

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager **SUBJECT:** Corporate Governance:
Ethics

TO: Deputy Chief Executive and **DATE:** 22 August 2018
Monitoring Officer

C.C. Chief Executive
Head of Finance
HR Manager
Portfolio Holder – Cllr. Mobbs

1 Introduction

- 1.1 In accordance with the Audit Plan for 2018/19, an examination of the above subject area has been completed recently and this report is intended to present the findings and conclusions for information and action where appropriate.
- 1.2 Wherever possible, results obtained have been discussed with the staff involved in the various procedures examined and their views are incorporated, where appropriate, in any recommendations made. My thanks are extended to all concerned for the help and co-operation received during the audit.

2 Background

- 2.1 The Local Code of Corporate Governance commits the Council to subscribe to the Delivering Good Governance in Local Government: Framework, produced by CIPFA in association with SOLACE. The Framework was revised in 2016 with a redefined set of core principles, the first of which relates to "behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of the law.
- 2.2 In terms of ethical values, the newly revised Code commits to:
- seeking to establish, monitor and maintain the Council's ethical standards and performance;
 - underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the Council's culture and operation;
 - developing and maintaining robust policies and procedures which place emphasis on agreed ethical values;
 - ensuring that external providers of services on behalf of the Council are required to act with integrity and in compliance with ethical standards expected by the Council.

- 2.3 This review has focused on 'ethics' across the Council as a direct consequence of provisions enshrined in the Public Sector Internal Audit Standards (PSIAS) and recommendations from the external assessment of the Internal Audit service reported in 2016. Initial proposals for undertaking an 'ethics' audit in 2017/18 as part of annual coverage on corporate governance were shelved as the focus shifted to organisational culture.
- 2.4 The PSIAS state that:
"The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:
- promoting appropriate ethics and values within the organisation;
 - ensuring effective organisational performance management and accountability;
 - communicating risk and control information to appropriate areas of the organisation; and
 - coordinating the activities of and communicating information among the board, external and internal auditors and management".
- 2.5 The Standards go on to state that "the internal audit activity must evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities".
- 2.6 The report from the aforementioned assessment recommended that Internal Audit should "include higher-level ethics work in the audit universe and plan".
- 2.7 This internal audit of 'ethics' is a new departure and initially entailed some considerable best practice research on organisational ethics programmes, auditing ethics and ethical assurance based on guidance from various sources. The programme of audit work is based ultimately on two main sources:
- Ethical Standards for Providers of Public Services – Guidance (CSPL¹ 2016);
 - Providing Ethical Assurance to Boards (CIIA² 2016).
- 2.8 The evaluation was undertaken with reference to the CSPL Guidance above and relevant sections of the IPPF³ Practice Guide - Evaluating Ethics-Related Programs and Activities (2012).

3 **Scope and Objectives of the Audit**

- 3.1 The standing objective of auditing corporate governance is to evaluate and report on effectiveness of overarching structures, procedures and monitoring arrangements that underpin the assurance framework for demonstrating good governance with reference to relevant standards.

¹ Committee for Standards in Public Life

² Chartered Institute of Internal Auditors

³ International Professional Practices Framework

- 3.2 The audit examination on this occasion was undertaken for the purpose of evaluating the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.
- 3.3 The assignment was scoped as an overview of corporate values, programmes and mechanisms designed to build and maintain an ethical culture among the workforce and major suppliers/contractors. The corresponding programmes and mechanisms in respect of Members were not covered on this occasion except for generic provisions that cover all parties.
- 3.4 The findings are based on examination of relevant documentation and consultations with the Deputy Chief Executive and Monitoring Officer, HR Manager, Senior Procurement Business Partner and a selection of Heads of Service.

4 Findings

4.1 Organisational Values

- 4.1.1 Two intersecting elements form the basis of expectations in terms of ethical culture:
- the Seven Principles of Public Life (known as the Nolan Principles);
 - the Council's five Core Values.
- 4.1.2 Both elements have been incorporated as base provisions in the Employee Code of Conduct. The People Strategy 2016-2020 also refers to the Core Values explicitly, while the Fit for the Future Statement refers to expansion on previously existing core values –these were a prominent feature of the 2008-2011 Corporate Strategy.
- 4.1.3 There was some reservation regarding the current profile of the Core Values. The Code of Conduct and the People Strategy list only the five text headers, and tracking down the full text statement among the Intranet and website resources did not prove easy. Text searches located the full statement only in historic Learning and Development literature and it was only after the HR Manager pointed to the 'Insider Guide' (a guidance booklet for prospective employees that contains the statement) that a full-text representation could be accessed on the website.
- 4.1.4 It was advised from discussions that measures are being taken which will raise the profile of the Core Values.

4.2 Ethics Programmes

- 4.2.1 The Employee Code of Conduct was last revised and re-issued in 2014, thereby taking on board the 2013 revised version of the Nolan Principles. The Code has direct references to related policies expanding on provisions relating to equality, sickness absence, alcohol, drugs and smoking. Other relevant policies accessible via the HR Intranet resources cover expanded provisions for working relationships among staff and between staff and Members.
- 4.2.2 A further revision to the Code is underway at the time of this report with a re-launch scheduled later in the year.

