related activities and objectives have to be considered by Internal Audit under the Public Sector Internal Audit Standards. Alongside this, having taken a lead from the private sector, the public sector is becoming increasingly aware of organisational culture.

5.2 In order to respond to this situation an audit was included in this year's Audit Plan in order to take the first steps towards assessing the council's cultural framework and whether or not it has the elements in place to instil a good culture. The audit was very much a first foray into a completely new area. There was no attempt to make an overall judgement of the council's culture.

5.3 The more subjective aspects of the cultural framework such as members and senior management leading by example, the employees' perception of the council's culture and the council taxpayers' views were not examined on this occasion due to time constraints that were stated at the outset of the audit. Some of these could be also be described as "outcome measures" whereas the purpose of the review was to evaluate the framework for delivering an efficacious culture, not to try to measure how successful this has been.

5.4 The conclusion drawn from this piece of work was that the council has in place the key components of a cultural framework that should 'deliver' an effectual, or positive, culture. Admittedly, as a public body, the council operates in a manner that is broadly similar to all other local authorities, within the confines of legislation and with the expected policies, protocols and standards designed to create an environment where honesty, integrity, openness and transparency are key features. Notwithstanding this, the council's arrangements are perceived to be a very good benchmark for any local authority. Consequently, without falling into the trap of expressing an opinion on whether the council does have an effectual culture, it can be stated that no evidence was encountered to arrive at a conclusion to the contrary.

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