

Final Internal Audit Report

Declarations of Interests, Gifts and Hospitality (Members and Officers)

November 2016

Distribution: Executive Director of Resources (Final Only)
 Head of HR Pay and Employee Relations
 Acting Monitoring Officer
 Head of Democratic Services and Scrutiny
 Head of HR and Finance Service Centre
 Head of Governance

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	Priority 2	3
	Priority 3	4

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This report has been prepared on the basis of the limitations set out in Appendix 3.

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1. Introduction

- 1.1 The openness, integrity and accountability of officers within a local authority is an important elements of effective corporate governance. The reputation of the Council depends on the standards of behaviour of everyone in it, whether Members, staff or contractors.
- 1.2 The Council's Code of Conduct (the Code) and associated gifts and hospitality guidance notes, require that all officers should complete a declaration of interest in circumstances where there is a financial interest in a contract or any financial or non-financial matter within the Council in order to avoid any suspicion of impropriety. Groups of designated officers are also required to complete an annual declaration of interests. The Code also sets out the standard of conduct expected for staff in their business activities and in the link between work and their private lives.
- 1.3 The Code and guidance also requires the declaration of gifts and hospitality where the value exceeds £10 and that this be approved by a Chief Officer.
- 1.4 The Council is required, by the Localism Act 2011 to 'promote and maintain high standards of conduct' by its Members and, under the Code of Conduct for Elected Members, Members are required to make disclosures of pecuniary interest. Under the Act, the Council is further required to establish and maintain registers that are published on the website.
- 1.5 This audit is part of the agreed Annual Internal Audit Plan for 2016/17. The objectives, scope and approach are included in the Audit Terms of Reference at Appendix 1.

2. Key issues

Priority 2 Recommendations
Declarations of interests for new employees were not being obtained and placed on their employee files (Rec. 1)
It was not clear who had overall responsibility for the review and retention of any staff declarations of interest (Rec. 2)
Although requested, the Head of Human Resource Policy, Pay and Employee relations had not provided a list of the employees that are required to submit annual declarations of interest as required by Croydon policies (Rec. 3) .

The priority 3 recommendations are detailed under item 4 below.

3. Actions and Key Findings/Rationale

Area 2 – Declarations made of Gifts, Hospitality, Interest and efficiency of process							
Priority	Detailed Finding/Rational						
2	<p>The Council's declaration of interest guidance, for staff, requires that, 'All new starters, including interims and consultants, are required to submit a declaration of interest form when they first join the Council. This form must be submitted to the relevant Director for review and retained for inspection purposes. If any interests have been declared, the Director must record what action has been taken to manage the risk.'</p> <p>Discussion with the Human Resources Recruitment and Process Manager and testing of a sample of new staff appointments confirmed that declarations of interest had not been obtained for new appointees or been retained on their employee files.</p> <p>Where declarations of interest are not obtained and retained for new staff appointments, the Council is unable to demonstrate compliance with its declaration of interest guidance and there is a risk that declarable interests by new appointees are not declared or made known to appropriate staff so that mitigating action can be taken.</p>						
Management Response	<p>Management should ensure that staff declarations of interest are completed and submitted to the Council as soon as new starters, including interims and consultants, join the Council. A copy of the initial declarations should be kept on record and updated as and when a change in circumstance is communicated by the employee.</p> <p>Any positive staff declarations made should be copied to the relevant Manager/Director and the Governance team.</p>						
	<table border="1"> <thead> <tr> <th>Agreed/Disagreed</th> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Agreed</td> <td>Head of HR and Finance Service Centre</td> <td>Actioned</td> </tr> </tbody> </table>	Agreed/Disagreed	Responsible Officer	Deadline	Agreed	Head of HR and Finance Service Centre	Actioned
Agreed/Disagreed	Responsible Officer	Deadline					
Agreed	Head of HR and Finance Service Centre	Actioned					
	<p>Immediately upon being highlighted a procedure has been put in place and the above issue is now resolved.</p>						