- 4.2.3 Since the previous issue, the Council has deployed Meta Compliance policy management software for communication and acceptance of new and re-launched policies. It was confirmed from discussions that new employees and agency staff are made aware of the Code of Conduct (and linked policies) through Meta Compliance and this will also apply globally to all current staff when the revised version is launched.
- 4.2.4 From memory, there have been no interim awareness initiatives on the Code of Conduct for existing staff in the four years since the global sign-up to the last edition. A good practice theme common across the guidance referred to is regular communication and training on organisational ethical codes.
- 4.2.5 Following the impending re-launch of the Code of Conduct, some awareness 'refresher' postings on Meta Compliance at least annually would be seen as helping to address this. Each item could relate to specific themes (e.g. updating declarations of interests).

Risk

Ethical disciplines may be overlooked.

Recommendation

A programme of 'refresher' postings on Meta Compliance in respect of the Employees Code of Conduct should be considered following re-launch of the revised Code.

- 4.2.6 A further area of good practice, suggested by the CSPL guidance, is the embedding of ethical risks as a standard category in the organisation's risk management framework. As the nature and severity of ethical risks are likely to vary between the different Council services, this is seen as a category appropriate for assessment in the respective Service Risk Registers and should cover Members, delivery partners and contractors as well as staff.

Risk

Ethical risks may not be managed effectively.

Recommendation

Incorporation of ethical risks in the Risk Management Framework as a standard category should be considered.

- 4.2.7 The People Strategy 2016-2020 is central to driving development of the organisational culture among the workforce, alongside the related Action Plan and supporting structures and processes (including the Appraisal and Competency Scheme).
- 4.2.8 It is observed that neither the Strategy nor any supporting resources were found to explicitly use the word 'ethic' or any of its derivatives, although feedback from certain discussions effectively cautioned against reading too much into this. The contribution of these elements to demonstrating an embedding of ethical values had to be evaluated from closer reading.

- 4.2.9 On the basis that the Core Values are omnipresent in the People Strategy and framework for delivering it, along with feedback from the recent Investors in People (IIP) assessment, the contribution is seen as appropriately robust.
- 4.2.10 Another element that warrants mentioning is the contribution of the professional bodies of which most (if not all) officers at more senior level empowered to make decisions are qualified members. In addition to these bodies' own codes of ethics and continuing professional development requirements, examples have been seen whereby such bodies have taken their own initiative to tackle ethical dilemmas and pressures to act unethically experienced by their respective members. These experiences form the basis of a recent major survey by CIPFA and a similar exercise undertaken by the Chartered Institute of Housing in 2014.
- 4.2.11 How all this translates into day-to-day ethical culture is much less tangible and the evaluation at this stage has relied extensively on the views and experiences of the aforementioned consultees. A suggestion received to convene small informal groups to discuss ethical culture was considered as part of the audit, but was not deemed practicable due to timeframe constraints. This is to be considered as a possible approach for a future re-audit.
- 4.2.12 Feedback from the discussions pointed, without exception, to strong ethical culture and leadership with peer challenge encouraged. It also confirmed that no ethical breaches of note involving staff or contractors have occurred within the Council in recent memory.
- 4.2.13 Turning to procurement, the embedding of ethical standards expected of contractors into the procurement process comes across as well covered. This is directed by the Code of Procurement Practice along with related policies and procedures which include an Ethical Procurement Statement.
- 4.2.14 There are extensive disclosure and declaration requirements on contracts valued £50,000 and above which include ethical matters guided by the above statement and linked policies as applicable. This is reinforced by Intranet guidance and training sessions for staff involved in procurements.
- 4.2.15 Policing ethical standards in contracts post-letting obviously forms part of the responsibilities of contract management and is subject to its related processes. While this area has not been reviewed within the scope of the audit, it is noted from discussions that no incidence can be recalled of contracts being terminated on the specific grounds of failure on the part of the contractor to observe ethical standards.

4.3 **Mechanisms to Support High Ethical Standards**

- 4.3.1 This takes us back to the Employee Code of Conduct and related policies which include well-established ones for disciplinary proceedings and whistleblowing. In addition, Part 4 of the Constitution sets out protocols for disciplinary measures and dismissal in respect of the Head of Paid Service, Statutory Officers and Chief Officers.

- 4.3.2 The Council's Complaints Policy would be expected to be invoked in case of allegations of ethical breach from an external party in respect of staff, Member or contractor activity.

5 **Conclusions**

- 5.1 The audit has concluded that the basic prerequisites of an appropriate organisational ethical framework are in place, subject to two areas identified for possible improvement and anticipated further audit review. This gives SUBSTANTIAL assurance that the relevant provisions committed to under the Local Code of Corporate Governance (Paragraph 2.2 above) are supported by appropriate and effective structures and processes.

- 5.2 The assurance bands are shown below:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with the controls that do exist.

7 **Management Action**

- 7.1 The above recommendations are reproduced in the attached Action Plan for management response.

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of Corporate Governance: Ethics – August 2018

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.2.5	A programme of 'refresher' postings on Meta Compliance in respect of the Employee Code of Conduct should be considered following re-launch of the revised Code.	Ethical disciplines may be overlooked.	Low	Deputy Chief Executive and Monitoring Officer	Agreed. I will discuss with Graham Leach and Karen Weatherburn.	1 February 2019
4.2.6	Incorporation of ethical risks in the Risk Management Framework as a standard category should be considered.	Ethical risks may not be managed effectively.	Low	Deputy Chief Executive and Monitoring Officer	I will discuss with Senior Management Team colleagues to determine whether this merits taking forward.	1 October 2019

* Risk Ratings are defined as follows:

High Risk: Issue of significant importance requiring urgent attention.
Medium Risk: Issue of moderate importance requiring prompt attention.
Low Risk: Issue of minor importance requiring attention.