

Final Internal Audit Report

Declarations of Interests, Gifts and Hospitality (Officers)

May 2018

Distribution: Executive Director of Resources (Final only)
 Director of Human Resources
 Director of Law and Monitoring Officer
 Director of Governance

| Assurance Level | Recommendations Made | |
|-----------------------|----------------------|---|
| Substantial Assurance | Priority 1 | 0 |
| | Priority 2 | 3 |
| | Priority 3 | 1 |

Status of Our Reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Mazars Public Sector Internal Audit Ltd. accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality

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1. Introduction

- 1.1 The openness, integrity and accountability of officers within a local authority are 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 Declaration of Interest Guidance Note, 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 Gifts and Hospitality Guidance Note also require the declaration of gifts and hospitality offered, whether accepted or rejected. Acceptance requires approval by a Chief Officer.

2. Key Issues

Priority 2 Issues

The staff Code of Conduct was last reviewed in 2009 and may not comply with the latest legislative requirements, **(Issue 1)**.

7 of the sample of 20 staff who are required to submit annual declarations of interest, had not yet submitted these, **(Issue 2)**.

The staff listing held by the Governance team has not been confirmed to be the complete list of staff members that should submit annual Declaration of Interest returns, **(Issue 3)**.

The Priority 3 issue is under item 4 below.

3. Actions and Key Findings/Rationale

| Control Area 1: Code of Conduct, Guidance, Training and Awareness/Understanding | | Detailed Finding/Rationale – Issue 1 |
|--|---|--|
| Priority | Action Proposed by Management | |
| 2 | The code of conduct is in final revision and once complete will be reissued to staff, with appropriate communication. | <p>The staff Code of Conduct should be reviewed and, where appropriate, updated on a regular basis, in order to set the standards of behaviour and integrity expected of Council employees.</p> <p>It was established that staff Code of Conduct was dated 2009 and therefore may not comply with the latest legislative requirements and modern applications such as social media.</p> <p>This issue was also raised in the 2015/16 audit, but there is no evidence of any actions being taken.</p> <p>If the staff Code of Conduct is not up to date, there is a risk that staff may not comply with overarching legislative requirements.</p> |
| Responsible officer | Deadline | |
| Head of HR Policy Pay and Staff relations | June 2018 | |

Control Area 2: Completeness and management review of maintained registers

| Priority | Action Proposed by Management | Detailed Finding/Rationale – Issue 2 |
|----------------------------|--|---|
| 2 | An annual report will be commissioned from HR on Politically restricted posts to be sent to Governance in October each year. | <p>The Council's Declaration of Interest Procedure 2018 details that, an 'Annual Declaration of Interest Form, this MUST be completed annually by':</p> <ul style="list-style-type: none"> ▪ All permanent or temporary managers upon appointment or promotion to a post defined as a 'Chief Officer'. ▪ Any employee who has a significant involvement in the management of contracts, employees, agency workers or policy decisions that relate to contract matters. ▪ Any post that falls within the remit of a 'Politically restricted post'....' <p>It was established that the Governance team is responsible for monitoring the annual Declarations of Interest returns. In order to help manage the process, a register is maintained, which includes a list of individuals from each department, their job title and whether a response has been received or not. All returns received will be reviewed and once these are complete, the register will be updated to detail that a return has been submitted.</p> <p>Discussions established that the Governance team recognised that the register has not been confirmed to include a full list of those staff in Politically Restricted Posts and therefore was potentially incomplete. Confirmation has been sought from HR by the Governance Team, but this has not been forthcoming.</p> <p>The lack of completeness of the register was recently highlighted when staff members not detailed on the register had submitted annual Declarations of Interest returns.</p> <p>Where the register used by the Governance team to monitor the annual Declarations of Interest returns is not confirmed as complete, there is a risk that not all required individuals are being monitored to ensure an annual Declaration of Interest form is submitted. This could lead to conflicts of interests going unnoticed within the Council.</p> |
| Responsible officer | Head of HR Policy Pay and Staff relations | |
| | Deadline | |
| | June 2018 | |

| Control Area 3: Declarations made of Gifts, Hospitality, Interest | | | | | |
|--|---|----------------------------|-----------------|--------------------|----------|
| Priority | Action Proposed by Management | | | | |
| 2 | <p>In the absence of the automated process, the Governance Team will continue the manual process and chase for responses as necessary.</p> <p>The Council's Declaration of Interest Procedure 2018 details that, an 'Annual Declaration of Interest Form, this MUST be completed annually by:</p> <ul style="list-style-type: none"> ▪ All permanent or temporary managers upon appointment or promotion to a post defined as a 'Chief Officer'. ▪ Any employee who has a significant involvement in the management of contracts, employees, agency workers or policy decisions that relate to contract matters. ▪ Any post that falls within the remit of a 'Politically restricted post'' <p>An annual Declaration of Interest form for 2017/18 could not be located for 7 of the sample of twenty staff members who are required to submit an annual Declaration of Interest form, namely:</p> <ul style="list-style-type: none"> • 3 staff members within politically restricted posts • 3 staff members within Commissioning and Improvement • 1 staff member within Democratic Services <p>Discussion and inspection of relevant records confirmed that the Governance team had sent out email reminders to the employees who had yet to submit their Declaration of Interest forms.</p> <p>Internal Audit are aware that discussions about automating the process for obtaining annual declarations are in progress.</p> <p>Where required staff do not submit annual Declaration of Interest forms, there is a risk that interests may arise, which management are not aware of and are thus unable to appropriately manage.</p> | | | | |
| | <table border="1"> <thead> <tr> <th>Responsible officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Governance Officer</td> <td>On-going</td> </tr> </tbody> </table> | Responsible officer | Deadline | Governance Officer | On-going |
| Responsible officer | Deadline | | | | |
| Governance Officer | On-going | | | | |

4. Priority 3 Issues

| Action Proposed by Management | Findings |
|--------------------------------------|---|
| <p>a) This will be monitored.</p> | <p>The Gifts and Hospitality guidance details that, 'Review of the Register – The Gifts and Hospitality Registers must be reviewed by the relevant Departmental Executive Director, at least every three months. This review should be evidenced by a signature and should be dated.'</p> <p>Examination of the Council's various gift and hospitality registers established there was one quarter where a Director's sign off was not evident – Q3 July-September 2017 Resources. Nevertheless, it was acknowledged that the subsequent register was signed.</p> <p>Where quarterly reviews are not undertaken, there is a risk that monitoring of gift and hospitality registers is incomplete and of inappropriately accepted gift and hospitality not being detected.</p> |

TERMS OF REFERENCE

Declarations of Interests Gifts, and Hospitality (Officers)

1. INTRODUCTION

- 1.1 The openness, integrity and accountability of officers within a local authority are 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.

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 officers declarations of interest, and gifts and hospitality, and will include the following areas:
- 3.2

| Control Areas/Risks | Issues Identified | | |
|---|----------------------|------------------------|---------------------|
| | Priority 1 (High) | Priority 2 (Medium) | Priority 3 (Low) |
| Code of Conduct, Guidance, Training and Awareness/Understanding | 0 | 1 | 0 |
| Completeness and management review of maintained registers | 0 | 1 | 1 |
| Declarations made of Gifts, Hospitality and Interest | 0 | 1 | 0 |
| TOTAL | 0 | 3 | 1 |

DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

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 to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any 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. 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.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars Public Sector Internal Audit Limited accepts no responsibility and disclaims all liability to any third party who purports to use or reply for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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