Area 2 – Declarations made of Gifts, Hospitality, Interest and efficiency of process							
Priority	Detailed Finding/Rational						
<p>2</p> <p>Clear responsibility for the retention of any staff declared interests should be assigned.</p> <p>The declaration of interest guidance, for staff, should be reviewed and, where appropriate, revised to clearly detail who staff should notify of any declarations of interest that may arise.</p>	<p>Declaration of interest guidance, for staff, details that, 'if any interests have been declared, consideration must be given as to what steps are required to manage the position and any risks and the Director must record what action has been taken in this respect.' It is the responsibility of employees to notify their Director of any changes in circumstance and the failure to do so may result in disciplinary action. In the financial and non-financial interests section of the guidelines it states that, 'any interest must be reported to the Director of Democratic and Legal Services who keeps a record of this.'</p> <p>The post for the Director of Democratic and Legal Services does not exist and Legal & Democratic Services have confirmed that they do not, in line with the staff declaration of interest guidance, retain any staff declarations of interest. It was also confirmed that the Governance team do not obtain and retain any staff declarations, other than the annual declarations they request and receive for politically restricted and other such posts.</p> <p>Internal Audit was thus unable to establish who has the overall responsibility for the review and maintenance of any staff declarations of interest, where a conflict of interest has been identified by staff.</p> <p>Where clear guidance and properly assigned responsibility for the submission and retention of any declarations of staff interests that occur is not in place, there is a risk that relevant staff / managers will not be made aware of these declarations (and thus will not take appropriate action where required) and that staff may not be able to demonstrate that they have been open and transparent.</p>						
Management Response							
<p>The Governance team will retain any staff declarations of interest that occur and the declaration of interest guidance, available to staff on the intranet, has been amended accordingly.</p>	<table border="1"> <thead> <tr> <th>Agreed/Disagreed</th> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Agreed</td> <td>Head of Governance</td> <td>Actioned</td> </tr> </tbody> </table>	Agreed/Disagreed	Responsible Officer	Deadline	Agreed	Head of Governance	Actioned
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Agreed	Head of Governance	Actioned					

Area 2 – Declarations made of Gifts, Hospitality, Interest and efficiency of process			
Priority	Recommendation 3	Detailed Finding/Rational	
2	<p>The Head of Governance should liaise with the Head of Human Resource Policy Pay and Employee Relations to obtain a complete list of posts and incumbents that are required to submit annual staff declarations as required by the Councils policies and procedures.</p> <p>Should this list still not be provided, this should be appropriately escalated.</p>	<p>The Council's declarations of interest procedure, for staff, details that, 'the following groups of staff are required to complete an annual return to the Governance Team.</p> <ul style="list-style-type: none"> • Chief Officers • Internal Audit Contractor/In-house and Governance Team • Corporate Anti-Fraud Team • Corporate Legal Team and Democratic Services Officers • Complaints Resolution Team • Procurement Team of SCC • Officers in Politically Restricted Posts' <p>Discussions with the Governance team (and confirmed through our audit procedures) established that a list of the positions and incumbents of those groups of personnel subject to submission of annual declarations, although requested from the Head of Human Resource Policy Pay and Employee Relations, was not available. Although a listing had been compiled by the Governance team, based on the governance definition of politically restricted posts and the Team's knowledge of the corporate structure as at the 1st of June 2016, which had been used to request annual declarations, staff were unable to confirm that this was a complete list.</p> <p>Where an empirical list of staff required to submit annual declarations is not available to the Governance team, there is a risk that all the staff required to submit annual declarations may not be requested to do so.</p>	
Management Response		Agreed/Disagreed	Responsible Officer
Agreed. This will again be asked for.		Agreed	Head of Governance
			Deadline
			1 December 2016

4. Priority 3 Recommendations

Recommendation	Findings
<p>a) Ensure that the future staff declarations are on the relevant form.</p>	<p>Examination of a sample of 16 annual staff declarations of interests for 2016/17, identified that the forms for three of these annual declarations of interests were detailed as being for the 2015/16 period.</p> <p>Discussions confirmed that these declarations were for 2016/17, but that the incorrect form had been sent out to some staff.</p>
<p>b) Evidence of the review of the member's register of declarations of interest, gifts and hospitality undertaken prior to publication, should be retained in an appropriate format.</p>	<p>Evidence that the members register had been reviewed prior to being updated and published in July 2016 was not available. It was explained that this had been reviewed, but that because there had been a change in personnel responsible for maintaining the members' registers, evidence of this check was not available.</p>
<p>c) All staff should be formally reminded that staff declarations for gifts and hospitality pro-formas should be properly completed and submitted within required timeframes.</p>	<p>Examination of sample of 10 gifts and hospitality forms for staff identified 2 forms that had been submitted after a period of 27 days and 48 days, for gifts estimated to be £10 and £20 respectively. The Policy requires that gifts/hospitality are declared within 7 days of the offer having been made.</p>
<p>d) Staff should be reminded that, where required, appropriate approval for the acceptance of gifts and hospitality offers recorded should be obtained in accordance with the Council's 'Gifts, Hospitality and Entertainment Guidance Procedures' document.</p> <p>Approval obtained should be recorded and retained on departmental registers.</p>	<p>Examination of a sample of 10 accepted offers, by staff, of gifts and hospitality identified two instances in the People department register where the respective staff declaration forms had not been evidenced as approved in line with the Council's Gifts, Hospitality and Entertainment Guidance Procedure. (Namely, declared on 26 April 2016 for £1,000.00 (namely the bequest of a violin, which was passed as a donation to Croydon Music and Arts), and declared on 29 April 2016 for £10.00).</p> <p>Where evidence of appropriate approval for acceptance of offers is not recorded, there is a risk that the Council is unable to demonstrate compliance with its 'Gifts, Hospitality and Entertainment Guidance Procedures' document.</p>

TERMS OF REFERENCE

Declarations of Interests Gifts, and Hospitality (Members and Officers)

1. INTRODUCTION

- 1.1 The openness, integrity and accountability of officers within a local authority is an important elements of effective corporate governance. The reputation of the Council depends on the standards of behaviour of everyone in it, whether Members, staff or contractors.
- 1.2 The Council's Code of Conduct (the Code) and associated Gifts and Hospitality Guidance Notes, requires that all officers should complete a declaration of interest in circumstances where there is a financial interest in a contract or any financial or non-financial matter within the Council in order to avoid any suspicion of impropriety. Groups of designated officers are also required to complete an annual declaration of interests. The code also sets out the standard of conduct expected for staff in their business activities and in the link between work and their private lives.
- 1.3 The Code and guidance also requires the declaration of gifts and hospitality where the value exceeds £10, acceptance only if approved by a Chief Officer.
- 1.4 The Council is required, by the Localism Act 2011 to "promote and maintain high standards of conduct" by its Members and under the Code of Conduct for Elected Members, Members are required to make disclosures of pecuniary interest. Under the act, the Council is further required to establish and maintain registers that are published on the Website.
- 1.5 This audit is part of the agreed Internal Audit Plan for 2016/17.

2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit will for each controls / process being considered:
 - Walkthrough the processes to consider the key controls;
 - Conduct sample testing of the identified key controls, and
 - Report on these accordingly.

3. SCOPE

- 3.1 This audit will examine the Council's arrangements in relating to both officers and Members' declarations of interest, and gifts and hospitality, and will include the following areas:





Declarations of Interests, Gifts and Hospitality 2016/17

Control Areas/Risks	Recommendations Made		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Code of Conduct, Guidance, Training and Awareness/Understanding	0	0	0
Declarations made of Gifts, Hospitality, Interest and efficiency of process;	0	3	3
Completeness and management review of maintained registers; and,	0	0	1
The Council's compliance with relevant legislative requirements, in particular the Localism Act 2011.	0	0	0
Total	0	3	4

DEFINITIONS FOR AUDIT OPINIONS AND RECOMENDATIONS

In order to assist management in using our reports:

We categorise our audit assurance opinion according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

STATEMENT OF RESPONSIBILITY

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited
London
November 2016

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